

Location Quality Flexibility

CLS Holdings plc
Annual Report and Accounts 2021

Strategic report

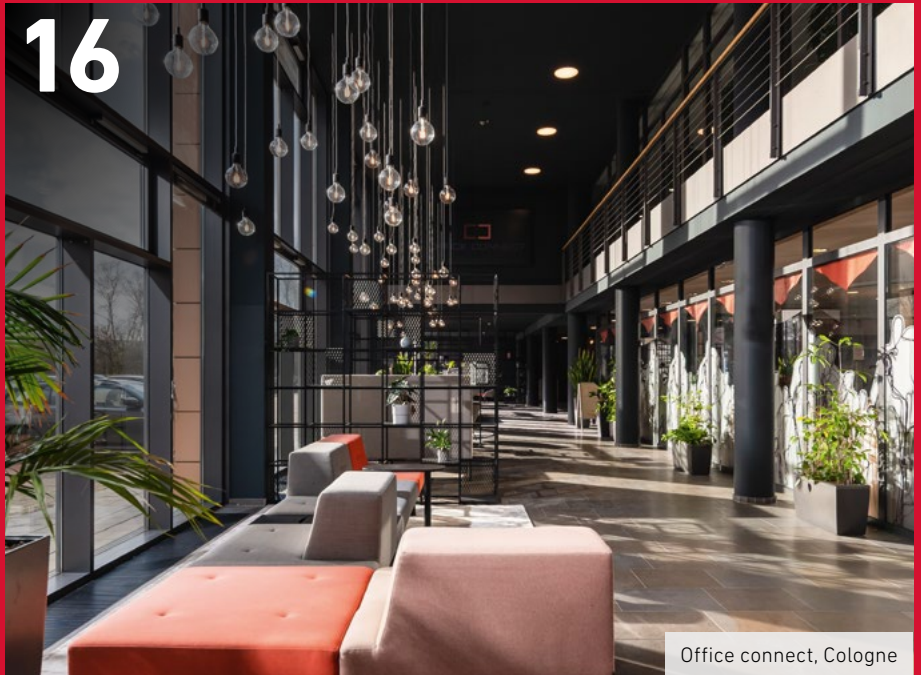
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Location Quality Flexibility

“CLS has delivered a healthy and robust set of results for 2021 with net assets up from earnings and valuation gains in all of our three countries. We faced headwinds from the strengthening of sterling and the impact of pandemic restrictions which temporarily reduced occupancy but our operational performance, especially in the second half of the year, was excellent with collection and leasing activities at pre-pandemic levels.

These results show that our well-located, high quality and flexible offices with great amenities in modern, sustainable buildings are meeting the needs of our customers. We have seen significant positive momentum in lettings in recent months and have more than 30 ongoing refurbishments and developments that will drive strong growth going forwards.”



Fredrik Widlund
Chief Executive Officer

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.

Highlights



Twenty, Kingston Road, Staines

Rental data¹

	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	EPRA vacancy rate at year end
United Kingdom	53.3	53.7	188,356	55.0	60.7	15.4	5.4%
Germany	33.8	33.3	327,418	38.8	44.9	24.7	7.4%
France	14.1	14.2	73,383	13.8	14.4	13.8	3.0%
Total portfolio	101.2	101.2	589,157	107.6	120.0	53.9	5.8%

Valuation data¹

	Market value of property £m	Valuation movement in the year		EPRA net initial yield	EPRA 'topped-up' net initial yield	Reversion	Over-rented	Equivalent yield
		Underlying £m	Foreign exchange £m					
United Kingdom	1,034.5	3.1	–	4.8%	5.1%	7.5%	3.0%	5.5%
Germany	883.0	27.2	48.0	3.8%	4.2%	11.8%	4.6%	4.4%
France	280.1	0.9	17.9	3.8%	4.5%	5.1%	3.8%	5.0%
Total portfolio	2,197.6	32.2	65.9	4.3%	4.6%	8.7%	3.7%	5.0%

Lease data¹

	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	3 to 5 years £m	After 5 years £m	Year 1 £m	Year 2 £m	3 to 5 years £m	After 5 years £m
United Kingdom	3.2	4.3	5.0	3.9	31.4	14.7	5.7	4.0	32.7	15.0
Germany	4.9	5.0	8.2	6.4	11.8	12.4	9.7	6.9	12.2	12.8
France	2.6	5.0	0.5	2.3	3.3	7.7	0.6	2.1	3.2	8.1
Total portfolio	3.7	4.6	13.7	12.6	46.5	34.8	16.0	13.0	48.1	35.9

¹ The above tables comprise data of the investment properties and properties held for sale (see note 12). They exclude owner occupied, land, student accommodation and hotel.

Financial highlights

➕ see pages 38 to 41

Statutory NAV per share +4.7%

2021		326.6p
2020		311.9p

EPRA NTA per share +1.5%

2021		350.5p
2020		345.2p

Statutory EPS +54.2%

2021		29.3p
2020		19.0p

EPRA EPS -7.4%

2021		11.3p
2020		12.2p

Property portfolio

2021		£2.3bn
2020		£2.2bn

Valuation uplift¹

2021		1.6%
2020		1.4%

Full year's dividend +2.0%

2021		7.70p
2020		7.55p

Profit before tax -5.2%

2021		£91.5m
2020		£96.5m

Cost of debt

2021		2.22%
2020		2.28%

Rental income collection

2021		99%
2020		99%

Balance sheet loan-to-value

2021		37.1%
2020		33.7%

1 In local currency – total property portfolio.

2 Rise due to the increase in occupancy of our buildings during the year as tenants started returning to the office.

Strategic highlights

➕ see pages 10 to 15 and 18 to 23

Contracted rent which is index-linked

50.1%

EPRA vacancy rate
(2020: 5.1%)

5.8%

Net rental income £108.0m
(2020: £109.8m)

-1.6%

Capital expenditure
(2020: £17.8m)

£36m

Net acquisitions
(2020: £49.0m)

£127m

Amount of Group borrowings at fixed rates
(2020: 84%)

85%

ESG highlights

➕ see pages 54 to 77

Increase in like-for-like CO₂ emissions from prior year²

16%

Sustainable electricity
Renewable/carbon-free electricity

92%

GRESB rating up thirteen points from prior year



G R E S B[®]

85

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

21%

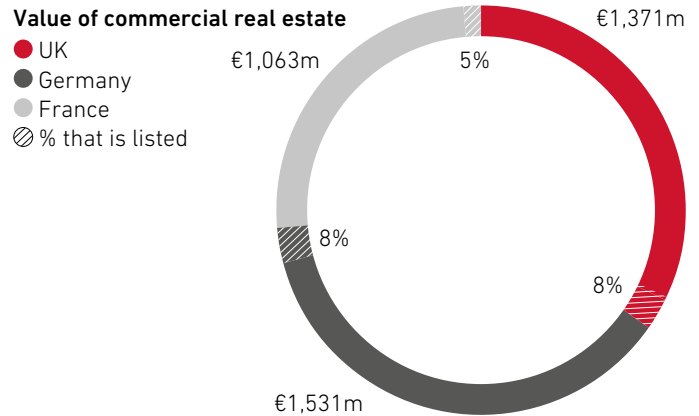
Our business is underpinned by strong market drivers

Commercial property is one of the most attractive, global, asset investment sectors. Offices, which are the largest segment, also provide many fundamental services including facilitating positive interactions between colleagues and enhancing productivity.

Market size

The European commercial real estate market totals €7.3 trillion of which c.7% is listed and of this c.11% is office. Germany, the UK and France are the largest real estate markets in Europe. Investment in publicly listed companies owning offices gives access to professional management, quality business models and exposure to property that is scarcely traded.

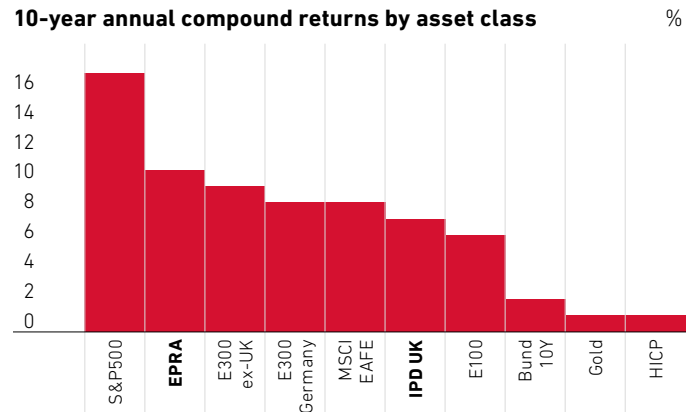
Source: European Public Real Estate Association Q4 2021 Global Real Estate Total Markets Table



Performance

Share prices of listed real estate companies are driven by a combination of: actual and forecast growth in: asset values; and cash flow/income yield which is linked to dividends, both of which are reflected in share prices. As an asset class, European real estate has performed strongly over the last 10 years.

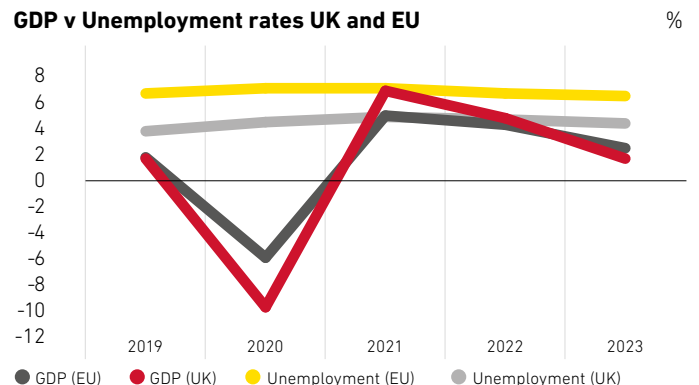
Source: UBS, Datastream, IPD, Jan-2022



GDP / Unemployment

High GDP growth and low unemployment are positive drivers of the economy in general. Moreover, they are strongly and favourably correlated with the office market with job growth driving higher levels of demand and occupation.

Source: European Commission – European Economic Forecast, Autumn 2021



Interest rates / inflation

The last decade has seen an extended period of low interest rates and inflation, with low interest rates increasing asset values, as equivalent yields have reduced, as investment return demands have fallen. Going forward with expectations of increasing interest rates, driving rental growth particularly through indexation will be important to offset any softening of yields.

Percentage of CLS rental income that is index-linked %



Future of the office

Further commentary is provided elsewhere in this report but undoubtedly the pandemic has accelerated trends in the office market. The balance of supply and dynamics will remain important, for example inflation driving construction costs vs replacement costs, but the importance of location, quality and flexibility is clear.

➕ See pages 11 to 15



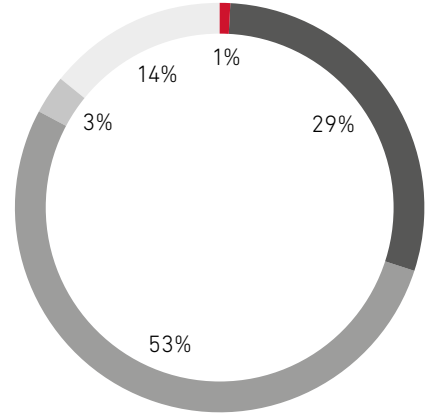
Sustainability

Ensuring offices meet high sustainability standards is now paramount and accords with the requirement for quality buildings. The recognition of the release of embodied carbon in many developments is leading to an increasing presumption in favour of refurbishment.

➕ See pages 54 to 77

BREEAM In-Use ratings

- Excellent
- Very good
- Good
- Pass
- Not rated


















The results of the CBRE 2022 Investor Intentions Survey show that London was the most attractive city for property investment in Europe, Paris placed second with Berlin and Munich also in the top 10. Overall Germany was ranked highest in terms of expected performance with the UK in second.

Most investors (60%) expect to increase their purchase of properties in 2022. Offices were the preferred asset class, with 39% of investors eyeing these properties, reflecting a 3% rise from last year. Around 47% of respondents expected similar or higher demand for physical office space in the next three years compared with 31% in 2021.

We have a robust tenant base





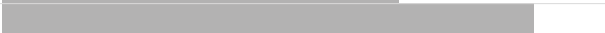


Top 15 tenants 34% of contracted rent

1	 National Crime Agency UK	2	 Secretary of State UK	3	 BOCHUM Germany
4	 SIEMENS Germany	5	 h&f hammersmith & fulham UK	6	 BOSCH Germany
7	 General Mills UK	8	 MATERNA Information & Communications Germany	9	 COLT France
10	 Kaufland Germany	11	 HONDA UK	12	 BAE SYSTEMS UK
13	 T Mobile™ Germany	14	 HM Courts & Tribunals Service UK	15	 SIGNATURE UK

Group rent collection statistics

2020		99%
2021		99%
Q1 2022		97%

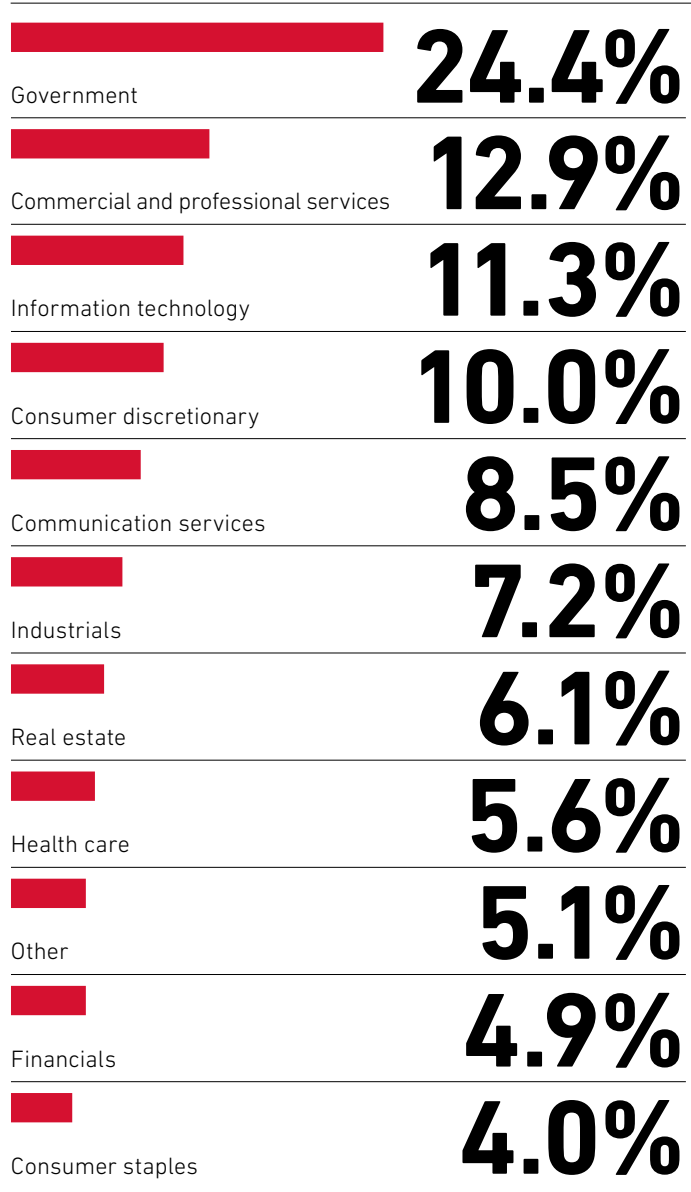
Historical EPRA vacancy

2015		3.1%
2016		2.7%
2017		5.2%
2018		3.7%
2019		3.8%
2020		5.1%
2021		5.8%

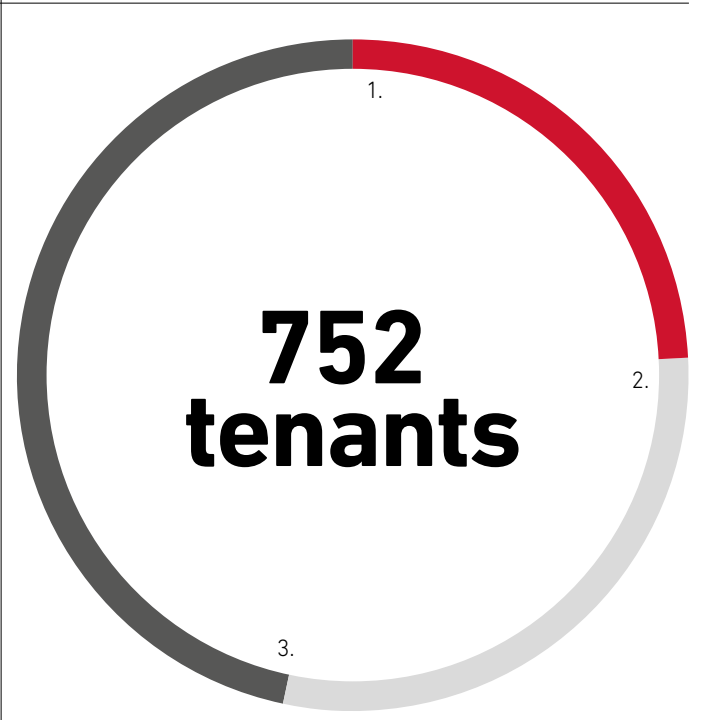
Change in EPRA vacancy 2021

At 31 December 2020		5.1%
Acquired vacancy		1.4%
Acquired vacancy let		(0.5)%
Net underlying change		(0.2)%
At 31 December 2021		5.8%

Tenant industries % of contracted rent



Contracted rent



1. Government	24.4%
2. Major corporations	29.2%
3. Other	46.4%



Driven by clear purpose and values...

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 and occupational needs, 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

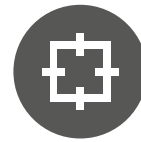
Our purpose is to transform office properties into sustainable, modern spaces that help businesses to grow.

Our investments are based on our long-term vision, continuously modernising our portfolio into viable, future-focused and sustainable properties. We apply the same long-term approach to our tenants by 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.

Our values

Our values represent both our strong culture and how we successfully and consistently deliver on our strategy and business model.



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.



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.

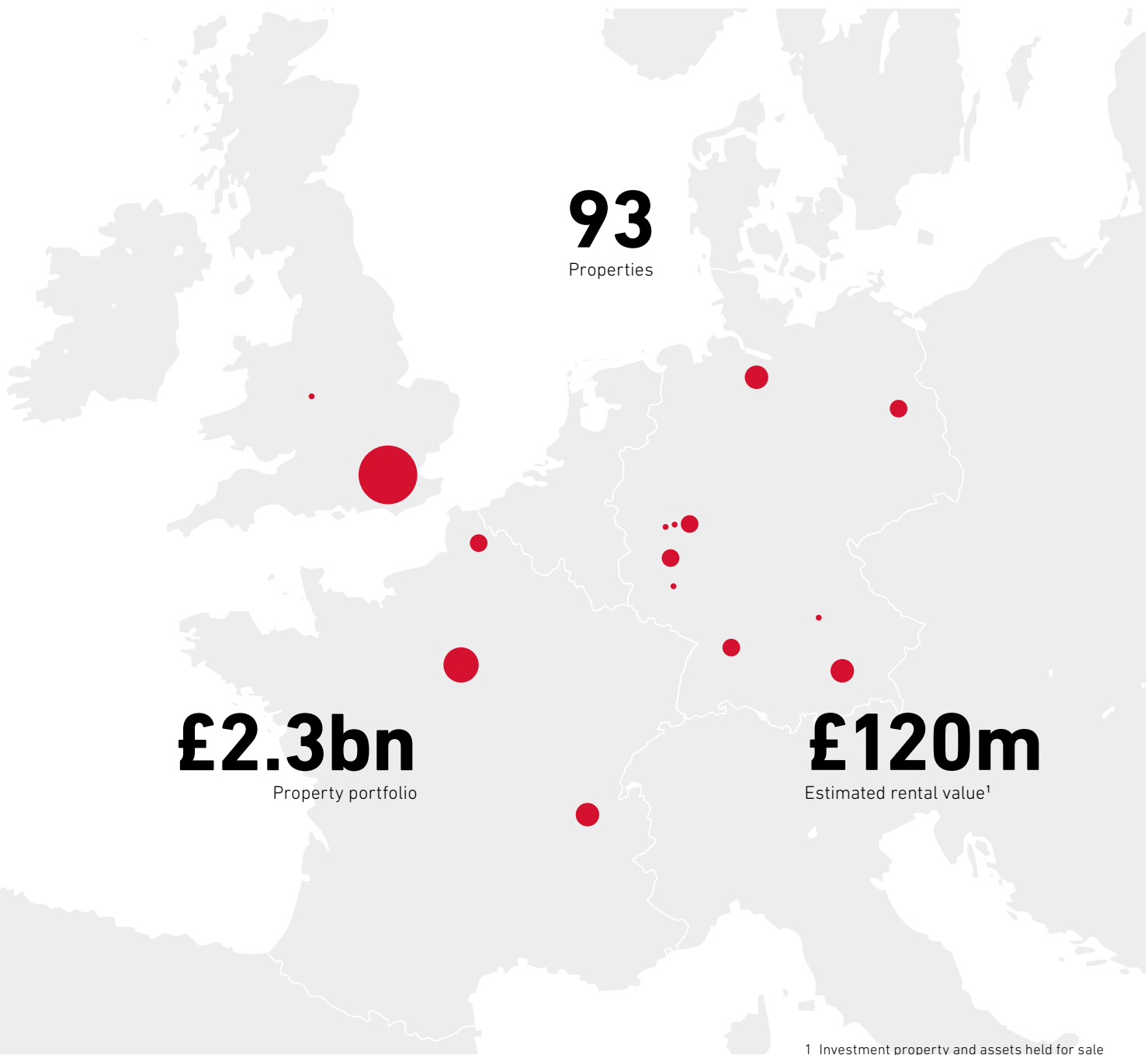
...and our well located portfolio

United Kingdom 44 | Germany 31 | France 18

London 33
 South East 10
 Birmingham 1

Hamburg 8
 Munich 7
 Berlin 4
 Stuttgart 3
 Dusseldorf 3
 Dortmund 2
 Cologne 1
 Nuremberg 1
 Bochum 1
 Essen 1

Paris 11
 Lyon 5
 Lille 2



¹ Investment property and assets held for sale

Chairman's letter

Dear Shareholder,

The pandemic and the impact on working practices and habits remains one of the most significant influences on CLS' operations. In response, we have maintained our focus on the key drivers of the business as well as adapting to developing patterns such as hybrid working. Whilst there is still some uncertainty about the future of the office, greater clarity is emerging. The market is becoming bifurcated such that offices which are less sustainable with poorer amenities will struggle, whilst well-located, high quality and flexible buildings with strong sustainability credentials such as those provided by CLS will thrive.

Performance and our property portfolio

It is yet again pleasing that the benefits of our diversified business model and clear strategy continue to persist as demonstrated by our results. In 2021, we delivered a robust financial performance despite our results being impacted by the strengthening of sterling and the negative impacts of the pandemic restrictions on our Vauxhall student and hotel operations.

EPRA NTA per share increased by 1.5% to 350.5 pence per share (2020: 345.2 pence per share) and total accounting return, including the dividends paid in the year, was 3.7% (2020: 8.1%).

The value of our property portfolio rose to £2.3 billion (2020: £2.2 billion) as a result of: £142.4 million of acquisitions net of disposals; £36.0 million capital expenditure; £36.7 million from net valuation increases of 1.6% in local currencies with uplifts in all countries; offset by depreciation of £0.5m and a reduction of £66.3 million as a result of the strengthening of sterling by 6.3%. Our property portfolio is split 50% in the UK, 38% in Germany and 12% in France.

“The roll-out of vaccines, and countries' improved ability to deal and live with Covid-19 variants, is propelling the return of the economy to more normal patterns and driving increased occupation of modern, sustainable offices such as those offered by CLS.”



Lennart Sten
Non-Executive Chairman

Environmental, social and governance

As highlighted by the Glasgow Climate Pact made at COP26, climate change continues to dominate world events reinforcing the need to reduce carbon dioxide emissions, move away from fossil fuels and align private finance towards achieving net zero emissions. CLS is proud to have published our sustainability strategy, incorporating our pathway to net zero carbon by 2030, which is aimed at addressing each of these key themes. As we are now into the delivery phase of our strategy, I am energised by the way in which our employees have embraced our aspirations and the commitment they have shown to deliver future-ready assets. This energy is an essential part of our commitment to being a good corporate citizen in our communities and neighbourhoods whilst at the same time maintaining the highest standards of corporate governance.

Strategic outlook

We are seeing increasing clarity around the companies and properties which will be successful in the post-Covid era. As a result, CLS will continue to pursue our proven strategy and business model of providing well-located, high quality and flexible offices that have the ability to respond to changing market dynamics.

Our successful efforts to reduce vacancy, our recent conversion to a REIT in the UK and our focus on providing offices that meet tenant needs leave us well-positioned for 2022 onwards.

Dividends

Given the financial position of the business and confidence in the future, the Board has decided to propose an increase in the final 2021 dividend of 3% to give a 2% increase in the full year dividend, which will be 7.70 pence per share. The Board's policy of keeping the dividend 1.5 to 2.0 times covered by EPRA earnings (i.e. paying out 50% to 66.6%) remains in place but we will review this policy during the year as the 2022 interim dividend in September 2022 will be the first paid out under the REIT regime.

Our staff and our culture

I and the rest of the Board continue to be impressed by the ongoing hard work of all our staff and the tremendous way that they have responded to the challenges thrown up during the last two years, for which we offer our sincere thanks and gratitude. One of CLS' big attractions and differentiators is its open, inclusive and positive culture. It is very pleasing that this has been maintained, which will stand CLS in good stead going forward.

Lennart Sten
Non-Executive Chairman

16 March 2022

Chief Executive's review



Fredrik Widlund
Chief Executive Officer

Delivering on our strategy

Much has been written, and continues to be written, about the future of the office and whilst a definitive conclusion has yet to be reached, trends are starting to emerge. Rather than repeat or rehash the debate, I wanted to make a few observations.

A 2021 Knight Frank (Y)OUR SPACE survey showed 30% of corporates anticipated growing their total space in the next three years, 35% anticipated it staying the same, and 35% foresaw a decrease in space occupied. This balanced picture feels about right, but as work from home and other restrictions have persisted, the attractions of offices in surveys continues to increase.

Perhaps more important is the supply side of the debate. The importance of sustainability amongst investors and occupiers is increasing. Many existing offices will become obsolete, as it is uneconomic to upgrade them to meet rising environmental standards, or will be converted to other uses. The pandemic has also reduced the amount of construction of new offices. This will be exacerbated if other cities follow the lead of the City of London in favouring refurbishment over redevelopment – which clearly supports CLS' business model. And finally, Google in acquiring its office in Kings Cross highlighted the importance of "de-intensifying" space. This reduction in density, creates more space per worker and will further limit supply, ultimately creating additional demand.

Overall, what appears to be clear is that hybrid working is here to stay and offices need to be attractive and sustainable, and offer better amenities. For CLS and our tenant-focused strategy, this simply reinforces our belief in ensuring we have the right offices which offer Location, Quality and Flexibility.

With these characteristics in mind, we made six acquisitions in 2021 for a headline purchase price of £164.8 million and sold eight smaller properties for a headline sale price of £37.4 million. This resulted in net additions of £127.4 million before costs.

Five of the acquisitions were in Germany and one was in the UK. All of the properties had asset management opportunities to drive further value, particularly the two properties in Germany which had significant vacancy. As a consequence, whilst the net initial yield of these acquisitions was 3.9%, we have the opportunity within the next couple of years or so to capture the potential of these assets, which is reflected in the reversionary yield of 6.1%. More detail on the individual buildings is given in the country pages (pages 18 to 21). The three German properties which were bought together are highlighted in the case study on pages 26 and 27.

“Historically, successful investment in properties, including offices, was largely determined by Location, Location, Location. In recent years, the market and occupiers have become increasingly sophisticated – a trend which has been accelerated by the pandemic. Consequently, more characteristics are demanded with the most successful office owners now offering Location, Quality and Flexibility.”

Chief Executive's review

Continued



Hansaallee 299, Düsseldorf

Since the year end we have exchanged on the acquisition of two properties in Dusseldorf and Dortmund for £75.7 million, which are due to complete in April 2022 and, after financing and costs, will result in a net cash outflow of £32.7 million while adding c.£4 million of rent p.a. The combined net initial yield is 5.1% with the potential to reduce the limited vacancy and capture rent increases to achieve a reversionary yield of 5.6%. We continue to look for further acquisition opportunities across all three countries but we will not compromise acquisition returns and thus will only acquire when our acquisition criteria are met.

We continue to recycle capital on a selective basis, making disposals where there are limited opportunities to add value and/or drive returns, or when offered a compelling price. Additionally, we are seeking to increase the average size of our properties by disposing of smaller properties which usually consume a disproportionate amount of management time and are less economic to equip with the best amenities. To that end, we sold eight smaller properties (three in the UK, two in Germany and three in France) at a net initial yield of 4.8% for £37.4 million which was in line with latest valuations. Since the year end, we have exchanged on the disposal of two further properties in the UK which will complete in the first half of 2022. The total consideration is £10.1 million, in line with the latest valuations, reflecting a net initial yield of 6.0%.

“ CLS has always listened, and stayed close, to its tenants. We are continuing to respond to market changes by providing modern, sustainable offices with great transport links as well as flexible spaces and leases which meet occupier needs. ”

Maintaining and improving the quality of our properties in terms of amenities and sustainability remains paramount. We are therefore increasing our investment across refurbishments such as 45 London Road in the UK (see page 19), redevelopments such as Park Avenue in France (see page 22) and developments such as LichtHof in Germany (see page 21). Capital expenditure in 2021 was £36.0 million and we expect to spend around £50 to £70 million in each of 2022 and 2023, of which c.£5 million per annum is part of the Net Zero Carbon pathway spend, to improve the attractiveness of the portfolio.

In November 2021, we held a Capital Markets Day in London at which we highlighted the considerable opportunities in the short, medium and long-term to improve rental income and the value of the portfolio. We also showcased a number of properties across all three regions and were able to conduct in-person site visits to some of these opportunities. Since then, we have continued to make good progress with these opportunities.

Demolition, piling and the ground floor slab were completed by December 2021 at our 28,500 sq. ft office development at Vauxhall Walk in London and the concrete superstructure has now reached the fourth floor of this £17.4 million project. Completion is on target for Q1 2023 and marketing has started. The redevelopment of 9 Prescott Street in London is also progressing well. Strip-out works have been completed and the c.£29 million 94,000 sq. ft project is on target to complete in Q2 2023. More detail is given in the case study on page 30.

Asset and property management

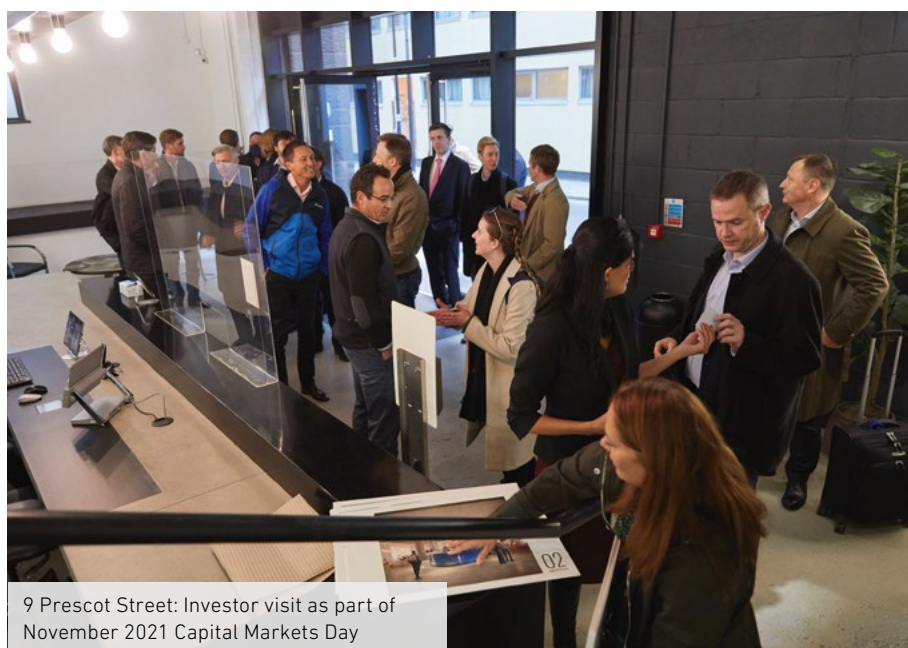
In last year’s annual report, I repeated the wording from my 2019 commentary about the importance of staying close to our tenants and building long-term relationships. I am not going to repeat the wording again but will merely stress that this business ethos, CLS’ business ethos, remains critical in determining long-term success. Testament to this, our rent collection rates in 2021 were over 99% as has been the case throughout the pandemic. On the whole, our properties are multi-let with over 750 tenants, of which 24% are government agencies and 29% are major corporations.

In 2021, the overall Group EPRA vacancy rate increased to 5.8% (2020: 5.1%) which remains above our target of 5%. However, a simple number does not tell the story of the drivers and the considerable successes of the asset management team in the year. Simplistically, the vacancy rate increased from 5.1% at the start of the year to 7.7% in June as a result of consciously acquired vacancy in Germany as discussed above. The vacancy rate then rose to over 8% in October from a combination of significant lease expiries and completed refurbishments becoming available to let again. The reduction to 5.8% by the end of December (UK 5.4%, Germany 7.4% and France 3.0%) reflected substantial letting activity conducted throughout Q4, particularly in Germany, due to the team’s efforts and a rebound in

market activity. We are confident that our active asset management strategy will reduce vacancy levels below 5% in 2022.

At 31 December 2021, the value of the portfolio increased by 1.6% in local currencies as a result of revaluation uplifts. There were increases in all countries with Germany up 3.1%, the UK 0.7% and France up 0.3%. Whilst many of the property increases were individual in nature, some trends can be discerned.

In the UK, the attractiveness of government income and longer-term development potential helped drive a reduction in equivalent yields to 5.5% (2020: 5.7%) and ERVs increased 1.3% (2020: 1.6%) (net initial yield fell to 4.8% (2020: 5.0%)). In Germany, considerable letting activity drove improvements in ERVs, which increased 0.6% (2020: 3.1%), with equivalent yields stable at 4.4% (2020: 4.4%) (net initial yield fell to 3.8% (2020: 4.1%)). In France, the picture was more mixed with the continued strength of the Lyon market but a more varied picture for our Parisian assets resulting in equivalent yields tightening to 5.0% (2020: 5.2%) but ERVs down 1.6% (2020: 0.2% up) (net initial yield fell to 3.8% (2020: 4.0%)). In aggregate, fair value uplifts added 9.0 pence per share to EPRA NTA (£36.7 million including £2.7 million lease incentive debtor adjustments) before the impact of lease incentives and depreciation.



9 Prescott Street: Investor visit as part of November 2021 Capital Markets Day

Chief Executive's review

Continued

Financial results

Overall, results in 2021 were robust with excellent rent collection continuing and revaluation uplifts across all countries. However, as flagged earlier in the year, results in 2021 were impacted by the 6.3% strengthening of sterling against the euro and reduced occupancy in the first half of the year in our student and hotel operations as a result of pandemic restrictions. As the impacts of the pandemic have receded, the performance of the student and hotel operations have rebounded such that our student building is now fully occupied (2020/21: 46%) and the hotel is forecasting occupancy of 88% in 2022 (2021: 70%).

Profit from recurring operations was £77.3 million (2020: £77.4 million). Revaluation gains and the sale of investment properties in 2021 of £28.4 million (2020: £43.1 million) were below last year given lower valuation uplifts with a foreign exchange loss of £2.3 million (2020: £2.1 million gain). Including non-recurring items, earnings per share of 29.3p was ahead of last year (2020: 19.0p) as a result of the release of UK deferred tax liabilities on revaluation

gains following CLS' conversion of its UK operations to a REIT.

As highlighted, EPRA earnings were impacted by negative exchange rate movements and student and hotel occupancy. Consequently, EPRA earnings per share in 2021 were down at 11.3p (2020: 12.2p). The second half of the year contributed strongly with earnings of 5.9p reflecting an accelerating recovery and momentum as we go into 2022 as well as actions to lower the cost base.

EPRA NTA increased by 1.5% (2020: 5.8%) reflecting EPRA earnings, revaluation gains of 1.6% in local currency and a positive uplift from UK REIT conversion offset by a £39.5 million reduction from the 6.3% weakening of sterling against the euro (2020: £29.7 million gain) and the payment of an increased dividend.

At the year end, we had liquid resources of £167.4 million (2020: £235.7 million), reflecting net acquisitions and ongoing investment, as well as £50.0 million of undrawn credit facilities (£2020: £50.0 million).

In 2021, we generated £44.2 million net cash from operating activities (2020: £44.3 million) compared with

EPRA earnings of £45.9 million (2020: £49.5 million) showing the continued strong cash generation of our business model. Of this cash, £30.8 million (2020: £30.1 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 3.7% in 2021 (2020: 8.1%).

Purpose, people and planet

In 2021, we made significant progress in future proofing our portfolio with the publication of our enhanced sustainability strategy, incorporating our Net Zero Carbon pathway to 2030, which has been validated by the Science Based Targets initiative, and our Social Value Framework. We have set ourselves clear and ambitious targets that mirror our aspirations as a sustainably focused landlord. The fully costed plan has an estimated cost of £58 million with a minimum expected recovery of 20% through normal service charge expenditure.

Whilst the focus in the years ahead is on the delivery of the Net Zero Carbon pathway and the Social Value Framework, this year has seen improvements and developments in a number of areas related to our sustainability strategy. We have implemented the results of our energy and carbon audits into our capex budgets, identifying initiatives that ensure our buildings become more environmentally efficient and reduce our energy usage as well as informing our investment and divestment decisions.

It is especially gratifying that our progress has been recognised by external assessors with a big increase in our GRESB score from 72 to 85, reflecting the continuous improvements made throughout the business. We met our 2021 target to double PV generation across the portfolio through five installations, increasing total generation to 469,411 kWh per year, representing 2% of energy used in our managed portfolio. We will continue this progress through further ambitious



95, Rue de Bellevue, Boulogne-Billancourt



DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

ERV potential of the portfolio

		£m
Contracted		107.6
Vacant	Long term CLS vacancy	7.0
Net reversion		5.4
ERV		120.0
Net acquisitions 2022 to date		c.3.5
Refurbishments	Prescot Park Avenue Apex Tower Kennington Road Columbia	c.9
Committed developments	Vauxhall Walk	c.1.5
Potential ERV		c.134
Planned developments	LichtHof St Cloud Gate Adlershofer Tor	c.5
Post 2024		c.139
Post 2025	Spring Gardens and New Printing House Square	

targets during 2022. Finally, we continued to align our sustainability objectives with those of our lenders. We secured our second 'green' loan in 2021 and now have over 20% of our loans linked to ESG targets.

Our sustainability agenda is more than simply environmental measures and targets. At various times throughout the year, the majority of our employees and I took part in at least one day of community support. In total, we invested c.400 hours in our communities in which we are an active participant and supporter. We also delivered initiatives aimed at supporting workplace health and wellbeing across our managed portfolio, supporting our tenants during what has been a very difficult period.

Never before have our culture and values been more important, both during the various lockdowns but moreover in ensuring we maintain and build on those strong relationships as we return to the new norm. Our clear purpose, underpinned by our core values has continued to inspire our teams across our countries and I thank all of our employees for stepping up to the challenges of 2021, which has enabled us to deliver a robust set of results.

Looking to the future

To demonstrate more clearly the opportunities within the portfolio to capture higher rents, we have included a waterfall chart in recent investor materials. Set out above is an updated chart which shows:

- contracted rent at the end of 2021 of £107.6 million;
- the current potential Estimated Rental Value ('ERV') of the portfolio of £120.0 million if all vacant space let (£7.0 million increase) and net reversionary potential (£5.4 million increase) were captured. We do though benefit from some vacancy/churn within the portfolio to capture reversion more quickly and to allow the refurbishment of older properties and thus recognise that not all of this vacancy upside should be captured;
- net acquisitions exchanged in 2022 to reporting date (c.£3.5 million);
- the potential increase to ERV over 2022 and 2023 to £134 million from refurbishments (c.£9 million increase), committed developments (£1.5 million from Vauxhall Walk); and
- the potential increase to ERV between 2023 and 2025 to £139 million from the uncommitted developments of LichtHof, St Cloud Gate and the rooftop extension at Adlershofer Tor (c.£5 million increase).

£44.2m

Net cash from operating activities

21%

of loans linked to ESG targets

In addition to these increases up to 2025, there is further potential from: inflation indexation, with over half the portfolio having contractual increases; market movements; and executing value-enhancing transactions, both acquisitions and disposals, to focus the portfolio on faster growing properties. Post 2025, we have significant development, redevelopment or rental increase opportunities at Spring Gardens and New Printing House Square, both of which are in Zone 1 in London.

Our strategy and our focus on the three largest countries in Europe remains unchanged but with slightly different priorities: growing Germany; driving UK long-term value; and realising French profitability and cash returns. By concentrating on the Location, Quality and Flexibility of our offices and ensuring that we respond to client and market demands, we are confident that CLS will continue to be successful for all of our stakeholders.

Fredrik Widlund
Chief Executive Officer

16 March 2022

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 88 and 89 are incorporated into this statement by reference.

Our investment proposition



Office connect, Cologne

A clear strategy

Key investment tenets

Diversified approach

This approach is across: Countries (we invest in Europe's three largest economies); Tenants (over 750 tenants spread across most sectors); and Financing (25 different lenders).

Sole focus on multi-let offices

Long-term investment in high yielding, multi-let 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

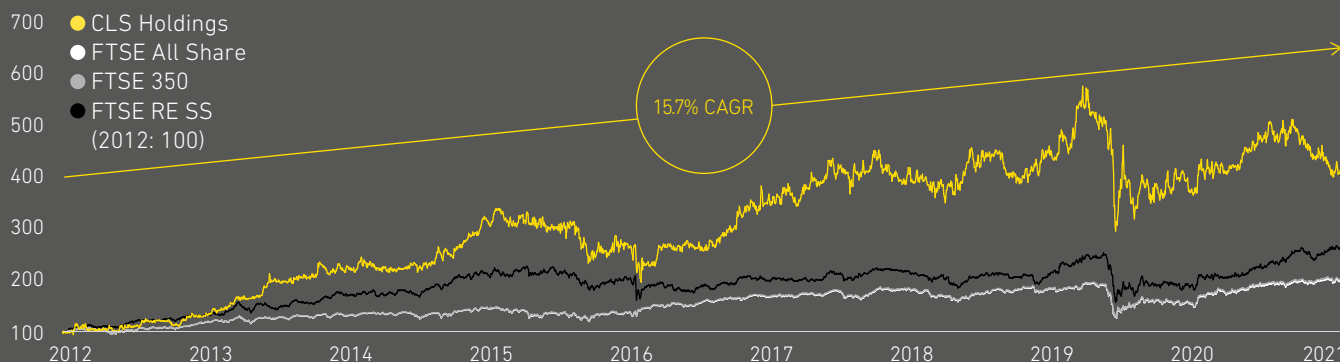
EPRA NTA per share (pence)

2021	350.5
2020	345.2
2019	326.3

EPRA NAV per share (pence)

2021	353.0
2020	350.1
2019	329.3
2018	309.8
2017	285.6

Total returns to shareholders



2.

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.

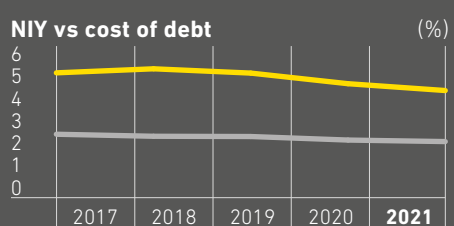
Secure rents and high occupancy

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



● Net initial yield
● Weighted average cost of debt

95%

Targeted occupancy rate

3.

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 including 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

Year	Profit (£m)
2021	31.4
2020	30.8
2019	30.1
2018	28.1
2017	25.9

£100m

Liquid resources retained including financing headroom

4.

A 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

Year	Score
2021	85
2020	72
2019	70
2018	63
2017	56

97%

Of rated portfolio achieving at least BREEAM In-Use "Good" or better

Business review

United Kingdom

Value of property portfolio	£1,160.9m
Percentage of Group's property interests	50%
Number of properties	44
Number of tenants	227
EPRA vacancy rate	5.4%
Lettable space	2.0m sq. ft
Government and major corporates	64.6%
Weighted average lease length to end	4.3 years
Leases subject to indexation	28.0%

“The market in the United Kingdom, for both investment and occupation, is favouring modern, sustainable and flexible space as the return to the office ramps up.”

Portfolio movement and valuation summary

The value of the UK portfolio increased by £35.2 million as a result of: net additions of £27.6 million (one acquisition for £17.9 million including costs and capital expenditure of £20.6 million partly offset by three disposals for £10.9 million); and a valuation gain of £8.0 million or 0.7%, marginally offset by depreciation of £0.4 million.

The like-for-like valuation increase, which excludes acquisition costs, was also 0.7%. The valuation increase was due to an increase in ERVs and a slight decline in equivalent yields (from 5.70% to 5.51%) as government income and long-term development project opportunities are now more sought after. The net initial yield decreased to 5.1% (2020: 5.2%) whilst like-for-like ERVs grew by 1.3% and like-for-like contracted rents increased 1.1%.

Acquisitions

In January 2021, we completed on the acquisition of Radius House in Watford for £16.9 million which had exchanged in December 2020. The well-located property comprises 41,226 sq. ft (3,830 sqm) and, at completion, was fully let to four tenants with a WAULT of 8.1 years. The net initial yield was 5.6% with secure long-term income as 51% is contracted to The Secretary of State for Housing, Communities and Local Government until 2030 without break.

Developments and refurbishments

In July 2021, construction started on “The Coade”, our new 28,500 sq. ft office development at Vauxhall Walk with completion forecast for the first quarter of 2023. We are targeting a minimum 20% profit on cost and the 10-storey building is expected to achieve EPC A and BREEAM Excellent ratings.

“The Artesian”, our development at 9 Prescot Street, London, is progressing well with strip out works of the lower floors complete. The scope of the project has expanded such that the remaining floors will also be redeveloped upon expiry of leases in the first half of 2022. The 94,000 sq. ft tenant-focused development will feature a café/reception, ample bike storage, showers and a large roof terrace. A full case study is set out on page 30 and 31.



Investing to meet tenant needs

182%

Year on year increase in UK capital expenditure

Refurbishment of 45 London Road, Reigate

Across the entire portfolio, not just the UK, CLS has increased, and is increasing, its capital expenditure investment to ensure its properties meet changing market demands and improve the properties' sustainable performance. This spend encompasses new developments (e.g. Vauxhall Walk as highlighted this year and last year), redevelopments (e.g. 9 Prescott Street set out on pages 30 and 31) and refurbishments (e.g. 45 London Road).

45 London Road is a prominent office building located within the heart of the affluent South-East town of Reigate. The building, which comprises c.19,300 sq. ft (c.1,800 sqm) over four floors, has excellent transport links and 57 car park spaces.

During 2021 we completed a full CAT refurbishment, including new M&E systems and lifts, to provide new and attractive office space for both local and national occupiers. The enhanced tenant amenities include new showers, cycle parking and electric vehicle charging points.

The total refurbishment cost was c.£2.5m and the project achieved a SKA Gold sustainability rating and the building's EPC rating improved to a Grade B from an original rating of D.

Marketing of the property is now well underway with potential occupiers being offered the option to take either one or multiple floors.

Ultimately, and despite temporary Government guidance for staff to work from home if they can, the trend amongst UK occupiers is increasingly to recognise the office as part of their overall business strategy. In tandem with the end of all restrictions and finding ways to live with Covid, we remain convinced of the attractiveness of offices as an asset class and believe that our portfolio of affordable office space in attractive locations is well placed to capture future occupier demand.

In tandem with reduced restrictions for the hospitality sector and the reintroduction of face-to-face tuition at universities, the occupation of our one hotel and one student accommodation building improved significantly towards the end of 2021. Going into 2022, the hotel occupancy and room rates are now at pre-pandemic levels, and the occupancy of the student accommodation at 99% is the highest since its opening in 2014.

Market overview and outlook

The UK economy has continued its recovery from the effects of the pandemic and 2021 GDP growth of 7.2% was among the highest in the G7 countries.

Commercial property investments in 2021 were c.£55 billion which was an almost 30% increase on the previous year and marginally below the five-year average. For the office sector, transactions in the South-East were £3.8 billion in the year which is 67% above the five-year average. In the occupational market, vacancy rates in the South-East range from c.6.5% in the M25 market to closer to 10% along the M4 corridor. For central London, the vacancy rate stabilised around 8% as take up increased during the year.

In 2021, a number of refurbishments to capture rental increases were also completed. The most notable being the completion of the refurbishment of the entirety of 45 London Road in Reigate (discussed below) and the 1st floor at Columbia in Bracknell, both of which resulted in improvements in the EPC ratings to a Grade B.

Disposals

During 2021, we continued with our strategy of repositioning the UK Portfolio by way of £12.0 million of selected disposals of a limited number of assets which were either too small to have a meaningful impact or had a greater alternative use value. This capital has been deployed into higher growth opportunities across the portfolio.

In January 2021, we completed on the sale of Atholl House in Aberdeen at book value and in April and July, we completed on the sale of Quest House and Falcon House in Hounslow for £11.8 million, a 10.2% premium over the 2020 year end value.

It is intended that this programme of disposing of smaller assets of less than £10 million will continue into 2022.

In January 2022, we completed on the sale of Kings House in Bromley for £5.4 million which was 6.4% over the 2020 year end value of £5.1 million. In February 2022, we exchanged on the disposal of Crosspoint House in Wallington for £4.7 million, which was at book value. The disposal will complete in the first half of 2022.

Asset management

The vacancy rate in the UK reduced to 5.4% as at 31 December 2021 (2020: 5.9%) with the reduction being largely driven by sales and a general improvement in letting conditions.

In 2021, we let or renewed leases on 118,357 sq. ft (10,996 sqm) and lost 238,843 sq. ft (22,189 sqm) of space from expiries or new vacancies. For a number of these expiries, we took the opportunity to refurbish the buildings to ensure that they provide the requisite quality and amenities for tenants.

In 2021, excluding those arising from contractual indexation uplifts, 55 lease extensions and new leases were signed which added £3.8 million of rent at an average of 1.1% above 31 December 2020 ERVs. The portfolio was 4.5% net reversionary at the year end.

Germany

Value of property portfolio	£888.0m
Percentage of Group's property interests	38%
Number of properties	31
Number of tenants	367
EPRA vacancy rate	7.4%
Lettable space	3.5m sq. ft
Government and major corporates	40.5%
Weighted average lease length to end	5.0 years
Leases subject to indexation	63.5%

“The market in Germany remains well supported given: low vacancy; limited high quality, sustainable supply; and high replacement costs.”

Portfolio movement and valuation summary

The value of the German portfolio increased by £140.3 million as a result of: net additions of £160.9 million (five acquisitions for £161.6 million including costs and capital expenditure of £9.4 million partly offset by two disposals for £10.1 million); and a valuation gain of £27.9 million or 3.1% in local currency, offset by depreciation of £0.2 million and a foreign exchange loss of £48.3 million.

The like-for-like valuation increase, which excludes the acquisition costs, was 4.4%. The valuation increase was as a result of letting activity driving higher rents, particularly towards the end of the year, and yield compression as the equivalent yield fell to 4.39% (2020: 4.42%). The net initial yield fell to 4.2% (2020: 4.3%) whilst like-for-like ERVs increased by 0.6% and like-for-like contracted rents increased by 1.6% as we have actively sought to capture rental growth.

Acquisitions

The first half of 2021 was an especially busy period with the completion of five acquisitions for £147.9 million (two of which for a combined £70.2 million had exchanged in December last year). Two of the properties are located in Berlin with one in each of Hamburg, Dusseldorf and Essen. The overall net initial yield was 3.8% with a reversionary yield of 5.9%. This considerable upside is because of: deliberately acquiring vacancy in three of the buildings and reversionary rental levels, which CLS will seek to capture through our active asset management model; as well as being able to source off-market deals given our business network and reputation as a trusted buyer.

The acquisition of three of these properties is discussed in more detail on pages 26 and 27.

Since the year end, we have exchanged on the acquisitions of a further two properties for £75.7 million in Dusseldorf and Dortmund. The properties, which are due to complete in the first half of 2022, have an initial yield of 5.1% and a reversionary yield of 5.6%.

Developments and refurbishments

Our German portfolio continues to offer several added-value development and refurbishment opportunities. The most significant development is the LichtHof building in Stuttgart, comprising at least 141,000 sq. ft (13,099 sqm) of lettable space. We are currently marketing the building to secure a significant pre-let before proceeding and have signed a construction contract which is conditional on this pre-letting. We are also progressing two roof top extensions: firstly, the construction of c.2,000 sqm additional office space at the Technical Town Hall in Bochum which is leased to the City of Bochum, our existing tenant; and, secondly, c.3,500 sqm of speculative offices at Adlershofer Tor in Berlin with planning consent expected in spring 2022. Both extensions are due in late 2023/early 2024.

Disposals

Limited portfolio adjustments have taken place with the sale of two smaller assets, Frohbösestrasse in Hamburg and Kreuzberger Ring in Wiesbaden, at a combined price of £9.0 million.

Asset management

EPRA vacancy rates rose sharply from 3.6% at 31 December 2020 to 9.3% at 30 June 2021 as a result of the vacancy acquired with the new building purchases and then rose to 11.0% at 30 October 2021 as a result of a few significant lease expiries. Given very substantial leasing activity, as highlighted in the case study, particularly in the fourth quarter, the vacancy rate was reduced to 7.4% at the year end. Of note, the re-letting campaigns for two of the three new acquisitions with vacancy are well ahead of their business plans.

In 2021, we let or renewed leases on 446,914 sq. ft (42,449 sqm) and lost 498,787 sq. ft (46,339 sqm) of space from expiries or new vacancies. Excluding those arising from contractual indexation uplifts, 50 rent reviews, lease extensions and new leases secured £6.9 million of rent at an average of 4.2% above ERV. On a like-for-like basis, ERVs rose by 0.6% in the year and at the end of 2021 the portfolio was 7.2% net reversionary. In light of the continued recovery of the letting markets and despite the increased vacancy rates we believe that there is the potential for further rental growth.

Active asset management to reduce vacancy and capture rental increases



£6.9m

4% above ERV

Rental capture from new leases in 2021

Substantial letting activity executed across the portfolio

Whilst investing in our properties to provide modern, sustainable buildings which meet client needs is a key activity, ultimately success is demonstrated through leasing transactions. Letting activity was especially busy in 2021 as a result of increased available space through lease expiries, the availability of newly completed refurbishments and acquired vacancy.

Nowhere was this increased letting activity better demonstrated than in Germany. The above description set out the overall figures but it is especially worth highlighting the major lease transactions which were completed between September and the end of the year. There were five transactions which were each over 1,000 sqm, which totalled 14,263 sqm with the leases secured 7.7% above ERV. The transactions were across five different major cities (Berlin, Cologne, Essen, Hamburg and Dusseldorf) and were for lease lengths from five to 15 years. The two largest leases, representing 56%, were to government agencies with the other three to large corporates or education establishments. All of which resulted in a 3.5% reduction in EPRA vacancy from the peak and leaves our German operations well on course to achieve CLS' 5% vacancy target.

Market overview and outlook

The German economy recovered in 2021 with GDP increasing close to 3% and is forecast to grow by another 4% in 2022, which will result in the economy returning to pre-pandemic levels by the end of 2022.

The investment market for commercial property finished the year strongly with c.€20 billion in the fourth quarter which took the full year to c.€58 billion. Although overall investment volumes were down 10%, offices represented c.€31 billion, which is the second-best volume ever recorded and 30% above the 10-year average. The majority of these transactions was attributed to deals above €300 million. Demand remains high with investments in commercial property in 2022 forecast to increase further.

The letting market recovered further, especially in the second half of 2021, with a take-up of c.3.4 million sqm, which is an increase of 27% from 2020 and in line with the 10-year average. There were differences between the main cities but pleasingly there was a significant increase in larger lettings as occupier confidence returns. Whilst vacancy has increased in the top-seven cities from 4.5% in 2020 to close to 5.0% by December 2021, the rate of increase has significantly slowed, and we expect that demand will continue to be high for the right properties.

France

Value of property portfolio	£282.4m
Percentage of Group's property interests	12%
Number of properties	18
Number of tenants	158
EPRA vacancy rate	3.0%
Lettable space	0.8m sq. ft
Government and major corporates	46.4%
Weighted average lease length to end	5.0 years
Leases subject to indexation	100.0%

“The market in France is mixed with good demand in central Paris and regional markets like Lyon but weaker in Parisian suburbs such as the Western Crescent, albeit with some offset from contractual indexation.”

Portfolio movement and valuation summary

The value of the French portfolio decreased by £27.2 million as a result of: net reductions of £10.0 million (three disposals for £16.0 million offset by capital expenditure of £6.0 million); and a foreign exchange decline of £18.0 million, partly offset by a valuation gain of £0.8 million or 0.3% in local currency.

In the absence of any acquisitions, the like-for-like valuation increase was also 0.3%. The valuation increase was as a result of a decrease in ERVs with some offset for a slight hardening of equivalent yields. The net initial yield fell to 4.5% (2020: 4.7%) whilst like-for-like ERVs decreased by 1.6% and like-for-like contracted rents declined by 0.3% as we have actively sought to reduce vacancy.

Developments and refurbishments

During the year we embarked on a programme of refurbishing several of our French properties. The most significant of these is the redevelopment of Park Avenue, Lyon for which our revised application was approved in September 2021. The planned works include refurbishment of common areas, replacement of the existing façade and creation of new common terraces through the extension of existing landings. The works will improve the sustainability credentials of the building through the installation of new windows, electric shades and a green roof. Our existing tenants have been temporarily relocated while the works are carried out to allow us to complete the project much quicker than if they were in situ. The works are expected to complete in Q4 2022 at a cost of £10.7 million resulting in expected uplifts in the ERV of the building.

Disposals

During the course of 2021 we disposed of three smaller assets for €19.3 million (5.5% above book value) which offered greater value through alternative use. Further details are provided in the accompanying case study.

Asset management

EPRA vacancy in France reduced to 3.0% as at 31 December 2021 (2020: 5.1%) with the reduction largely driven by active asset management in spite of market challenges. The majority of our 2021 expiries were renewed, and existing vacancy was filled by attracting new tenants and leasing additional space to our existing tenants.

In 2021, we let or renewed leases on 112,625 sq. ft (10,463 sqm) and lost 90,602 sq. ft (8,417 sqm) of space from expiries or new vacancies. Excluding contractual indexation uplifts, 24 lease extensions and new leases secured £2.2 million of rent at an average of 10.8% below ERV. The deficit to ERV was mainly driven by the lease extension and renewal with Veolia at Inside, Paris. Excluding this deal, the remaining transactions secured rent at 1.7% below ERV. On a like-for-like basis, ERVs fell by 1.6% in the year and at the end of 2021 the portfolio was 1.4% net reversionary.

In 2021, Energy audits were completed for the whole French portfolio, allowing the group Net Zero Carbon pathway to be calibrated with milestones set until 2030. Smart metering was installed to allow us to focus on managing consumption and reporting in compliance with "Decret Tertiaire" requirements.

Market overview and outlook

The French economy delivered a very respectable 7% GDP growth in 2021 and the economy is forecast to grow around 4% in 2022 on the back of economic stimulus irrespectively of the outcome of the upcoming presidential election.

Commercial property investments in 2021 were c.£24 billion which was marginally up on the previous year. The regional market performed well and now represents 25% of the overall investment volume with Lyon being the top regional investment destination.

More than 1.8 million sqm of office space was let in 2021 in the Paris Region, which exceeded expectations and the prior year, on the back of a strong fourth quarter with 631,000 sqm of take-up. Supply has stabilised with four million sqm of office space available in the Paris Region which is a vacancy rate of 7.5%. There is a widening gap between Paris CBD at 4% vacancy and the western districts of la Défense and Péri-Défense at 15% vacancy which are suffering from over-supply. The southern and northern Paris districts are performing relatively well. Vacancy in Lyon continues to be between 5% and 6%. We expect these differences to remain or even widen further in 2022 which should benefit our French portfolio both in terms of flexibility, floor plate sizes and the quality that is required.

Improving the portfolio's focus on growth



5.5%

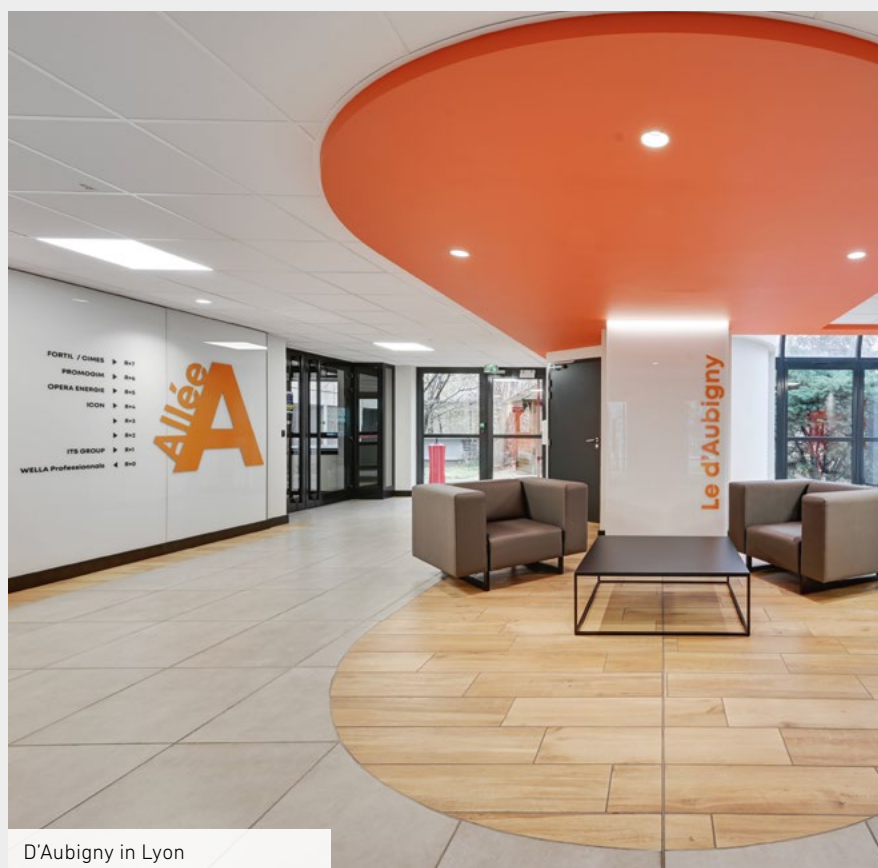
Overall consideration ahead of valuation

Sale of three smaller French properties

As we have consistently set out, CLS is driven by our ability to generate returns and add value when deciding whether to retain a property. If we can secure a significant premium to book value and/or deploy capital towards better opportunities, we will sell. In addition, we are reducing the number of properties that we own which are worth less than around £10 million in order to concentrate management time on bigger opportunities. All three of these factors contributed to our French disposals in 2021.

In total, we sold three properties for €19.3 million which was a 5.5% premium to book value. All of the properties were fully-let or presented better redevelopment opportunities, and therefore there was little ability to add value in the medium term through active asset management. The individual properties, each of which was worth less than €10 million, were: Gennevilliers, Paris, Leclerc, Paris and La Madeleine, Lille.

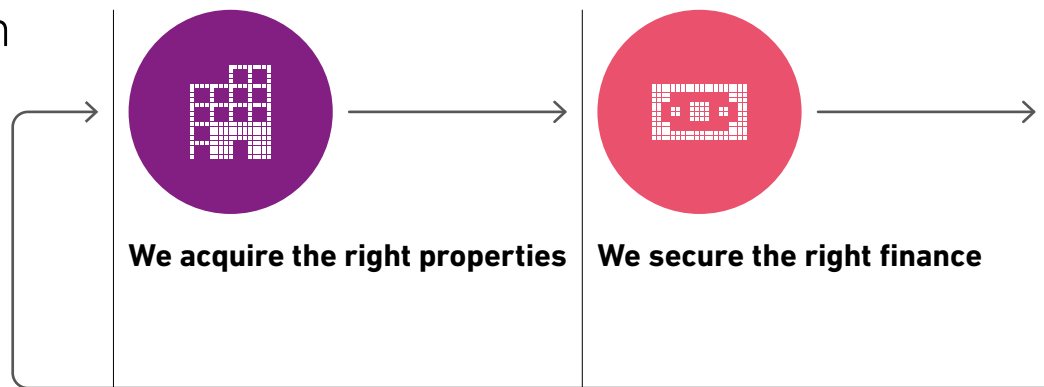
The proceeds are being re-invested in the redevelopment and refurbishment of the French portfolio and in acquisition opportunities across the Group, including France if return criteria can be met.



D'Aubigny in Lyon

Realising value and reinvesting for the future

Growth through reinvestment



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

We invest in commercial real estate in the UK, Germany and France. 89% of our properties are offices.

We look to acquire high quality properties with good transport links 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.

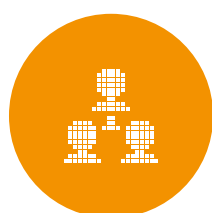
Most of our properties are held in their own SPVs, and are financed with bank loans borrowed by the SPV on a non-recourse basis to the rest of the Group.

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 25 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

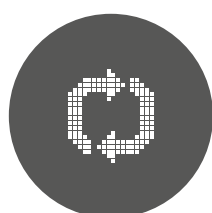
The key to active management is to perform it in-house, because, by using our own employees, we harness greater motivation, response times and attention to detail than if tasks were to be outsourced.

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.

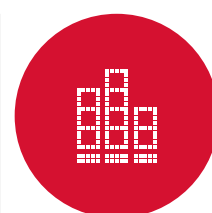
We have an asset management plan for each asset which we flex depending upon tenant requirements and leasing activity.

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 £31.4 million of the £46.0 million of EPRA earnings in 2021.

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 the whole of CLS is not a REIT, we have flexibility 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 in action



Acquisitions

The Commodus Collection, Germany

With significant uncertainty at the start of 2020, CLS was naturally cautious in deploying capital. Greater confidence in the direction of the market started to come through by the end of 2020 and the start of 2021 which led to opportunities emerging that met our acquisition criteria.

“The Commodus Collection is a small portfolio of high quality, well located German offices. The portfolio benefits from a diversified tenant base as well as the opportunity to secure market rents and valuation uplifts in the years ahead.”

We acquire the right properties

CLS has been increasing its presence in Germany since entering the market in 2006, including a significant step-change in 2017 with the £140.1 million acquisition of the 12-asset Metropolis portfolio. Low unemployment; a strong decentralised economy with multiple large cities; and asset replacement costs above acquisition values thereby supporting rental growth, all contribute to the attractiveness of the German office market.

Deal structure

As part of the planned divestment from its first fund, private-equity group Commodus RE (now named Coros) sought to dispose of four assets through agents. CLS was interested in three of the assets and approached Commodus directly about structuring a package deal.

The deal was structured as an off-market, corporate acquisition with CLS taking over the existing three individual companies and associated financing. In this way, certain tax, financing and other liabilities were reduced for Commodus which was reflected in the negotiated purchase price of €89.7 million. We exchanged on the acquisition in January 2021 and completed on all three properties in April 2021.

Acquisition rationale

The portfolio fitted perfectly with CLS' acquisition criteria:

- located in strong, well-connected top five cities (Düsseldorf, Berlin and Hamburg);
- strong and stable cash flow (WAULT 4.9 years) generated from 31 tenants offering a diverse income stream;
- under-rented assets as the current average rent was 22% below estimated market rents; and
- a good mix of fully-let assets and vacancy, giving 93% occupancy overall, providing asset management potential.

Reflecting the above points, the net initial yield on the portfolio was 4.8% with a reversionary yield of 6.1%.

Properties acquired

Hansaallee 299, Düsseldorf, is a modern building which was developed in 2004. It is the largest property in the portfolio comprising 16,622 sqm (178,918 sq. ft) of space and 252 parking spaces. It is located in the 'Seestern' district and sits opposite Loerick underground station. The building has excellent connectivity with access to Düsseldorf Central Station in 20 minutes and the airport in 30 minutes. It is fully let to eight tenants with a WAULT of 3.9 years and has a current rent of €2.5 million.

Storkower Strasse 132, Berlin was comprehensively refurbished in 2020 and is situated between Prenzlauer Berg and



Hansaallee 299, Düsseldorf

Friedrichshain in the east of Berlin, in one of the most popular and fastest growing districts. The building has 6,105 sqm (65,714 sq. ft) of lettable space, fully let to ten tenants with a long WAULT of over eight years. The current rent is €1.1 million.

The third property, Wendenstrasse 408 in Hamburg, is a 9,676 sqm (104,152 sq. ft) building with 191 parking spaces situated in Hamburg City Süd, a fast-growing submarket of the city. It is let to 13 tenants with a WAULT of 3.9 years. The current rent is €0.9 million. With an average rent of €8.40/sqm/month, the building was materially under rented with 21% vacancy, providing an immediate opportunity to capture market rents.

Going forward

The start of 2021 also saw the completion of two further German acquisitions, in Berlin and Essen, for €70.5 million which had exchanged at the end of 2020. All of the acquisitions offer significant opportunities to drive value via active asset management, by capturing under renting and vacancy through refurbishment and repositioning as well as refinancing potential.

As a result of these acquisitions, the German proportion of the portfolio has increased to 38% from 23% only five years ago.

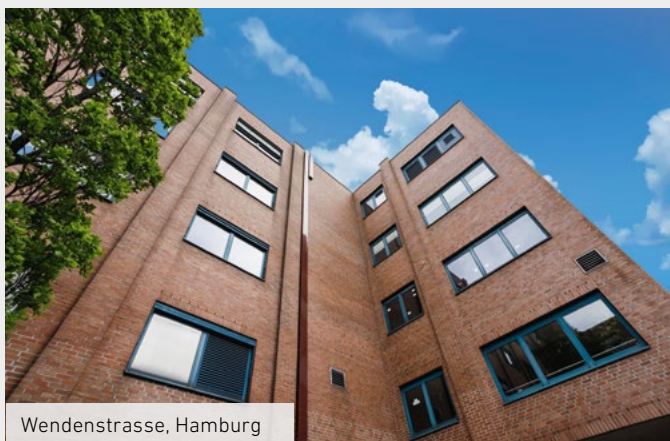
Section 172 considerations

Despite another challenging year for investments, the Board was keen to continue to identify and acquire the right properties in order to meet its strategic objectives.

Discussions at the 2020 October Strategy Board Meeting had reinforced the growing benefit and attractiveness of Germany as a key market for CLS. This led to the approval of the acquisition of the Commodus portfolio in January 2021, which was considered by the Board to be incremental in meeting the Group's strategic objectives.

Throughout 2021, the Board continued to carefully consider other identified properties and endorsed the acquisitions of those which it recognised would support the Group's vision to be a leading office space specialist in the markets in which it operates.

➔ For more information on s.172 please see page 88



Wendenstrasse, Hamburg



Storkower Strasse, Berlin

€89.7m

Acquisition of three properties in Germany with a reversionary yield of 6.1%



Financing

Scottish Widows 'green' loan, UK property portfolio

Securing the right finance is essential to maintaining capital discipline, and thereby reducing equity investment and driving property returns. In addition, it locks in excellent cash generation through margin arbitrage capture. CLS uses a variety of local financing solutions to ensure it is competitively positioned.



Priory Place, Chelmsford

“ CLS has committed to ensuring that by 2030 at least 50% of our loan portfolio is green. Following the execution of the Scottish Widows portfolio loan, over 20% of our portfolio is green and we are on course to meet, and hopefully beat, our target. ”

We secure the right financing

At our Strategy Day in October 2020, the CLS Board again debated the strategic priorities for the financing of the Group and the right steps to achieve these priorities.

Strategic financing priorities

The strategic priorities remain to match the Group's weighted average debt maturity more closely with the Group's weighted average unexpired lease terms whilst simultaneously securing more green loans which align with our sustainability strategy. These priorities sit alongside our objectives of maintaining: loan flexibility; a diversity of funding sources and long-term relationships; a low cost of debt; and sufficient covenant headroom. The loan with Scottish Widows met all of CLS' strategic priorities and objectives.

Key loan features and benefits

CLS has had a relationship with the Lloyds Banking Group for over twenty years. In early 2021, we started discussions with Lloyds about a long-term, 'green' loan, which sat more naturally with Scottish Widows, the pension and life insurance arm of Lloyds.

In April 2021, we completed a £61.7 million loan with Scottish Widows, which is secured on a portfolio of five UK properties. The loan has a 12-year maturity at an all-in fixed rate of 2.65% and represented an initial loan-to-value of 55%.

This loan allowed CLS to refinance two existing loans of £27 million, which were due to expire in 2021, as well as to gear recently acquired properties including Radius House in Watford, which was acquired during 2021. Overall, the loan resulted in net additional cash to CLS of £34 million after costs.

This was CLS' second sustainability-linked loan which accords with the Loan Market Association sustainability principles. And like CLS' first 'green' loan with Aviva, this loan was also a first 'green' loan for Scottish Widows. Also similar to the Aviva facility, CLS has the opportunity to benefit from up to a 10-basis point margin incentive dependent on the delivery of specific sustainability targets.

In terms of strategic priorities and objectives, the Scottish Widows' loan added a new counterparty to the Group's panel of lenders. Also, similar to the Aviva facility and subject to certain conditions, CLS will be able to remove or substitute properties as security for the loan. Finally, on execution, the loan resulted in a 0.5-year increase in the Group's pro-forma weighted average maturity to 4.5 years. It was also a major contributor to the lowest average cost of debt in the Group's history of 2.22%.

£61.7m

'green' loan for 12 years at 2.65%



Radius House, Reading

Going forward

The completion of another major financing increased CLS' cash reserves which facilitated the acquisition of new properties, particularly in Germany. In addition, following the completion of these two facilities, 'green' loans now represent over 20% of the Group's total debt meeting 2021's target and put CLS on course to meet, and hopefully beat, its 2030 target of at least 50% of its loan portfolio being 'green'. CLS is also on course to secure most or all of the sustainability margin incentives under the two loans.

In terms of financing sources, CLS' financing strategy deliberately involves a balance of secured Special Purpose Vehicle borrowing – one company, one property and one loan – together with several secured portfolios. Going forward, CLS will continue to pursue this successful strategy as well as explore widening its financing sources including a larger Revolving Credit Facility, unsecured borrowing and different market instruments.

Section 172 considerations

In 2021, the Board considered how to continue developing the Group's financings to support the delivery of its future sustainability targets.

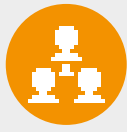
The Board recognised the importance of continuing to diversify the Company's loan book in a way which also supports its vision to be a sustainably-focused landlord. This led to the approval of the Group's second 'green' loan in 2021 with Scottish Widows.

This loan allowed the Company to foster further business relationships with yet another well-established lending institution while supporting the Group's sustainability strategy on 'green' loan financing, and spreading risk through a suite of borrowing options all whilst facilitating the Company's journey to Net Zero Carbon by 2030.

➤ For more information on s.172 please see page 88



One Church Road, Richmond



Asset management

9 Prescott Street refurbishment, London

Active, in-house asset management is a key ability of CLS to create shareholder value as well as being a market differentiator. Our asset management activities are at all points of the value chain from refurbishing existing building in response to tenant demands to new leases which capture rental increases and keep vacancy low.

“9 Prescott Street is a wonderful example of the execution of CLS’ business model from a 2019 acquisition case study to now being able to showcase the refurbishment and repositioning currently taking place which will create a stunning modern and sustainable office building.”

We deliver value through active asset management

9 Prescott St was designed for the Co-operative Wholesale Society (‘CWS’) as a seven-storey furnishing and hardware warehouse and showrooms. The building, which closely imitates the CWS Administrative Office and Bank at 1 Prescott Street by using the same distinctive brickwork above a Cornish granite base, opened in May 1939. In the sub-basement, a 600ft artesian well produced 10,000 gallons of water per hour which, along with another well in the drapery department, was intended to supply all the water for the company’s many premises in the area. CWS sold the building in 2011.

CLS acquisition strategy

In 2019, CLS purchased the 94,000 sq. ft office building for £54.7 million. The rationale being that the building would initially be fully income producing whilst giving time to

design and develop comprehensive plans to modernise the offices. The building, with its impressive ceiling heights and large floorplates, presented as a fantastic refurbishment and repositioning opportunity, where modern sustainable office standards could be met within a heritage building.

Redevelopment scheme

Our in-house development team thoroughly assessed the building to identify areas where improvements could be made, as well as determining the type of amenities and certifications which future tenants would expect in this location.

The refurbishment has been designed to retain and enhance the character of the building by echoing the original Art Deco features, for example by using a rich palette of deep blue and green tiles to stunning effect in the reception, roof top bar and shower facilities.

A key objective of the refurbishment has been to improve accessibility to all floors of the building, including the roof terrace through the introduction of lifts and other facilities for the disabled. The health and wellbeing of potential tenants has also been at the forefront of many design decisions. For instance, major improvements have been made to the amount of daylight on the office floors by creating lightwells, adding new windows and reinstating previously blocked windows. Fresh air rates have been elevated to 14 litres per second per person (in line with 2021 BCO COVID best practise), bi-polar ionisation filtration has been incorporated which eliminates 99.8% Covid-19 particles and active CO₂ control is also being incorporated.

A roof terrace of 4,000 sq. ft, with views across the City, will be provided through replacing all plant and machinery, including redundant plant that had been left in-situ, thereby freeing up space. The building will be completely electrified, in line with CLS’ sustainability strategy, and new hybrid VRF will be installed which significantly reduces the amount of climate damaging refrigerant used. The new, highly energy efficient systems are modelled to have an annual operational energy usage below the RIBA 2025 target for new builds.

Additional, forward-thinking tenant amenities include: a 3,000 sq. ft reception/ coffee lounge; a bookable meeting room; a multi-faith room; and 163 electric and standard cycle spaces, as well as shower and drying facilities that meet Greater

9 Prescott Street, London



London Authority new build office requirements. 9 Prescott Street will also achieve Cyclescore Platinum and WiredScore Platinum certifications.

Overall, the refurbishment will target BREEAM Excellent and an EPC B.

Financial assessment

During the course of the design evaluation, CLS has benefited from lease breaks and terminations of the remaining tenants such that the entire building will be renovated at a cost of c.£29 million. The repositioning plus the highly reversionary rental level will allow CLS to increase annual rent from £2.6 million to £4.9 million and a profit on cost well in excess of 20%.

Construction plan, timing and current progress

Planning and listed building consent were secured in 2020 and strip-out works completed on the lower floors in the first quarter of 2021. BW Interiors Ltd, a Tier 1 contractor, has commenced the refurbishment works, which are expected to complete in the second quarter of 2023; at which time the building will be branded as The Artesian.

Section 172 considerations

The Board recognises that one of CLS' key strengths has been active asset management for the benefit of our tenants, who are our focus.

When endorsing the redevelopment of 9 Prescott Street, the Board acknowledged that it would provide substantial improvements to the provision of office space in a regeneration area which consequently provides employment and jobs for the local community. The Board recognised that the completed building, as envisioned by the development team, supports CLS' purpose to transform office properties into sustainable modern workspaces to help businesses grow.

Through continual active asset management opportunities, CLS aims to upgrade its properties to provide a more sustainable and therefore desirable environment for tenants, which would also support the local economy through the supply chain.

➔ For more information on s.172 please see page 88



Current roof terrace



Planned reception (CGI)



Planned internal (CGI)



Disposals

Conversion of CLS' UK operations to a REIT

On 1 January 2022, CLS converted its UK operations to a REIT thereby allowing greater comparability with other listed peers as well as saving tax on future UK asset disposals and UK rental income.

“ Conversion of our UK operations to a REIT is a very positive move which has increased EPRA NTA at 31 December 2021 by 4.5 pence per share and will save £3 million to £5 million of tax per annum from 2022 onwards whilst retaining the existing flexibility within our strategy. ”

We continually assess whether to hold or sell properties

Whilst conversion of CLS' UK operations to a REIT is not a property transaction, it will have a fundamental influence on our future UK property transaction decisions, whether to hold or sell, or acquire. Going forward CLS will not pay tax on the vast majority of its UK operations and transactions, including gains on property sales, which fall within the REIT regime.

Strategic rationale

CLS has been evaluating the REIT regime in the UK for a number of years. During this time, CLS' operations have become almost entirely focused on real estate and in 2017 CLS changed from tender buybacks to a standard dividend policy. The trigger for making the decision to convert was the substantive enactment in May 2021 of the increase in the UK corporation tax rate from 19% to 25% from 1 April 2023.

Benefits and constraints

As highlighted, going forward CLS will pay no corporation tax on its UK property operations being rental income, gains on property sales and sales of companies owning UK property. As a result, around £42 million of the UK deferred tax liability as at 31 December 2021 has been extinguished, EPRA NTA at 31 December 2021 increased by 4.5 pence and CLS will save £3 million to £5 million of tax per annum from 2022 onwards. This conversion will also improve the economic assessment of new acquisitions and remove tax considerations from the decision to sell a property.

There are a number of tests which need to be met and monitored to be within the REIT regime. CLS comfortably meets these. One REIT regime requirement is that 90% of profits within the regime need to be distributed as a Property Income Distribution ('PID').

CLS has only elected to convert its UK operations, which account for about 50% of the business, to a REIT for two reasons:

- there was no charge to convert nor any structural changes in the UK. In France and Germany, there are conversion charges or structural or other changes that would be required; but moreover
- as the PID only equates to c.45% of CLS' earnings (i.e. 90% of c.50%), CLS will maintain its total return strategy and its business model through the flexibility to retain significant levels of earnings. The overall dividend will be topped-up from German and French earnings according to our dividend policy.



£41.8m

of deferred tax liability extinguished

Going forward

Conversion took place on 1 January 2022 so that whole of the new financial year is under the REIT regime thereby making the calculation of the PID much simpler as well as avoiding two set of tax returns and associated accounts.

No shareholder approval was required to convert to a REIT. However, at the AGM on 29 April 2022, certain changes will be proposed to incorporate the standard REIT provisions within the Articles.

The 2022 interim dividend, expected to be paid in September 2022, and for all dividends going forward, dividends will comprise two elements. A PID from the UK REIT operations and a second element from CLS' remaining operations. The split will be shown on the face of each dividend voucher. The existing dividend policy, which seeks to pay out 50%-66% of EPRA earnings, will be reviewed alongside the 2022 interim dividend to the extent needed.

Section 172 considerations

As part of the consideration to convert the UK business to a REIT, the Board consulted a wide variety of stakeholders, including CLS' controlling shareholder, other large shareholders, lenders and other relevant authorities.

Given the impact of the REIT regime on the Group, the Board oversaw that significant due diligence and assessments were undertaken throughout 2021 using internal and external advisors to ensure compliance with the REIT regime.

The Board concluded that adoption of the REIT regime would ultimately be in the best interests of the Group and its key stakeholders. It approved this decision which came into effect on 1 January 2022, following completion of the requisite due diligence.

➔ For more information on s.172 please see page 88



Falcon House, London

Realising value from alternative use propositions

£0.8m

Profit on disposal

Sale of Quest House and Falcon House, London

Our strategy of continually assessing whether to hold or sell properties includes appraising whether greater value can be captured through a change of use, for example, a residential conversion.

In Hounslow, West London we sold both Quest House and Falcon House to a residential developer securing a profit of circa £0.8m for the Group after assessing that these two smaller office assets had alternative use value that exceeded commercial value.

The properties are well located near Hounslow Central underground station and offered flexible floor plates with good levels of natural light on all sides, suitable for conversion to residential.

From August last year, the Government amended the criteria for commercial buildings that can secure prior approval planning applications for conversion from offices to residential. The Group submitted a programme of prior approval applications, successfully securing alternative uses in a number of secondary office locations, increasing the desirability of these properties for sale.

CLS is a long-term investor but we continually assess whether to hold or sell properties, particularly if we can secure a significant premium to book value and therefore deploy capital in opportunities with stronger fundamentals.

Engaging our stakeholders

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

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.

➔ Further information on specific stakeholder engagement initiatives can be found on pages 64 and 65 and page 89

Our vision and values, which can be found on page 8, reflect how our stakeholders perceive us and, in turn, how we conduct ourselves in our interactions with them.

Tenants

How we listened to our stakeholders

- Tenant meetings
- Tenant satisfaction surveys

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

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

Office Connect, Cologne



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

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/Covid-19
- Long-term growth strategy
- Importance of Group-wide sustainability initiatives
- The future of the office

How did we respond?

- Brexit and Covid-19 impact risk assessments
- November 2021 Capital Markets Day in London
- New sustainability strategy and Net Zero Carbon pathway
- 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?

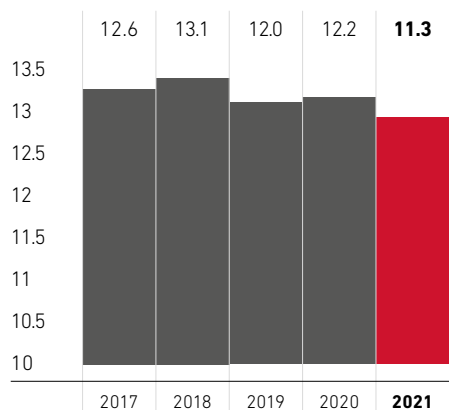
- Changes in legislation
- Economic and market research and trends
- Ongoing compliance with loan covenants
- Sustainability initiatives

How did we respond?

- Communication of Group strategy at individual meetings
- Regular updates on portfolio changes
- Ensuring best practice in compliance reporting
- 'Green' loans agreed with major financial institutions

Key performance indicators

EPRA earnings per share (p)



Definition

EPRA earnings is a measure of operational performance and represents the net income generated from the Group's underlying operational activities.

Why this is important to CLS

This KPI gives relevant information to investors on the income generation of the Group's underlying property investment business and an indication of the extent to which current dividend payments are supported by earnings.

Our target

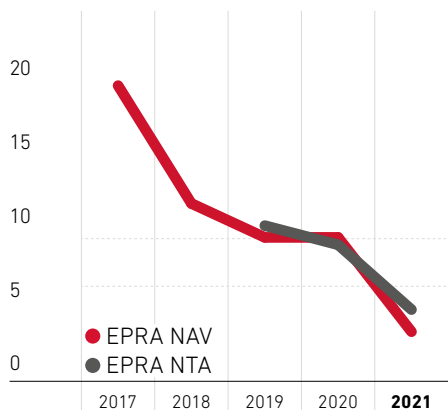
We will seek to grow the earnings of the business alongside net asset value. Following REIT conversion in the UK, the tax saving is expected to increase EPRA earnings by at least 0.7 pence.

Progress

EPRA earnings per share for 2021 was 11.3 pence.

⊕ More detail is provided in the Chief Financial Officer's review on pages 38 to 41 and in note 5.

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

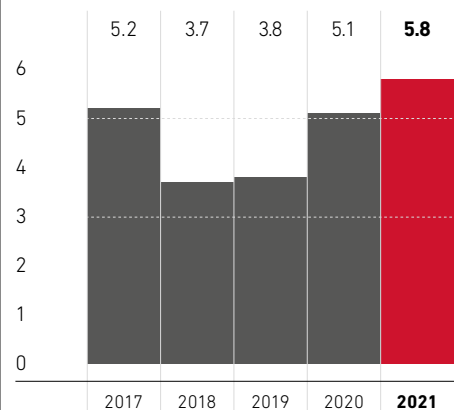
Our target total accounting return is between 3% and 9%.

Progress

In 2021, the total accounting return was 3.7%.

⊕ More detail is provided in the Chief Financial Officer's review on pages 38 to 41 and in note 5.

Vacancy rate (%)



Definition

Estimated rental value (ERV) of immediately available space divided by the ERV of the lettable portfolio.

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

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.

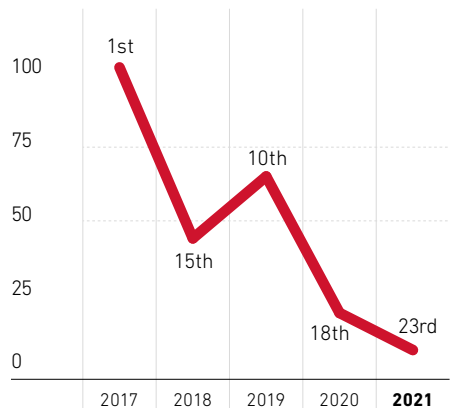
Progress

At 31 December 2021, the EPRA vacancy rate was 5.8%.

⊕ More detail is provided in the Country business reviews on pages 18 to 23 and in note 5.

Measuring the 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 24 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

Our target total shareholder return (relative) is between the median and upper quartile.

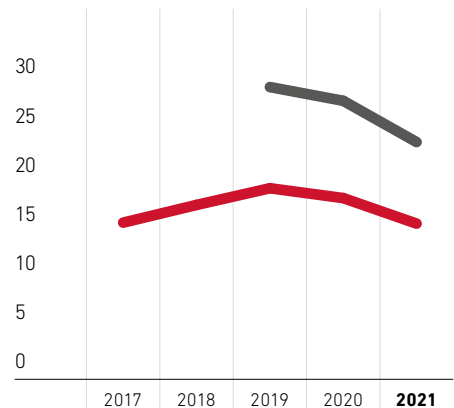
Progress

The TSR was 0.4%, making CLS the 23rd ranked share of the FTSE 350 Real Estate Super Sector Index of 24 companies.

Other performance indicators

In addition to these key performance indicators, the Group also has a number of other performance indicators by which it measures its progress. These are regularly reviewed. Three are shown here but others are summarised on page 3 and in note 5 and are discussed throughout this strategic report. Our environmental and social indicators (including health and safety) are discussed in the ESG section on pages 54 to 77.

Administration cost ratios (%)

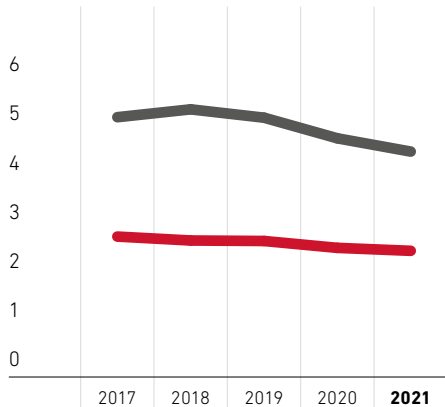


- CLS
- EPRA

These measure 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 the CLS ratio between 15% and 17%. The administration cost ratio was for 2021 14.1%.

⊕ More detail is provided in the Chief Financial Officer's review on pages 38 to 41 and in note 5.

Net initial yield vs cost of debt (%)

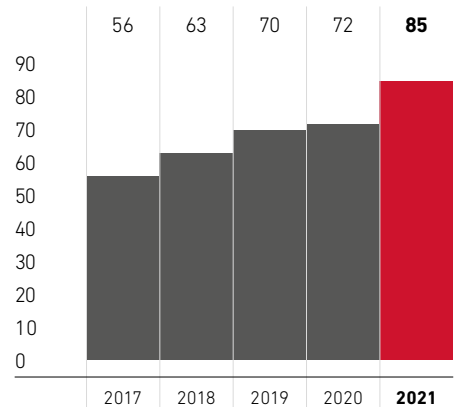


- Cost of debt
- Net initial yield

We seek to maintain a cost of debt at least 200 bps below the Group's net initial yield. At 31 December 2021, the cost of debt of 2.22% was 205 bps below the net initial yield of 4.27%.

⊕ More detail is provided in the Chief Financial Officer's review on pages 38 to 41 and in note 5.

GRESB (ESG) score/100



Our main sustainability indicator has changed to be the Group's GRESB rating as this is an industry standard measure and also due to the difficulty in drawing conclusions from carbon-related measures due to the variability in occupancy of our buildings during the pandemic. We achieved a further thirteen GRESB points this year, and an additional green star taking our total score for 2021 to 85 points and four green stars.

⊕ More detail is provided in the ESG section on pages 54 to 77.

Chief Financial Officer's review



Andrew Kirkman
Chief Financial Officer

“ Robust results in 2021 with continuing excellent rent collection, strong EPRA NTA and revaluation uplifts across all countries. ”

Summary

EPRA net tangible assets ('NTA') per share, rose by 1.5% to 350.5 pence (2020: 345.2 pence) and basic net assets per share by 4.7% to 326.6 pence (2020: 311.9 pence). Profit after tax of £119.5 million (2020: £77.4 million) generated basic earnings per share of 29.3 pence (2020: 19.0 pence) and EPRA earnings per share of 11.3 pence (2020: 12.2 pence). EPRA EPS provided 1.5x cover of the full year dividend of 7.70 per share.

On 1 January 2022, we converted our UK operations to a REIT. As a result of the conversion, CLS will pay no UK corporation tax on its UK property operations (rental income, gains on property sales and sales of companies owning UK property) which fall within the REIT regime from the 2022 financial

year onwards. One of the reasons for conversion was so as to shield the UK operations from being subject to the increase in the rate of UK corporation tax from 19% to 25% from 1 April 2023. Conversion has increased EPRA NTA by 4.5 pence and will save between £3 million to £5 million annually in UK corporation tax from 2022 onwards. The low end of the range being the tax saving in EPRA EPS and the high end being the usual tax saving in statutory EPS including the tax on the realisation of valuation gains on property disposals.

The overall level of CLS' dividend under the REIT regime will be reassessed in the second half of the year.

“ REIT conversion in the UK will save between £3 million to £5 million of tax annually from 2022 onwards. ”

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.

Income statement

Net rental income in 2021 of £108.0 million, as set out in graph A, was £1.8 million lower than in 2020. Acquisitions added £8.3 million but this was more than offset by income lost from disposals (£2.7 million); properties being redeveloped (£2.3 million); net lease expiries as vacancy increased (£2.2 million); the impact of a stronger sterling on German and French rent receipts (£1.6 million); and lower dilapidation income (£1.4 million). Both the hotel and student income rebounded in the second half, as businesses recovered following the easing of Covid-19 restrictions, such that overall hotel revenue increased by £0.8 million to £2.7 million (2020: £1.9 million). Given the timing of the academic year relative to Covid-19 restrictions, student

“ Continued high rent collection in 2021 at 99% ”

income fell £0.7 million to £4.1 million (2020: £4.8 million) but occupancy rates are back to, or above, normal levels at 99% for the current academic year.

As the difficult trading environment continued during 2021, we also continued our focus on our tenant relationships and monitoring rent collection. Rent collection statistics in 2021 and the first quarter of 2022, as set out below, remained excellent throughout.

	H1 2021	H2 2021	2021 Year	Q1 2022
UK	99%	99%	99%	96%
Germany	99%	99%	99%	98%
France	99%	99%	99%	98%
Total	99%	99%	99%	97%

Due to the continued 99% level of rent collection, we have been able to reduce our 2021 bad debts provision by £0.3 million (2020: £1.8 million increase). Index-linked rent represents 50.1% of the total contracted rent of the portfolio which is a slight increase from 48.5% in 2020. This level of indexation is particularly helpful in a time of higher inflation and increasing interest rates.

We monitor the costs of running the business closely and as a result of several cost control measures, including limited redundancies, and lower bad debt charges, the administration cost ratio fell to 14.1% (2020: 16.7%) and the EPRA cost ratio fell to 22.6% (2020: 26.6%).

The net surplus on revaluation of investment properties of £28.5 million (2020: £31.5 million) resulted from valuation increases from all three countries; in local currencies, Germany

again had the strongest year with a 3.1% rise in values, UK by 0.7% and France by 0.3%.

“ Over 50% of contracted rents are index-linked ”

Eight properties were sold in 2021 at 3.2% above book value but after costs resulted in a loss on sale of properties before tax of £0.1 million (2020: £11.6 million profit).

Finance income of £5.9 million (2020: £1.1 million) included unrealised gains on derivative financial instruments of £5.2 million (2020: £1.6 million loss).

Excluding the derivative financial instruments, finance income fell by £0.4 million as interest received fell to £0.5 million (2020: £1.0 million) and dividends receivable increased to £0.2 million (2020: £0.1 million).

Excluding the 2020 derivative financial instruments cost, finance costs increased to £25.4 million (2020: £24.4 million) mainly due to the increase in borrowings offset by the further reduction in the cost of borrowing and the higher exchange rate.

Approximately 53% of the Group's sales are conducted in the reporting currency of sterling and 47% in euros. Compared to last year, relative movements of sterling against the euro had a notable negative 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 2021 sterling was 6.3% stronger against the euro than 12 months previously and sterling's

average rate strengthened against the euro by 3.4%. This strengthening resulted in a foreign exchange loss of £2.3 million in the income statement (2020: £2.1 million gain).

Exchange rates to the £	EUR
At 31 December 2019	1.1825
2020 average rate	1.1251
At 31 December 2020	1.1185
2021 average rate	1.1634
At 31 December 2021	1.1893

The effective tax rate of -30.6% (2020: 19.8%) was below the weighted average rate of the countries in which we operate, primarily due to the release of UK deferred tax liabilities following our transfer to a REIT of our UK operations.

Overall, as set out in graph B, EPRA earnings were lower than last year at £46.0 million (2020: £49.5 million) and generated EPRA earnings per share of 11.3 pence (2020: 12.2 pence). The decrease of 0.9 pence in EPRA EPS was primarily due to the 3.4% strengthening of the average rate of sterling (1.1 pence comparative movement), without which EPRA EPS would have slightly increased. We were able to achieve operational cost savings of 1.0 pence mostly offset by reduced net rental income of 0.4 pence, as commented on above, and increased finance costs and tax of 0.4 pence.

Additional income of £7.5 million was recognised in 2021 in statutory EPS as a result of the sale and revaluation of our remaining two legacy non-core Swedish investments. CLS now directly holds 3.23% of Fragbite Group AB and indirectly 9.68% of Vo2 Cap Holding AB.

A. Net rental income

	£m
2020	109.8
Acquisitions	8.3
Disposals	(2.7)
Developments	(2.3)
Net lease expiries	(2.2)
Foreign exchange	(1.6)
Dilapidations	(1.4)
Hotel income	0.8
Student income	(0.7)
2021	108.7

B. EPRA EPS movement

	per share
2020	12.2
Net rental income	(0.4)
Expenses	1.0
Foreign exchange	(1.1)
Net finance costs and tax	(0.4)
2021	11.3

Chief Financial Officer's review

Continued

EPRA net tangible assets and gearing

At 31 December 2021, EPRA net tangible assets per share were 350.5 pence (2020: 345.2 pence), a rise of 1.5%, or 5.3 pence per share. As set out in graph C, the main reasons for the increase were; EPRA earnings per share of 11.3 pence; property valuation increases of 1.6% equivalent to 8.4 pence per share; and the impact of the REIT conversion of 4.5 pence per share from the release of UK deferred tax liabilities related to future sales and timing differences, less foreign exchange of 9.7 pence per share; dividends of 7.6 pence per share; and other movements of 1.6 pence per share.

“ REIT conversion in the UK has added 4.5 pence to EPRA NTA. ”

Balance sheet loan-to-value (net debt to property assets) at 31 December 2021 increased to 37.1% (2020: 33.7%) as a result of net acquisitions. The loan-to-value of secured loans by reference to the value of properties secured against them was 46.3% (2020: 48.8%). The value of properties not secured against debt fell to £100.8 million (2020: £138.8 million).

Cash flow and net debt

As at 31 December 2021, the Group's cash balance had fallen to £167.4 million (2020: £235.7 million) as set out in graph D. Net cash flow from operating activities generated £44.2 million, a reduction of £0.1 million from 2021. £30.8 million was distributed as dividends and £33.4 million paid out for financing costs, tax and other costs, with the remainder reinvested in the business to grow net tangible assets. Acquisitions of £164.6 million and capital

expenditure of £36.4 million were partly funded by proceeds after tax from property disposals of £35.7 million and the net drawdown of loans of £88.1 million. The net result of property and financing transactions being the investment of £68.3 million in our property portfolio.

Gross debt increased by £60.9 million to £1,031.6 million (2020: £970.7 million) due to the net drawdown of loans of £88.1 million, amortisation of loan issue costs of £1.9 million and the decrease of £29.1 million due to the strengthening of sterling against the euro. In the year, £196.7 million (£195.3 million net of fees) of new or replacement loans were taken out, loans of £88.2 million were repaid and £21.1m of contractual periodic or partial repayments were made. Year end net debt rose to £864.2 million (2020: £735.0 million). At the year end, CLS' additional facilities remained unchanged comprising undrawn bank facilities of £50.0 million, of which £30.0 million was committed.

The weighted average cost of debt at 31 December 2021 was 2.22%, 6 basis points ('bps') lower than 12 months earlier and a new all-time low for CLS, as shown in graph E. The movement was as a result of new lower cost debt drawn for German acquisitions (8 bps reduction) and from refinancing debt at a lower all-in-rate (4 bps reduction) partly offset by an increased proportion of more expensive UK financing due to stronger sterling (3 bps increase), an increase in the UK base rate (2 bps increase) and cheaper euro-denominated debt being repaid following disposals (1 bps increase).

In 2021, interest cover remained at a healthy level of 3.2 times (2020: 3.3 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 49% 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 including our two 'green' loans. 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.

“ Second 'green' loan of £61.7 million completed in 2021 taking our sustainability-linked loans to 21% of the Group's borrowings. ”

In 2020, we executed our first 'green' loan, a £154.0 million 11-year loan with Aviva Investors and during 2021, we signed our second with Scottish Widows. The £61.7 million loan was secured on a portfolio of five properties for 12 years. The sustainability objectives on both our

C. EPRA NTA movement

		p
At 31 December 2020		345.2
Dividends		(7.6)
EPRA EPS		11.3
Valuation movement		8.4
Foreign Exchange		(9.7)
REIT conversion		4.5
Other		(1.6)
At 31 December 2021		350.5

D. Movement in liquid resources

		£m
At 1 January 2021		235.7
Dividends paid		(30.8)
Cash from operations		73.1
Interest/tax		(28.9)
Sale of properties		35.7
Net loan drawdown		88.1
Acquisitions/capex		(201.0)
Foreign exchange/other		(4.5)
At 31 December 2021		167.4

'green' loans are aligned with the targets set out in our sustainability strategy. The year one targets to achieve the margin reduction have been met and subsequent objectives are on target and will be tested on an annual basis.

At 31 December 2021, as demonstrated in graph F, the 12-year Scottish Widows loan has added to the longer term loans such that the weighted average unexpired term of the Group's debt remained similar at 4.4 years (2020: 4.6 years).

Given the significant refinancing activity in 2024, and to a lesser extent in 2022, options are already being assessed. One potential solution is a larger RCF to give greater optionality regarding the encumbered buildings, whether new lettings, refurbishment or redevelopment.

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 2021, the Group financed, refinanced or extended ten loans to a value of £196.7 million for a weighted average duration of 6.9 years and at a weighted average all-in rate of 1.62%, and of these £172.8 million were fixed at a weighted average all-in rate of 1.70%. Consequently, at 31 December 2021, 85.0% of the Group's borrowings were at fixed rates or

subject to interest rate swaps, 4.5% were subject to caps and 10.5% of loans were floating and unhedged. The fixed rate debt had a weighted average maturity of 5.1 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 2021 they represented a net liability of £0.4 million (2020: £5.6 million).

At 31 December 2021, the Group had 47 loans (36 SPVs, nine portfolios and two facilities) from 25 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.

“ 2.9% increase in final dividend ”

On average across the 47 loans, CLS has between 29% and 48% 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 to shareholders and total accounting return

The proposed final dividend for 2020 of 5.20 pence per share (£21.2 million) was paid in April. In September 2021, given the ongoing uncertainty, CLS maintained its interim dividend for 2021 at the same level as 2020 and an interim dividend of 2.35 pence per share (£9.6 million) was paid. The proposed final dividend for 2021 is 5.35 pence per share (£21.8 million). This represents a full year distribution of 7.70 pence per share (£31.4 million) which was covered 1.5 times by EPRA earnings per share.

The 2021 dividend is an increase of 2.0% over the prior year and the total accounting return, being the increase in EPRA NTA plus the dividends paid in the year, was 3.7% (2020: 8.1%).

As a result of the conversion of our UK operations to a REIT, for the 2022 interim dividend, expected to be paid in September 2022, and for all dividends going forward, shareholders will receive dividends comprising two elements. The dividends will comprise a Property Income Distribution ('PID') from the UK REIT operations and a second element from CLS' remaining operations.

Andrew Kirkman
Chief Financial Officer
16 March 2022

E. Average cost of debt

Year	Average cost of debt (%)
2017	2.51
2018	2.43
2019	2.42
2020	2.28
2021	2.22

F. Debt maturity

Year	GBP (£m)	GBP 'green' loans (£m)	EUR (£m)
2022	71.9		90.7
2023	5.5		68.3
2024			199.8
2025	44.3		55.3
2026	1.1		50.1
2027	1.3		78.7
2028	1.4		
2029	1.4		
2030		71.5	
2031	0.7		
2032		70.8	
2033		51.0	

Our principal risks

“ The effective management of risk is critical for the Group to be able to deliver its strategy, which is especially important in these times of heightened uncertainty. Our organisational structure allows the close involvement of senior management in all significant decisions, which together with the CLS in-house teams, embeds the management of risks and opportunities throughout the operation of the Group. ”

Our key activities for the year

- Purchased and started implementation of risk and internal control software to allow the Group to monitor and test its internal controls and the risks associated with them more efficiently and extensively.
- Published 2030 sustainability strategy and Net Zero Carbon pathway.
- Grant Thornton conducted internal controls and risk reviews with limited findings.
- Rolled out improvement recommendations from 2020 staff survey.
- Increased percentage of 'green' loans to over 20% of our loan portfolio and fixed rate debt to 85% whilst lowering average cost of debt from 2.28% to 2.22%.

Our priorities for 2022

- Roll-out of risk and internal control software.
- Implement Grant Thornton findings.
- Establish milestone targets for Net Zero Carbon pathway.
- Engage external consultants to assist us with in-depth analysis of climate-related resilience risk set across different climate scenarios.
- Establish Risk and Sustainability Committee.
- Establish benchmarks and targets for Social Value Framework.
- Make improvements based on tenant surveys.
- Simulate a major business interruption to test the Group's updated business continuity plan.
- Ensure Cyber Essentials plus ranking retained.

Risk management framework

The risks, being both principal and emerging, which the Group faces are reviewed and monitored in Senior Leadership Team meetings throughout the year and presented to the Board and Audit Committee at least every six months for further discussion and oversight. The Senior Leadership Team comprises the CEO, the CFO, the COO, regional business heads as well as other senior managers.

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 and the CFO.

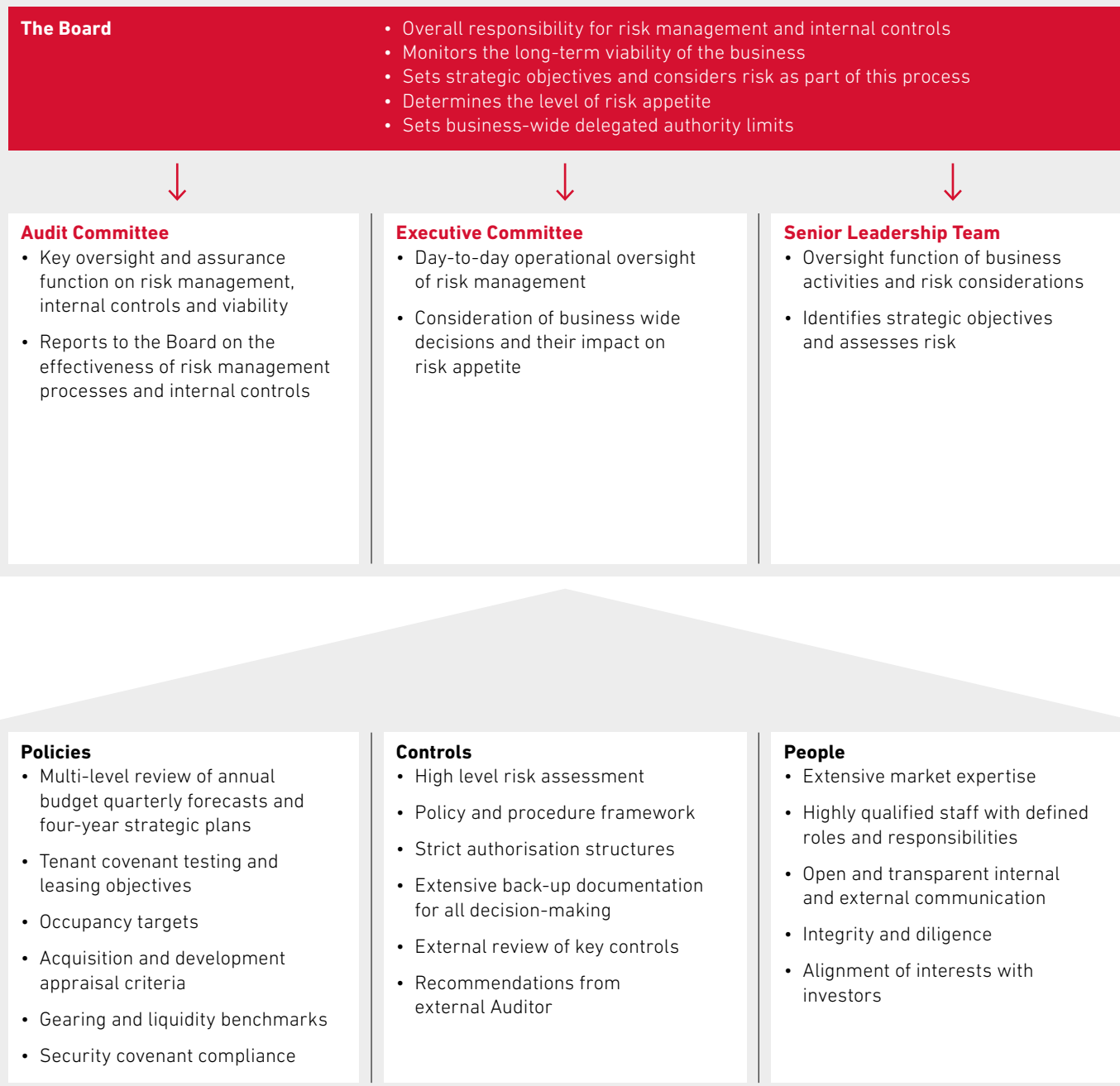
An update on risks and the control environment is presented at each Audit Committee meeting including the results of any internal control review procedures undertaken in the period. Senior managers also attend Audit Committee meetings to discuss specific risk areas and these discussions are supplemented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

Covid-19 has not changed our risk processes but increased the frequency of our considerations.

A summary of our risk management structure is provided in the diagram opposite.

Our risk management structure is set out below:



Our principal risks

Continued

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, or other sports club, memberships. In this way some of the people risks are somewhat mitigated.

During the year we purchased a suite of internal controls and risk software so that we can fully embed an effective risk management structure within our operations as well as monitor and report the risks and their associated internal controls more efficiently to the Audit Committee and the Board.

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 to emerge 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:

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, sustainability, 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. If a difference between the Board's risk appetite and the risk assessment persists for an extended period, this variance is debated as to whether and how the gap should be closed.

	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

Risk environment

The general risk environment in which the Group operates has remained at a higher level over the course of the year. This is largely due to the continuing effects of the Covid-19 outbreak, and associated uncertainty, together with the increased world-wide focus on sustainability.

Covid-19 presented a new and major risk to the business in 2020 and this has continued in 2021. Whilst much is starting to return to normal, it is still hard to predict the long-term impacts on the Global and European economies and consequentially the impacts on our key markets and our business. In 2021, the impact of the pandemic was most strongly felt at our Spring Mews hotel and student accommodation through lower occupancy but we have seen a strong recovery at both sites during the final few months of the year. Rent collection rates have remained at the same very high rate of 99% in 2021 (2020: 99%) for our office tenants which comprise over 90% of the 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 longer-term effects that may result from the pandemic are discussed in the CEO review and the individual country property reviews.

CLS condemns the invasion of Ukraine by Russia and we are looking at ways that we can support the Ukrainian people. We continue to monitor whether additional risk mitigation actions need to be taken to counter greater expected increases in inflation and overall economic disruption.

In considering our principal risks, set out on pages 46 to 51, any potential impact as a result of Covid-19 has been taken into account.

As discussed in more detail in the political and economic risk section, Brexit has had a limited direct impact on our business but we continue to monitor the situation.

Principal risks

Our principal risks are set out in the diagram below and are discussed in the following pages along with the change in their risk profile since the last year end and the current direction of travel as well as 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, several risks remain elevated as a result of the challenging external environment and significant ongoing uncertainty.

The diagram and following pages are only focused on our principal risks being those that have the greatest impact on our strategy and/or business model. In addition, there are many lower level operational and financial risks which are managed on a day-to-day basis through the effective operation of a comprehensive system of internal controls.

Our risk assessment

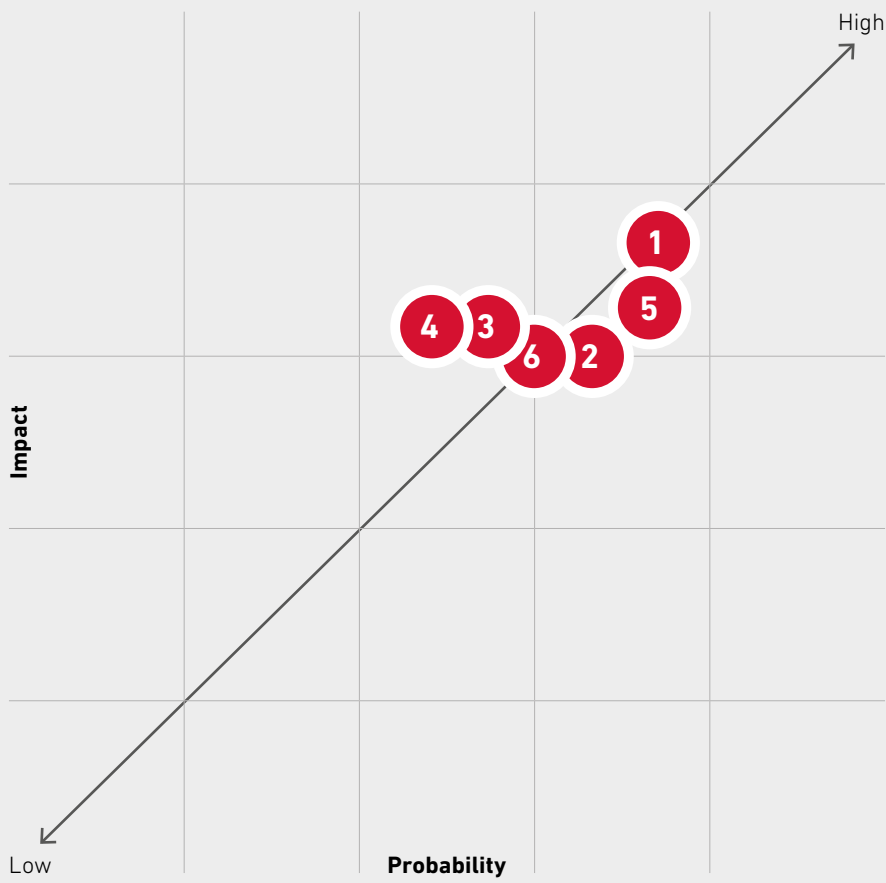
Risk heatmap

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

- 1. Property risk
- 2. Sustainability risk
- 3. Business interruption risk
- 4. Financing risk
- 5. Political and economic risk
- 6. People risk



Our principal risks

Continued

1. 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: Unchanged	Current direction of travel: No change
Key risks:	
<ul style="list-style-type: none"> • Cyclical downturn in the 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 • Building obsolescence 	
KPI/OPI link:	
EPS	VR
TSR(R)	ACR
TAR	
Business Model Link:	

➤ More detail is provided in the Country business reviews on pages 18 to 23.

Risk mitigation in action

As part of our diversified approach, acquisitions continue to be made in line with our strategic objective to grow both rental income and capital returns through filling vacancies and refurbishment. In 2021, we made six acquisitions, all with asset management opportunities.

We have rigorous and established governance and approval processes and we have continued to be resolute with our pricing discipline in assessing opportunities. Our Financial Investment Committee meets at least monthly to discuss potential acquisition opportunities in each of our regions.

Eight disposals were made in 2021 of assets which were low yielding with limited asset management potential or where the risk/reward ratio was unfavourably balanced. We are also increasing the average size of the properties in our portfolio by disposing of smaller properties, which require disproportionate amounts of management time and are less economic to upgrade in terms of amenities and sustainability.

We have a high quality and diversified tenant base and monitor any exposure 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 supplemented by external oversight.

Reports outlining progress, issues and potential risks are presented at each Board meeting.

Risk mitigation priorities for 2022

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

We will continue to monitor the covenant strength and health of our tenants and provide support where appropriate.

Commentary

There still remains uncertainty regarding the full economic and social impacts of Covid-19. In particular, the impacts on the demand for, and supply of, office space. It is though becoming increasingly clear that there is a market preference for well-located, high quality and flexible space – a trend to which CLS is actively responding.

The CLS in-house management model allows us to build close links with our tenants 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 work collaboratively to respond dynamically to tenants' changing requirements. Our Asset Management Committees meet once a month to discuss each of our properties with regard to new leases, lease events and tenant issues.

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 24 and 25.


Key and other performance indicators (KPI/OPIs)

- EPS Earnings per share
- 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 36 and 37.

2. 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 a 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: Increased	Current direction of travel: Increasing
Key risks:	
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:	
EPS	VR
TSR(R)	ACR
TAR	
Business Model Link:	
	

More detail is provided in the environmental, social and governance review on pages 54 to 77.

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.

Our Net Zero Carbon pathway to 2030, which is aligned to a science-based carbon reduction target (SBTi), was published in August together with our new sustainability strategy and are discussed in more detail on pages 58 to 61.

We have BREEAM In-Use assessments on all managed assets with 83% achieving at least a "Good" rating. We have also undertaken a full Scope 3 carbon emissions baseline.

We employed an external consultant to provide independent assurance for our Scope 1 and 2 greenhouse gas 2021 disclosures.

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

A portfolio-wide programme of energy audits was carried out in 2021.

An Asset Management Plan for all managed assets was carried out to ensure they are as energy efficient as possible, aiming for net zero carbon.

Risk mitigation priorities for 2022

Our focuses for 2022 are set out on page 57. These include starting to implement our sustainability strategy and Net Zero Carbon pathway. More detail can be found on pages 58 to 61.

We continue to maintain our focus on energy reduction at our existing assets while also identifying potential climate related physical risks on new acquisitions. Sustainability assessments will continue to be a key focus of asset management decision making across the business in each region.

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

A new Sustainability acquisitions checklist will be rolled out in 2022 to improve our due diligence on acquisitions further and a Sustainability Design Guide will be implemented to address energy efficiency/health and wellbeing issues for development and refurbishments.

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 and waste/resource reduction and habitat preservation and restoration.

Increased monitoring of all carbon-related activities, both directly and indirectly, was a priority for 2021, and will be again in 2022, given an increase in government policies around reporting the carbon impact on supply chain and direct use.


For the first time in this report, we are reporting against the Task Force on Climate-related Financial Disclosures and UNSDG disclosures which are shown on pages 74 to 77.

Our principal risks





Continued

3. 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		Risk mitigation in action <p>The Group's business continuity plan was reviewed and updated during the year.</p> <p>An annual review of each property's specific emergency plan is carried out which considers a range of different physical, utility and catastrophic risks.</p> <p>As remote working continued to be 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. In addition, we ensured the ability to carry out key operational procedures such as payment authorisations safely and effectively.</p> <p>We have continued a programme of employee cyber training which evolves as the threat landscape changes.</p> <p>During the year, we have regularly tested the Group's capability to recover business critical IT systems to secondary hosting environments and restored data from back-ups.</p>	Risk mitigation priorities for 2022 <p>Independent reviews of our cyber defences are performed periodically. The Group's "Cyber Essentials Plus" certification was achieved in 2020 and we aim to exceed this benchmark following the 2022 review.</p> <p>Simulate a major business interruption to test the Group's updated business continuity plan.</p> <p>The Group's insurance coverage is regularly reviewed, particularly to assess the relevance of cyber cover, and revised where relevant.</p>
Change in risk profile in year: Unchanged	Current direction of travel: No change		
Key risks: <ul style="list-style-type: none"> • Cyber threat • Large scale terrorist attack • Environmental disaster, power shortage or pandemic 			
KPI/OPI link: EPS VR TSR(R) ACR TAR			
Business Model Link: 			
			Commentary <p>Whilst the risks associated with the pandemic have mostly continued during the year, the business interruption risk to long-term shareholder value is deemed to remain unchanged due to our mitigation of this risk through robust IT infrastructure.</p> <p>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.</p> <p>We continue to implement a new shared property and finance system across the Group to mitigate against data, cyber, system integration and control issues. This platform is operational in the UK region, with the French and German implementations due to complete within the next 12 months.</p>

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 24 and 25.

Key and other performance indicators (KPI/OPIs)

- EPS Earnings per share
 - 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 36 and 37.

4. 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: Unchanged	Current direction of travel: No change
Key risks:	
<ul style="list-style-type: none"> 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: EPS TSR(R) TAR	
Business Model Link: 	

More detail is provided in the Chief Financial Officer's review on pages 40 and 41.

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 second 'green' loan of £61.7 million, which was secured on a portfolio of five properties for 12 years, taking the Group's percentage of 'green' loans to over 20%, which are aligned to achieving our sustainability targets. Including this loan, we financed, refinanced or extended 10 loans to a value of £196.7 million for a weighted average duration of 6.9 years and a weighted all-in rate of 1.62% and of these £172.8 million were fixed at a weighted average all-in rate of 1.70%.

The Group's weighted average cost of debt at 31 December 2021 fell to 2.22% (2020: 2.28%). At the same time, as a result of deliberately targeting longer term loans, the Group's average debt maturity has been broadly maintained at 4.4 years (2020: 4.6 years).

The Group's debt portfolio is split 51% in sterling and 49% in euros providing a 'natural' hedge against foreign currency risk.

On average across the Group's 49 loans, we have between 29% and 48% 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.

Risk mitigation priorities in 2022

The Group has facilities with 25 lenders and will seek to continue to maintain its existing relationships and develop new ones, whilst also exploring the feasibility of other funding sources in 2022 to diversify

funding sources further 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;
- Monitoring lender exposure and ensure that no one lender represents more than 20% of total Group debt; and
- Managing 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

Inflation concerns have increased and central banks are now increasing interest rates in response. By having 85% of our at fixed rates, CLS is relatively well insulated.

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.

Our principal risks

Continued

5. 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: Unchanged	Current direction of travel: Increasing
Key risks: <ul style="list-style-type: none"> • Ongoing transition of the UK from the EU • Global geopolitical and trade environments 	
KPI/OPI link: EPS VR TSR(R) ACR TAR	
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 53.

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

Risk mitigation priorities for 2022

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

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.





To date, CLS has experienced little direct impact following the UK's exit from the EU. However, it is hard to assess whether there have been indirect impacts particularly in terms of overseas property investment and occupation. We monitor the economic and political situations in our country markets closely and flex investment decisions accordingly.

Commentary

The direct and indirect impacts of Covid-19 continue to influence global and local economies in terms of interest rates, inflation, supply chain dynamics etc. For many countries, GDP is near or above pre-pandemic levels but GDP growth in 2022 is likely to be below 2021.

As noted by many commentators, including the World Economic Forum, the global level of uncertainty has increased. CLS continues to monitor events and trends closely, making business responses if needed.

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 24 and 25.

Key and other performance indicators (KPI/OPIs)

- EPS Earnings per share
- 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 36 and 37.

6. 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: Increased	Current direction of travel: Increasing
Key risks: <ul style="list-style-type: none"> • Failure to recruit senior management and key executives with the right skills • Excessive staff turnover levels • Lack of succession planning • Poor employee engagement levels 	
KPI/OPI link: EPS VR TSR(R) ACR TAR	
Business Model Link: 	

⊕ More detail is provided in the environmental, social and governance review on pages 65 to 68.

Risk mitigation in action

An annual review of employees' 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.

These measures seek to ensure we are able to retain key staff and attract new staff with the relevant skills and experience to the company.

In 2021, the staff turnover level was 25% as a result of a restructure during the year. Excluding redundancies it was 18%. This relatively high level was due to a tight labour market. 35% of the vacated positions were filled with internal transfers or promotions.

Following the results of last year's staff survey which were reviewed by our Workforce Advisory Panel, we;

- introduced a flexible working policy during the year whereby staff can work up to two days per week at home;
- have run Group-wide mental wellbeing workshops; and
- have rolled out Group-wide training including 'how better to collaborate across teams'.

We ensure that we have a modern workplace, and a comfortable and collaborative environment which is inviting for employees. We also maintain effective IT systems including all relevant IT resources to enable working from home.

Risk mitigation priorities for 2022

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, which will 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 presents a continuing health and safety challenge for our people and has 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 conditions return to greater normality, we continue to monitor our staff wellbeing.

The People risk is deemed to have increased since last year due to skills shortages, tight labour markets and a general war on talent. However, it has not increased sufficiently to increase the risk assessment.

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 Leadership Team, 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 2021, both the Board and the Senior Leadership Team were surveyed about their views on emerging risks. A list, which given it relates to emerging risks is likely to be non-exhaustive, and the time when these ongoing risks may have a material effect on the business are set out below:

Risk	Potential Impact	Mitigation	Time Horizon		
			Short < 2yrs	Medium 2-5 yrs	Long > 5 yrs
Regulation/ compliance	Increased capital cost of maintaining our property portfolio.	Continued ongoing assessment of all properties against emerging regulatory changes and benchmarking of fit-out and refurbishment projects against third-party schemes.		●	●
Increasing energy and construction costs	Increased cost 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.	●	●	●
	Increased costs of refurbishments and developments leading to reduced investment returns.	Continued monitoring of materials, investment in key skills for staff and viability assessments of buildings.			
Changes in technology	The attractiveness of our properties may decline if the challenges to adapt office facilities, to changing work practices/ environment expectations of customers and advances in technology and digitisation, are not met.	Each region updates the Senior Leadership Team on trends, including technology, throughout the business. The in-house management model also gives valuable insights into tenants' ongoing needs and potential trend changes that can be incorporated into the future fit-out of properties.	●	●	●
Changes in office occupation trends	Changes in social attitudes to agile and flexible 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.		●	●
	Inability to obtain sufficient carbon credits at suitable price to offset residual carbon emissions in order to achieve net zero carbon.	We are investigating various solutions to achieve sufficient offsets by 2030.			●

Going concern and viability

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 continuing to have a profound impact on the global economy and it is currently the single biggest direct and indirect negative influence on the Group leading to both current and forecast impacts as well as far greater levels of uncertainty, e.g. The future of the Office. In addition, ongoing events in Ukraine and the potential impacts on commodity prices and overall inflation, and supply chains have been considered and are being monitored. CLS continues to weather these impacts well with high rent collection, low bad debts and an ongoing ability to meet its financing and refinancing needs. CLS has no direct exposure to Russian and Ukrainian interests.

The Board reviews the viability and going concern assessments every six months alongside the approval of the financial statements. For the year end assessment, a new four-year forecast was reviewed and approved by the Board at its November 2021 meeting. The viability and the going concern assessments apply the same methodology that was used for the 2020 year-end viability statement, i.e. using the Board approved forecast for the next four years.

The latest forecast reflects current negative, but overall diminishing, expectations arising as a result of Covid-19 with the impacts largely restricted to slower reductions in vacancy and prudently no general valuation increases.

This forecast is used as the base case for our viability and going concern assessments 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 47 loans, CLS has between 27% and 48% 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 1% of the property portfolio, at the assumed

lower valuations, on top of planned disposals, would need to be sold to maintain this £100 million cash buffer. In a downside scenario, the £50 million of facilities could be withdrawn but if they were not withdrawn and were used, no 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 this and 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 this strategic report and in notes 19 to 22 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, being a period of at least twelve months to March 2023 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.

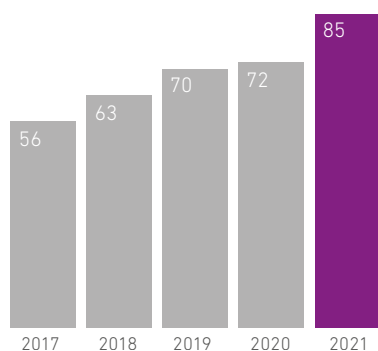
Environmental, social and governance review



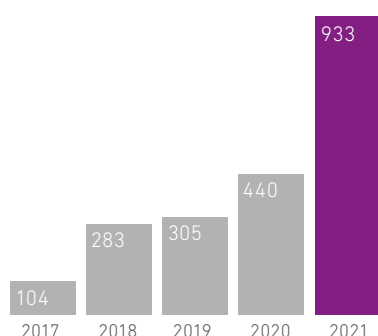
Fredrik Widlund
Chief Executive Officer

“ We are proud to commit to being a Net Zero Carbon business by 2030. Our pathway together with our new Risk and Sustainability committee will ensure that the right processes and commitments are embedded across the Group.”

GRESB (ESG) score/100



Capacity of installed solar PV (kWp)



Q. How do you define Sustainability?

For CLS, sustainability means working in line with the United Nations Sustainable Development Goals ('SDGs'). CLS needs to have a positive environmental impact, create shared value with our stakeholders and be a responsible business with strong governance and transparency.

A key focus is the impact on climate change of operating and constructing buildings. But beyond that, the role of our business within communities and supply chains is significant such that we need to ensure responsible resource use and healthy local environments.

Q. There has been a lot of press recently regarding "greenwashing" being part of some companies' reporting in this area. How would you respond to that?

We are clear that it is fundamental to our strategy to be transparent and follow recognised standards for reporting our environmental impacts. We have chosen to align to EPRA and GRESB reporting on sustainability as well as have our key data independently assured by DNV. Additionally, we are reporting for the first time in this report against SDGs and the TCFD framework.

For others transparency may highlight strategic weaknesses but sustainability is an integral aspect of our purpose to transform office properties into sustainable, modern spaces that help businesses to grow. As such, properly measuring and reporting on recognised sustainability risks and opportunities provides resilience and the potential to unlock future growth together with new and existing occupiers.

Q. What role do you play in achieving the Group's sustainability strategy?

As sustainability is an integral part of our overall strategy, my role is to monitor the change process, particularly as we move to embed Net Zero Carbon compatible approaches into all aspects of the business and our assets. I am proud of the work our team are doing and want to ensure they have the appropriate resources and capital to deliver our plans.

Q. What sustainability achievements are you most proud of over the last 12 months?

I am proud of receiving the Board's approval for publishing our sustainability strategy and costed Net Zero Carbon pathway with sign-off of the associated capital expenditure to deliver them. This has already delivered benefits by supporting our new 'green' loans. Also, amidst the challenges of the pandemic, I am proud that we have continued to implement sustainable improvements to our assets such as the rapid expansion of our solar PV capacity.

Q. Your Net Zero Carbon pathway was published in 2021, what exactly does this mean for CLS?

It means we have a robust, evidence-based, independently-assured and costed plan to ensure our assets and business are ready for the coming Net Zero Carbon future. We now have a clear programme of actions to implement between now and 2030 that will benefit the business, our occupiers and our wider stakeholders. These include boiler replacement, lighting upgrades and facade improvements etc.

Q. How does sustainability impact your investment and divestment decisions?

Investment and divestment are driven by our overall strategy and sustainability is one of four critical elements we take into account. For these decisions we undertake a specific sustainability review that forms part of the overall review process. We are mindful of increasing regulatory requirements, such as the need to achieve minimum EPC performance levels, but we go beyond these since future-fit, high quality assets form the basis of our success.

Q. What is CLS doing to ensure its properties are fit for a sustainable future?

We have created an investment programme as part of the sustainability strategy and Net Zero Carbon pathway identifying the key projects we need to complete on each long-term asset to improve their performance. These have allocated capital expenditure as part of our strategic budgets to ensure delivery by 2030. These projects are designed to meet or exceed expected future regulatory requirements that we continue to monitor. This approach is mirrored in developments, major refurbishments and acquisitions as they occur.

Q. What are your other ESG priorities for the year ahead?

We want to make progress against some of our key targets in the sustainability strategy and Net Zero Carbon pathway including implementing projects to reduce carbon emissions, waste and water use. We are also looking to complete crucial feasibility and baseline work on biodiversity and social value to build a solid foundation for more progress in these areas.

Highlights

92%

Proportion of total Group electricity from renewable or carbon-free sources

21%

Of total Group debt covered under sustainability-linked 'green' loans

85

GRESB rating, up 13 points from last year

83%

Of managed portfolio achieving at least a "Good" BREEAM In-Use rating

100%

Waste diverted from landfill for all managed assets

44

Community and charitable organisations supported through monetary donations

16%

Like-for-like increase in total Group Scopes 1, 2 & 3 GHG emissions¹

¹ Rise due to the increase in occupancy of our buildings during the year as tenants started returning to the office.

Environmental, social and governance review

Continued

Performance against 2021 targets

We made good progress against the sustainability targets we set ourselves for 2021: achieving three, partially achieving five and failing on only one. Behind these targets there is also a significant improvement in the breadth and quality of environmental data collection. Where we have not succeeded or only partially achieved the targets we have rolled actions to address these into our targets for 2022.

Pillars	2021 targets	Achievement of targets	Reference
A positive environmental impact	Produce a company-wide Net Zero Carbon strategy aligned to a science-based carbon reduction target	● New sustainability strategy incorporating our Net Zero Carbon pathway was published in August 2021.	For more information see pages 58 to 61.
	Increase our capacity for generating renewable electricity from solar PVs by 100% on FY20.	● Installed 513 kWp of solar PV, increasing generation capacity by 112%.	For more information see page 59.
	Roll out smart water meters across 50% of the managed portfolio.	● Technical barriers have delayed smart water meter implementation. This target has been rolled forward to 2022.	For more information see page 59.
	Implement one initiative to support local nature and biodiversity on at least 50% of our assets under management	● 49% of assets had new initiatives installed in year, rising to 53% counting initiatives delayed until 2022.	For more information see page 59.
	Achieve 100% diversion from landfill and 75% recycling rate for operational waste from UK & French assets under management.	● 100% diversion from landfill achieved and 60% recycling rate across all assets under management. (UK 64%, France 28%, Germany 66%).	For more information see page 59.
Creating shared value	All assets under management to deliver an initiative in support of workplace health and wellbeing.	● 71% of assets under management delivered a workplace health and wellbeing initiative such as new outside terraces and gardens.	For more information see pages 64 and 65.
	All employees to participate in at least one community or charitable volunteering initiative.	● Despite the impact of Covid-19 restrictions, 64% of employees participated in at least one community or charitable volunteering initiative delivering 398 hours.	For more information see page 64.
	Establish an appropriate methodology for calculating the Social Value from our operations.	● Social Value Framework published in sustainability strategy, baseline to be established in 2022.	For more information see pages 62 and 63.
Being a responsible business	Increase the percentage of Group debt covered under a sustainability-linked 'green' loan to over 20%.	● 21% of Group debt is now from sustainability-linked 'green' loans.	For more information see pages 40 to 41 and page 71.

● Achieved
 ● Partially achieved
 ● Not achieved

ESG focus areas for 2022

Environment

Climate

- Reduction in carbon emissions and energy use in line with the Net Zero Carbon pathway model and completion of relevant planned energy efficiency and PV projects.
- Maintain or improve EPC (or country equivalent) ratings.
- Building on baseline assessment, assess and report on scope 3 carbon emissions, review tenancy sustainability requirements in leasing documents and establish a sustainable procurement policy to address key scope 3 emission sources.
- Undertake an initial climate change risk assessment to inform comprehensive climate change resilience strategies for our portfolio and disclose in line with TCFD requirements.

Other environmental

- Roll out water saving initiatives for 50% of the portfolio including implementing smart water metering where viable focusing on the highest consumption sites.
- Assess existing implemented biodiversity and local nature measures/initiatives and identify best practices, potential improvements and measures for broader rollout. In addition, commission a Biodiversity Net Gain and Rewilding Study for each of our properties. In 2023, all of the recommendations in those studies will be implemented at the respective properties.
- Improve data collection and reporting on waste and focus on improving recycling rates.
- All new developments to achieve a minimum of BREEAM Excellent (or equivalent) and maintain or improve the current BREEAM-In-Use certification level for each of our properties.

Social

External stakeholders

- All assets under management to deliver an initiative in support of workplace health and wellbeing.
- Further develop the methodology for calculating the Social Value from our operations based on the Social Value Framework.
- Develop and roll out a Responsible Procurement Policy focusing on key procurements.
- Implement key recommendations from 2021 tenant survey feedback.

People

- Undertake a feasibility study to understand what would be required for CLS to become accredited by the Living Wage Foundation and set a target date for accreditation that is no later than 2025 and initiate that process.
- Maintain access for every employee to a multidisciplinary health and wellness programme and a dedicated training and development budget.
- Re-baseline the diversity monitoring data using recently collected data and establish our priorities for the period 2023-2025 that will build on our commitment to maintaining an inclusive workplace which values diversity, as per our existing Diversity, Equality and Inclusion Policy.

Governance

- Ensure all relevant business areas provide timely updating of zero carbon model, EPRA, GRESB and KPI data, and project implementation.
- Fully embed Risk and Sustainability Committee in the operations of the Group.

2030 sustainability strategy

Our new sustainability strategy, which was published in August 2021, maps the journey we will take up to 2030, with the key targets and milestones set appropriately to reflect the position we are starting from against each material element.

Our strategy contains the three pillars shown in the following diagram.

We believe that sustainable outcomes and shareholder returns are not a zero sum game. Properly valuing and integrating sustainability risks and opportunities into the business strategy provides resilience to future disruption but can also unlock the potential for future growth.

Building a resilient business means taking steps to prepare and adapt before regulation requires it, or the environment and our customers command it. Having a sustainable operating model and growth strategy reduces any material risks to our reputation and balance sheet.

Net Zero Carbon pathway

We believe the most effective way to create sustainable stakeholder value is by taking a strategic, evidence-based approach that targets our resources at our most material risks and opportunities.

Our Net Zero Carbon pathway illustrates this approach. We invested in a program of asset-level energy audits across all three countries to compile a robust technical evidence base of the energy and carbon saving opportunities and costs.

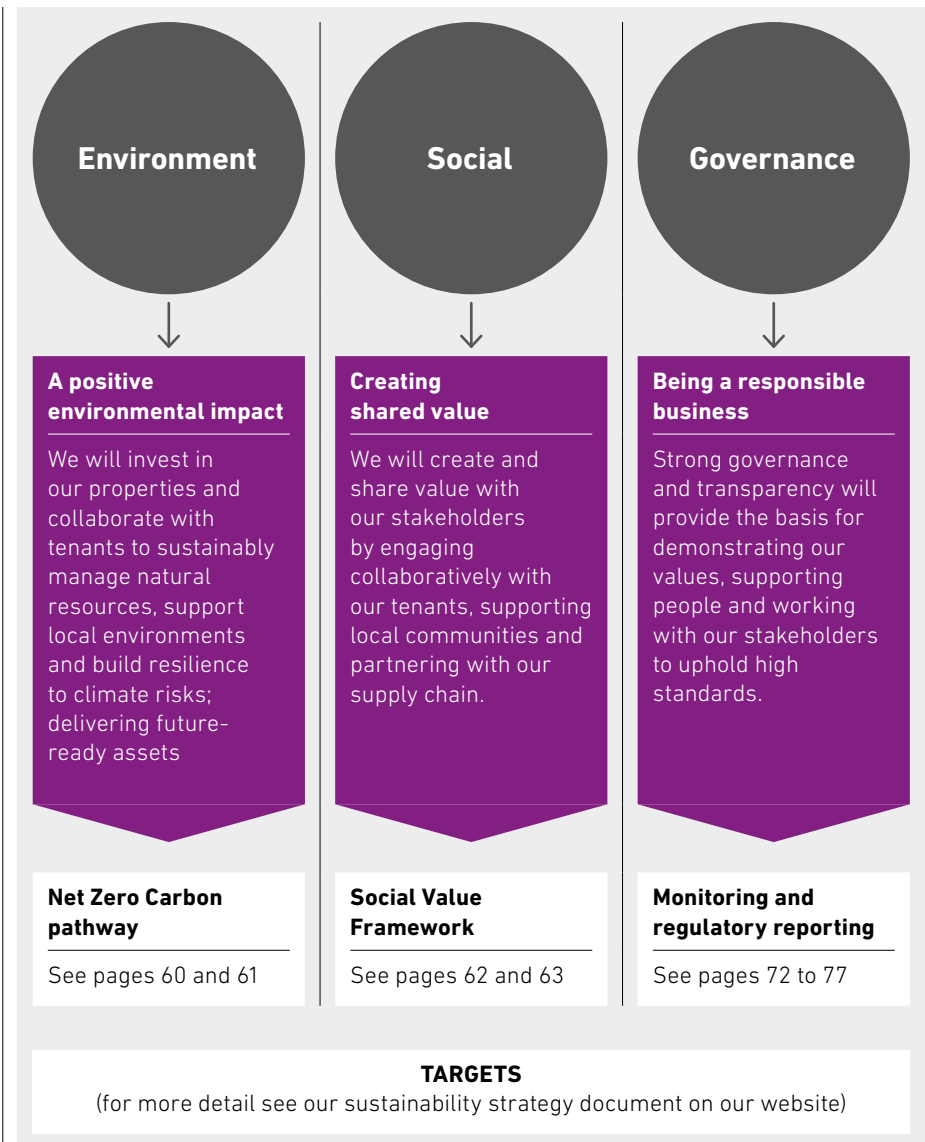
We aggregated this data into a Group-wide model to calibrate our targets, energy strategy and capital expenditure plan; in addition to incorporating into individual asset and property management plans.

The pathway includes a 59% reduction in Scope 1 and 2 emissions and a 27% reduction in Scope 3 emissions by 2030 against a 2020 benchmark.

More details are shown on page 60 and 61.

Social Value Framework

Our sustainability strategy includes an aspiration to create shared value with our stakeholders and we are proud to have worked in partnership with the Social Value Portal to develop our new Social Value Framework. This will provide the basis for measuring our positive contribution to society beyond shareholder returns.



Our aim is to integrate our new Social Value Framework into our core business systems and processes by 2025, and publish the social value created from our operations within our annual report. Our approach to delivering and measuring social value is based on the widely recognised National social value Themes, Outcomes and Measures (TOMs) framework. Themes are wider sustainability categories, such as Jobs. Outcomes, such as 'Improved employability of young people', feed into the Themes and act as the targeted goal of our actions. Measures are the individual KPIs that measure the progress towards each respective outcome.

More details are shown on pages 62 and 63.

Monitoring and reporting

Our commitment to transparent reporting means that we report under various frameworks. We continue to report against SECR and EPRA guidelines. We also participate in GRESB which is the leading sustainability reporting and benchmarking scheme for the real estate industry and monitor the performance of our buildings (new and existing) using BREEAM and EPC (or local equivalent) ratings. For the first time this year we have also reported against TCFD and UNSDG disclosures.

More details are shown on pages 72 to 77.

2021 was a transformational year for environmental sustainability across the Group by publishing our fully-costed Net Zero Carbon pathway

2021 achievements

- Establishing our Net Zero Carbon pathway
- 112% expansion of solar PV capacity to 933 kWp
- 92% of Group electricity carbon-free
- 83% BREEAM In-Use 'Good' or better

2021 activity

2021 was a transformational year for environmental sustainability across the group. Delivering on our core environmental priority for 2021, we produced our Net Zero Carbon pathway. To support this, we completed a full Scope 3 carbon emissions baseline assessment and asset-level energy audits across most of the portfolio. The energy efficiency actions identified in the audits have been rolled into strategic budgets for our assets.

In addition, we have continued to invest in our own renewable energy generation capacity, exceeding our 100% growth target with a further 513kWp of solar PV capacity across our UK and German portfolios.

For the first time we have an extensive view of waste and recycling data. We delivered on our 100% diversion from landfill target but still have significant work to reach our recycling targets. Our recycling rate for 2021 was 60% overall, below our target of 75%. A significantly lower recycling rate was achieved in France as well as the data not being received for all assets. Processes will be investigated in 2022 to improve both the overall recycling rates as well as the coverage in France. We will investigate ways of overcoming these barriers in 2022.

Our BREEAM In-Use program provides us with a baseline sustainability appraisal using the leading commercial property sustainability rating system. By the end of 2021 only 17% of our German properties were awaiting certification. A minimum rating of "Good" was achieved by 83% of the managed assets within the Group.

Our target to implement one initiative to support local nature and biodiversity on at least 50% of our assets under management has proved successful with 47 initiatives delivered on 40 sites (49% of assets under management). These have included beehives, insect hotels and planting of native species of plants.

Energy efficiency projects

During 2021, we continued to deliver a variety of projects and initiatives to improve the energy efficiency of buildings in our portfolio in the UK, Germany and France. We have also continued our energy audit programme to cover new buildings in our portfolio.

There were over 50 small and medium projects delivered. These included refurbishments with new highly insulated façades, replacement of HVAC plant and equipment with higher efficiency units, lighting upgrades to LED fittings, and adding automatic lighting controls and upgrades to BMS systems. There were also simple operational BMS changes where controls were inefficiently deviating from their optimum settings.

Ongoing examples include the major renovation at d'Aubigny in Lyon which includes measures such as a new façade, windows and lighting. It has achieved BREEAM "Excellent" pre-certification.

We continued to expand our coverage of automatic data collection technology ('AMR') across our energy supplies in 2021 to improve the quality and accuracy of our data and enable the roll out of smart performance reports and analytical tools. 75% of our managed assets now have AMR for electricity supply.

Whilst we had a target to roll out smart water meters across 50% of the managed portfolio, in practice, this has proved a challenge due to unforeseen technical limitations placed by water providers.

Green energy supplies

We succeeded in progressing our commitment to sourcing clean, sustainable energy for our properties throughout 2021. The combined effect of renewable and zero carbon electricity contracts for all portfolios means 92% of the total Group electricity is now carbon-free. With new contracts for renewable electricity starting in January 2022 this percentage increases to almost 100%.

Performance data

The two dominant influences on our 2021 environmental performance metrics (which were similar to last year), are the expansion of the portfolio through new acquisitions and the continued impact of the Covid-19 pandemic resulting in varying occupancy throughout both 2020 and 2021. Whilst this has made drawing conclusions from the data difficult, we are pleased with the progress we have made during 2021.

More detail on the absolute and like-for-like movements from last year are provided on page 73.

50+

Energy efficiency projects were delivered during 2021

Environment Continued

Net Zero Carbon pathway

Our sustainability strategy starts with our properties. We invest in our properties to provide healthy and productive workspaces for our tenants while minimising their negative, and maximizing their positive, environmental impacts.

We will 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.

We have integrated energy audits into each property's Asset Management Plan to enable strategic decisions about the refurbishment, sale or full redevelopment of assets to be made.

Where refurbishment is viable, the energy audit projects will be incorporated into each respective Property Management plan to ensure the optimal timing and allocation of capital over the course of the pathway to achieve our carbon reduction targets.

These plans have resulted in a timeline of carbon reduction through to 2030 which will be constantly updated as expenditure is incurred at each asset. These plans will be continually reviewed and improved each year to incorporate improvements in technology as well as any changes to the portfolio.

The residual amounts will be addressed with carbon offsets. Whilst this is planned for 2030 we will be investigating various options for carbon offset over the next couple of years.

£58m

Net Zero Carbon investment (current prices)



Pacific House PV



Mittlerer Pfad 9, Stuttgart

“ In April, the Group's largest PV array was switched on at Pacific House, Reading. The 630 panel system will produce 200,000 kWh p.a. of electricity providing c.23% of the building's energy use. In Stuttgart and Munich, four PV stations were finished in 2021 totalling c.395kWp. ”

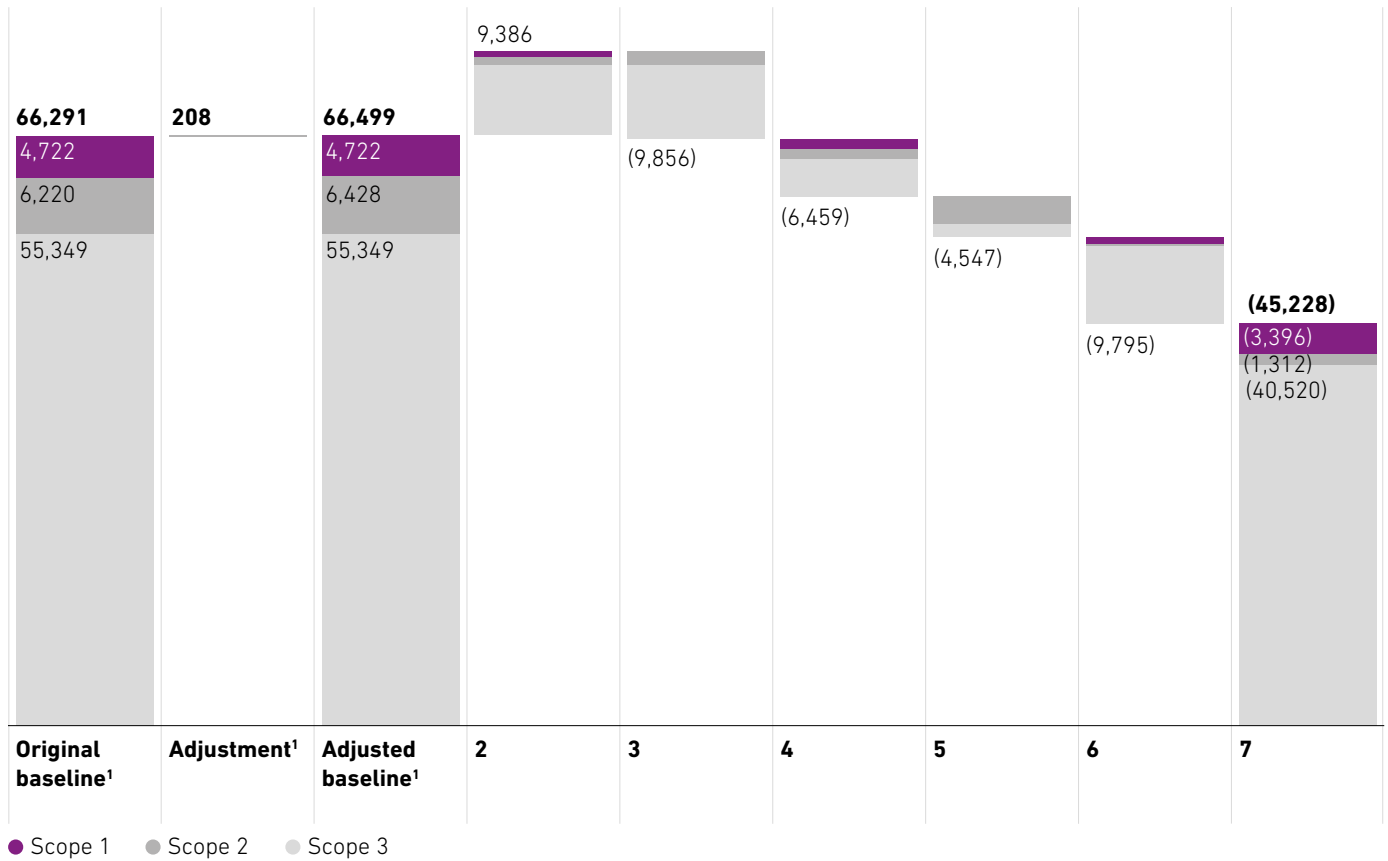
Net Zero Carbon process

Establish Scopes 1, 2 and 3 baselines

Undertake energy audit programme

Build projection model and undertake science-based target appraisal

Implement actions to be Net Zero Carbon ready



42%
reduction from BAU

59%
scope 1 & 2 reduction

1. Revision to baseline

Following the assurance review of the 2021 energy data a small revision has been made to the 2020 baseline to include previously missing data (for more detail see page 73).

2. Business as usual growth

Without taking any action, acquisitions and development of additional floor space will lead to growth in Group carbon emissions over the baseline even with electricity grid decarbonisation.

3. Electricity decarbonisation

We will obtain 100% certified renewable electricity for all CLS-procured contracts.

4. Energy efficiency and F-Gas phase-down

Delivering our Net Zero Carbon capital projects pipeline as identified in energy audits; electrification of buildings, operational energy efficiency improvements, transitioning to low-Global Warming Potential fluorinated gas replacements and ensuring new buildings and refurbishments incorporate energy efficiency standards in line with the model.

5. On-site renewables

Installing large-scale on-site solar photovoltaic installations where on-site use of all power output is possible.

6. Upstream and downstream measures

We will reduce downstream emissions (due to tenancies) by collaborating with our tenants to reduce their energy use, support the zero carbon-compatible occupation of our buildings and facilitate sustainable travel for tenants. We will reduce upstream emissions (from purchased goods and services for our operations and assets) by obtaining carbon reduction commitments from our suppliers, reducing business travel, implementing a Circular Economy Plan addressing waste and material use, and reducing potable water consumption.

7. Carbon offsets

To become a Net Zero Carbon business in 2030 we will procure carbon offsets for our residual Scope 1, 2 and 3 carbon emissions in accordance with the Oxford Principles.

Social

Our sustainability strategy includes an aspiration to create shared value with our stakeholders. Our new Social Value Framework will provide the basis for measuring our positive contribution to society beyond shareholder returns.

2021 achievements

- Establishing a Social Value Framework as part of our sustainability strategy
- 53 staff volunteering days
- 44 charities and community organisations supported
- Implementation of 2020 staff survey results
- Ranked 23rd in FTSE 250 in latest FTSE Women Leaders report

Social Value Framework

We create and share value with our stakeholders by engaging collaboratively with our tenants, supporting local communities and partnering with our supply chain.

We do this by supporting safe, vibrant, healthy and prosperous neighbourhoods to create value for our tenants, employees, and local communities. By collaborating with our tenants, supporting local businesses and investing in communities and charitable causes, we will share our success to support long-term social value creation.

We recognise 'Social Value' as the term to illustrate how our activity delivers additional, measurable and sustainable social, economic and environmental outcomes. We have worked in partnership with The Social Value Portal to calibrate a Social Value Framework for CLS using the National social value Themes, Outcomes and Measures.

Our framework provides us with the structure around which the social value created by our business can be measured, and we commit to publishing our social value within our annual report from 2025. In the meantime, we will evolve our internal systems and processes to ensure they are capable of collecting the new data inputs required by the framework, and estimate what we believe to be our current social value baseline.

The framework allows us to measure the social, environmental and economic value of the impact we create in support of the themes shown in the diagram opposite:

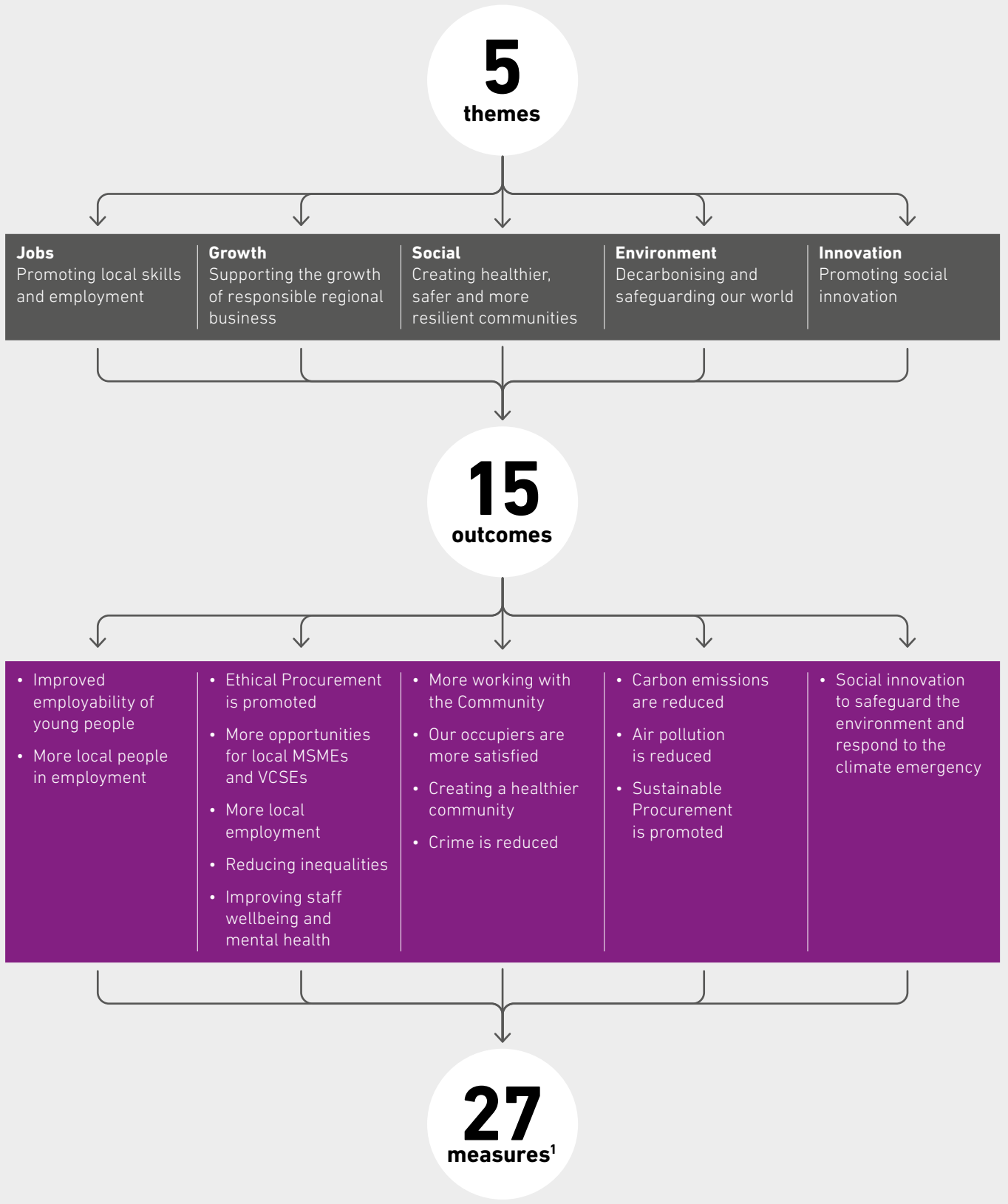
Targets for all the measures established in our Social Value Framework will be established in 2022.

Targets to be established for

27 measures

in 2022

Social Value Framework



1 For details of the measures identified as part of our Social Value Framework see our sustainability strategy document on our website.

External stakeholders

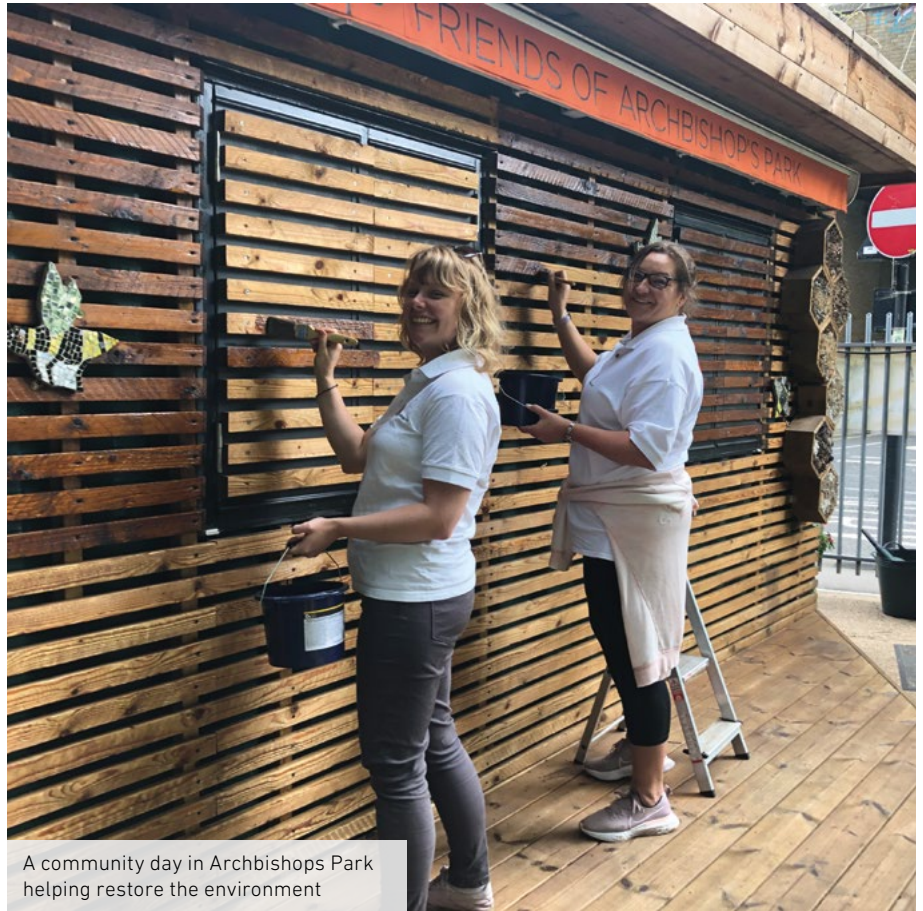
Communities

The close integration of our properties within local communities, combined with our long-term investment model, underpins our commitment to the success of the neighbourhoods we operate in. We work collaboratively with our tenants and local community groups to support the health and prosperity of our neighbourhoods and realise mutual benefits.

This year we produced our Social Value Framework as part of our sustainability strategy. Work on the associated baseline was deferred to 2022 as we refine the calculation approach.

With the continuance of the Covid-19 pandemic in 2021 we maintained our commitment to supporting our local communities and charitable causes in our core focus areas of food poverty, homelessness, and youth education, skills & training. Over 40 community and charitable organisations were supported by our philanthropic donations. In addition, we continued to provide rent relief to some of our charitable tenants.

We set the target of all employees participating in one community or charitable volunteering initiative and, despite pandemic restrictions, we achieved 64% of staff providing 398 hours. These initiatives included volunteering with Bee Urban, a local social enterprise that focuses on responsible beekeeping, horticulture and community growing and supporting at community days with local group Friends of Archbishop Park.



A community day in Archbishops Park helping restore the environment

Tenants

We re-established the annual tenant survey in 2021 across the UK, Germany and France. This study focused on tenants' relationship with CLS, Covid-19 issues and sustainability.

The key findings included:

- 77% of occupiers in the UK and 80% in Germany have a high level of overall satisfaction. In France, there was a 12% increase in overall satisfaction to 69%. 69% of occupiers rated CLS' communication 'good' or 'excellent'.
- 74% of occupiers in the UK felt well supported during the pandemic.
- A low level of engagement with occupiers on sustainability was highlighted in all surveys with a significant need to improve communications on energy data and our Net Zero Carbon pathway with the desire to collaborate in future changes and improvements.
- In the UK, 63% of occupiers identified a need to improve responsiveness to requests and there was also a similar need identified in France.

“ High level of satisfaction from 77% of tenants across the Group. ”

- Whilst HVAC improvements remain a significant desired improvement, installation of electric charging points topped the list for the first time in the UK and was in the top three in France.
- CLS investment in modern, light buildings in good locations in Germany with good transport links has shown up in a 15% increase in overall satisfaction of German occupiers to 73%.

We have committed to implement the results of these surveys in 2022.

“ Well-being initiatives were delivered at 71% of our properties. ”

We also continued to maintain close and regular engagement with our tenants through monthly or quarterly drop-in virtual meetings established in 2020. 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 maintained Covid-19-safe status and, where local regulations allowed, remained fully open for our tenants. For tenants who were forced to close again during further lockdowns, we have continued ad-hoc support on rental payments and lease break flexibility.

Our target to provide wellbeing initiatives across all our estate was close to being achieved with 71% of assets adding initiatives such as enhanced outdoor spaces like terraces and gardens which were important during the pandemic.

Supply chain

Embedding sustainability into our supply chain remains a key aspect of our strategy and a key challenge given the focus on reducing scope 3 emissions in the Net Zero Carbon pathway. In 2021 we procured new contracts for our gas and electricity supplies across the UK portfolio which included 100% renewable electricity as we have already done in Germany and France. We also entered new contracts for waste with an emphasis on recycling. Defining sustainability requirements for major construction projects was deferred into broader work on sustainable procurement policies and tools to be done in 2022.



Volunteering in Saint-Germain-en-Laye Forest

People

Recruitment

Finding the right people is important to our long-term success. We believe a diverse workforce is a key strength and allows us to collaborate better across departments and markets, generate ideas and build new initiatives to drive us forward. We are proud that we attract, motivate and retain high calibre employees, which, in turn, benefits the performance of the Group.

We completed a significant restructure in 2021 to increase our operational effectiveness and make running the UK Head Office more efficient. In a year which has seen unusually high rates of turnover across the sector, our voluntary turnover rate, excluding the restructure carried out in the year, was 18%. We have been able to fill 35% of our permanent vacancies with internal hires and promotions.

Our policies and procedures demonstrate our commitment to equal opportunities and diversity in employment. Our recruitment and interview policy supports this commitment and we ensure that it is fully understood by all those in the recruiting process. All employees and applicants are treated equally 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 policies incorporates 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 employee’s training and career development. This includes, wherever possible, the retraining and retention of staff who become disabled during their employment.

“ 35% of staff turnover was fulfilled with internal transfers and promotions. ”

Social Continued

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.

New joiners are offered a minimum of 20 hours structured training and development in their first year at CLS and a further 14 hours in year two. We encourage staff to continue their learning and development throughout their career with CLS by providing a broad suite of non-core training including mindset coaching and foreign language classes. Whilst these are not central to a particular role, they allow employees to broaden their skills base, facilitate personal and professional development and enable more effective 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 medium-term performance. In addition, the Group has a share incentive plan, which is open to all employees in the UK, Germany and Luxembourg. The scheme matches employee contributions in the ratio of 1:1 and take-up is over 65%, which is above the average for this type of scheme and testament to its success.

We support equal pay and review this annually although we do not disclose gender pay gap due to the low sample size of employees.

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

Engagement

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. This includes a Workforce Advisory Panel, employee surveys and personal appraisals. We also have a dedicated intranet and internal social media channels which allow us to promote new policies, procedures, Group activities and employee events.

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 quickly and effectively. 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.



Our values in action:
“Collaboration gets the job done.”



Group training session

The Workforce Advisory Panel, chaired by Non-Executive Director Elizabeth Edwards, meets quarterly to discuss workforce related policies and practices. See pages 92 and 93 for more detail.

Engagement is also about understanding the needs of our employees so we can create a better working environment. This, 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.

The Board commissioned a staff 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.

57% of employees reported being at their "Most Effective" (i.e highly engaged and enabled) and 96% agreed that the business has a "Clear and Promising Direction", both of which are exceptionally high. The response rate of 83% is itself testament to the culture at CLS being one where staff feel their feedback is valued. The full results of the 2020 staff survey were presented to all staff in early 2021, and have provided the Workforce Advisory Panel and leadership with areas for focus in 2021 and 2022.

On an individual basis; employees receive a minimum of two appraisal/review conversations each year and all employees (inc. longer-term Fixed-term Contractors) agree objectives with their manager each year.

Culture

Our open-door policy encourages everyone to share opinions, creating greater transparency, honesty and trust. We have employees from over 15 countries, which helps to foster a diverse, collaborative, cosmopolitan environment. We have around 100 employees looking after a property portfolio of £2.3 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 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.

The Workforce Advisory Panel contributes to a culture of openness by creating increased direct contact between employees and the Board.

“ Diversity is the one of the most important things we all have in common. ”

We have run Group-wide mental wellbeing workshops; built on our already strong track record of wellbeing-centric benefits with weekly yoga sessions and mitigated the isolating impact of lockdown restrictions by hosting virtual socials and events. We will continue to make the wellbeing of our staff a priority in 2022.

Diversity, equality and inclusion

We are an inclusive and respectful employer that welcomes diversity and promotes equality, tolerance and teamwork. We recognise that diversity enriches our creativity and adds value for our stakeholders.

Our Diversity, Equality and Inclusion ('DE&I') Policy underlines our commitment to attracting, promoting and developing talent no matter who they are. Throughout the Group, 41% of managerial positions are filled by women. We recently ranked 23rd out of the FTSE250 in a FTSE Women Leaders report analysing women on listed company boards and direct reports.

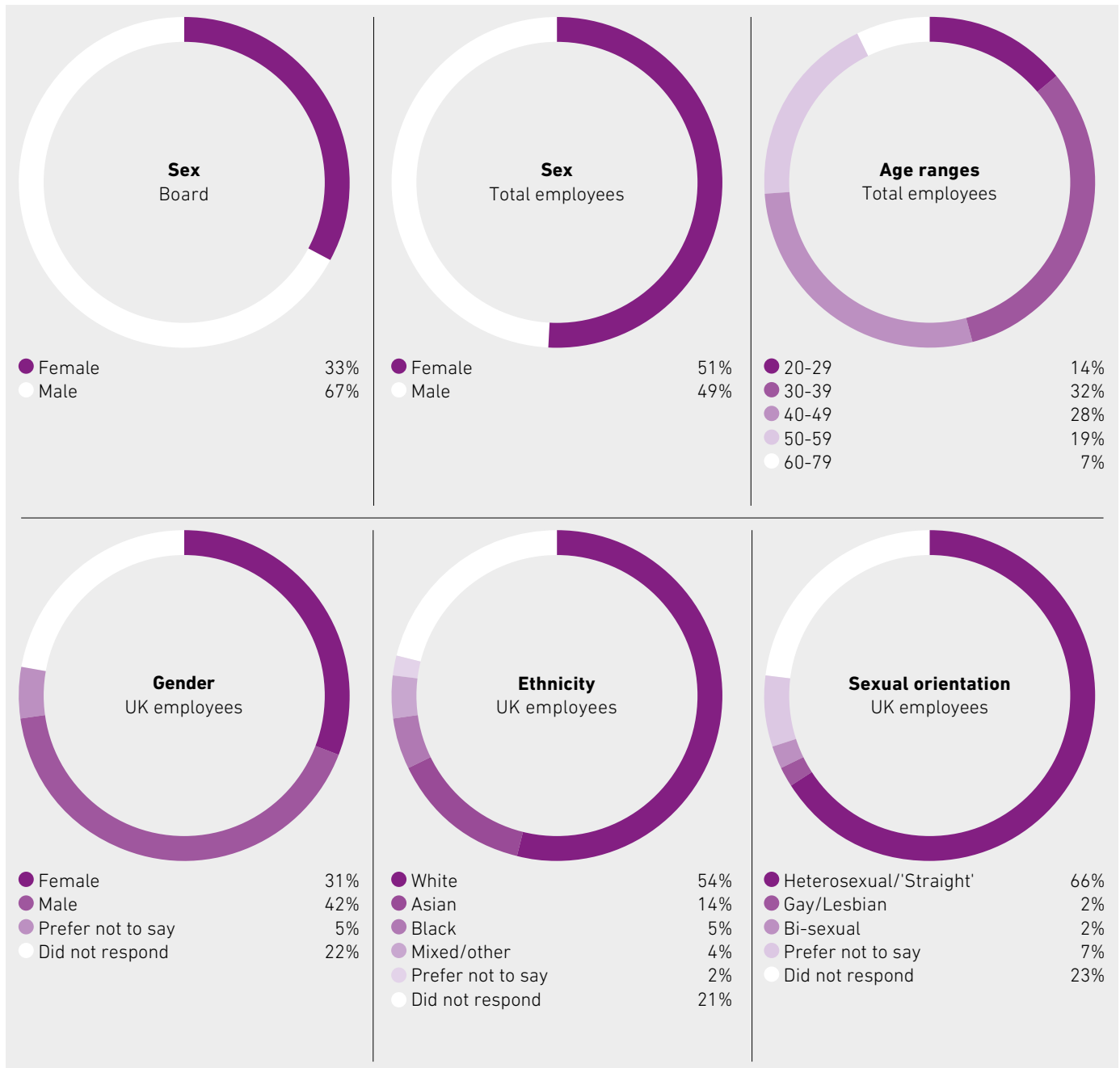
In 2021, we recalibrated our approach to diversity monitoring and invited UK employees to self-report on a broader range of demographic information and this is provided overleaf.

The information collected from our recent information gathering exercise, will be used to set the DE&I agenda for 2022 as well as to develop and implement a broader DE&I policy. This will also incorporate input from the workforce on how we can facilitate better diversity across the organisation through training and development.

Additional diversity information and graphs are shown on page 101 which use the term "gender" as used in equal pay legislation. However, in the graphs overleaf, we have distinguished between sex and gender.

More information is also provided in the Workforce engagement and Nominations Committee Report on pages 92 to 93 and 96 to 103.

Diversity, equality and inclusion (continued)



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 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 Chief Operating Officer, 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 and 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: 99.4% for risk management and control; and 97.4% for document compliance. Our accident frequency rate in 2021 was 87 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.

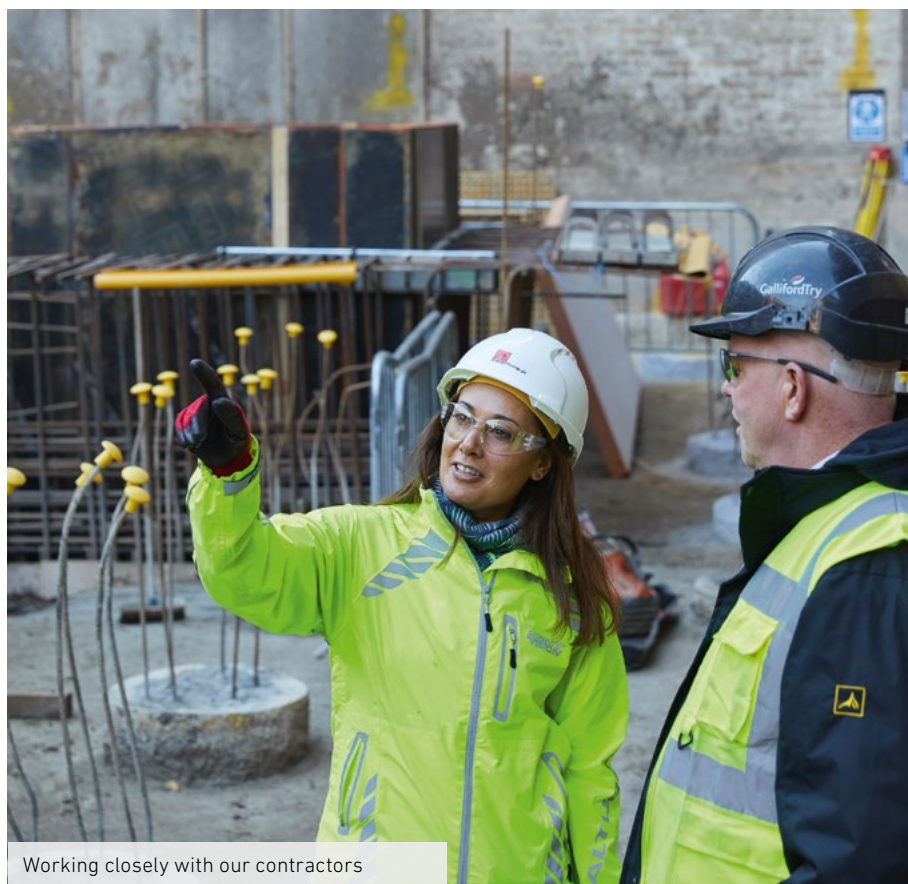
Facilities (such as fire safety, electricity supply, ventilation, lifts and heating) are reviewed as required by law or business standard and at least once a year by authorised personnel. Reports and protocols are reviewed by the operational team. We ensure that all scheduled reviews are conducted in accordance with local laws.

Facilities managers provide comprehensive reports on a monthly basis to the operational team. As at the date of this report, 99.1% of all identified risks were under control, document compliance was 95.1% and the accident rate was zero.

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, 100% of regulatory audit reports have been processed.



Working closely with our contractors

Governance

The oversight of ESG matters is a fundamental part of our overall corporate governance¹ and allows the Board to understand the impact of its decisions on the Group's key stakeholders and the environment

2021 achievements

- First time reporting against TCFD and UNSDG frameworks
- Implementation of a new Risk and Sustainability Committee
- EPRA Sustainability bronze award
- Completion of the Group's second 'green' loan for £61.7 million
- Increase of 13 points in GRESB score to 85 points

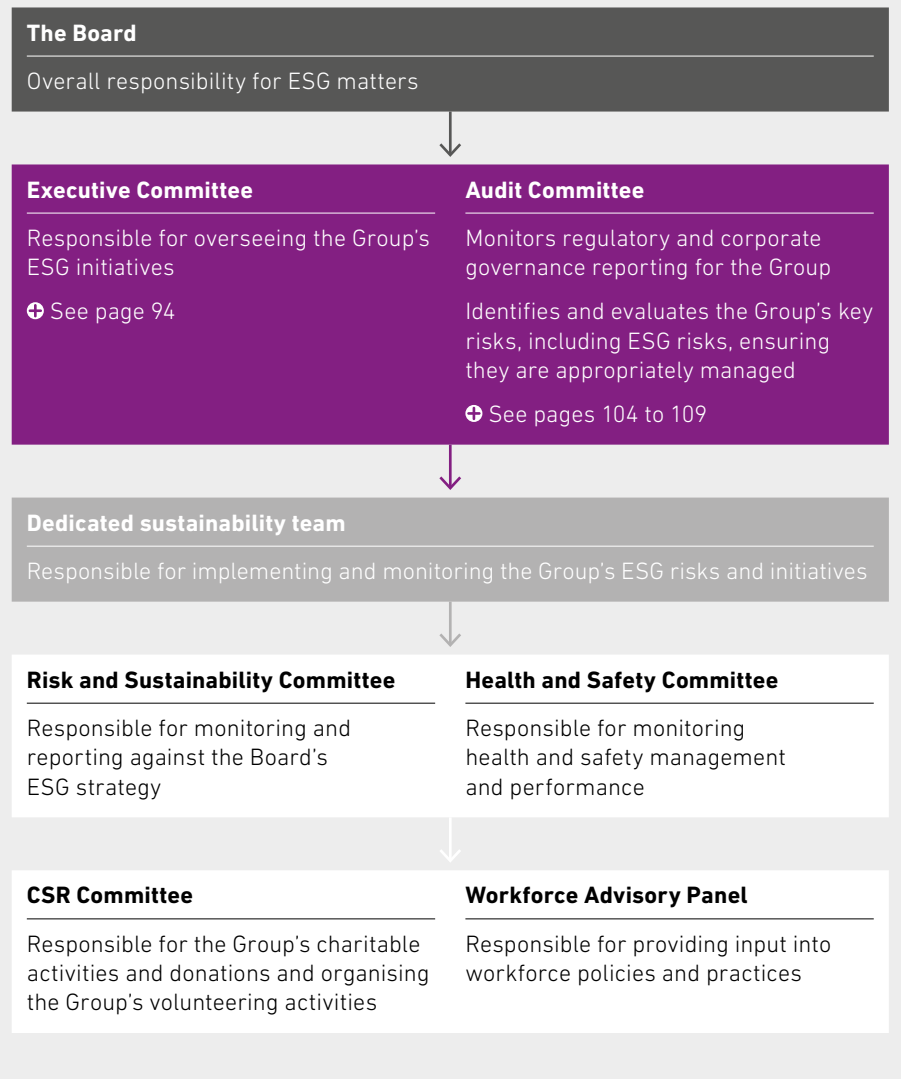
Reporting framework

The oversight of ESG matters is vital as it allows the Board to understand the impact of its decisions on the Group's key stakeholders and the environment as well as ensuring that it is kept aware of any significant changes in the market. This includes the identification of emerging risks and trends, which can then be factored into its strategy discussions.

ESG is overseen principally by the Board, with our Chief Executive Officer, having overall accountability. In order to embed ESG matters more fully into the operations of the Group, a Risk and Sustainability Committee, chaired by our Chief Operating Officer has been set up. The purpose of the Committee is to: assist with the embedding of the Net Zero Carbon pathway and Social Value Framework throughout the Group; allow more efficient and effective monitoring and reporting of the Group's ESG objectives; and to increase the discussions and focus upon risk within the organisation.

¹ The Group's corporate governance reporting is included on pages 78 to 133.

Our ESG governance framework



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 acquisitions to 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 have maintained our participation in GRESB which is the leading sustainability reporting and benchmarking scheme for the real estate industry. We were pleased to achieve a further thirteen GRESB points this year, and an additional green star taking our total score for 2021 to 85 points and four green stars. Additionally, we continue to subject our greenhouse gas and energy disclosures to limited independent assurance in accordance with the ISAE 3000 revised Assurance Standard.

For the first time in this report, we are reporting against the Task Force on Climate-related Financial Disclosures and UNSDG disclosures which are shown on pages 74 to 77.

We continue to report under EPRA Sustainability best practice guidelines which also satisfies the reporting required under Streamlined Energy and Carbon Reporting ('SECR') requirements. This information together with comments on the changes since 2020 is shown on pages 73. Further EPRA and SECR disclosures are contained in the Additional Sustainability Information document on our website.

The CLS business model is well aligned to the EU Taxonomy for Sustainable Activities 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.

Green financing

Following our first sustainability-linked loan in 2020, we secured our second in 2021 for £61.7 million bringing the total to £215.7 million which represents 21% of our total financing. The KPIs required for the interest rate reduction have been agreed for both loans and are aligned with our sustainability strategy.

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 with formal internal control checks during the system-based procurement process.

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.

Whilst the Living Wage only applies to the UK, we are currently investigating how to establish equivalent benchmarks in Germany and France.

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 Chief Executive Officer, 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.

Supply chain governance

Two of our focus areas for 2022 are to engage with existing and potential tenants to strengthen 'green' clauses in leases and also to engage with existing or potential major suppliers to strengthen sustainability requirements in procurements and contracts. These requirements will cover areas such as; energy use; energy supply; and waste, to reduce our Scope 3 emissions.

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 from suppliers within a 60 day period. Additionally, from 1 July 2021, to pay 95% of their undisputed invoices from businesses with fewer than 50 employees within a 30 day period.

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.

Whilst there is no equivalent legislation in France and Germany in order to provide additional transparency, we have provided their figures as well as a weighted average for the Group.

The table below shows our payment statistics for the year ended 31 December 2021

	Within 30 days	Within 60 days
UK	90%	98%
Germany	93%	98%
France	70%	93%
Group	89%	98%

Additionally, CLS settled 90% of all undisputed invoices for businesses with fewer than 50 employees in the UK within 30 days in the six months ended 31 December 2021.

We recognise that whilst we are compliant with PPC across all suppliers, the percentage for smaller businesses did not reach the required 95% level within 30 days in 2021. This is primarily due to the installation of a new accounting and property management system in July 2021 in the UK and we will ensure that we are fully compliant in 2022.

EPRA and SECR sustainability reporting

Impact Area	EPRA Code	Units of measure	Indicator		Absolute performance (Abs)			Like-for-like performance (LfL)		
					2020	2021	% change	2020	2021	% change
					Boundary	Number of applicable properties			85	85
Energy	Elec-Abs, Elec-LfL	kWh	Electricity	for landlord shared services	19,073,885	21,637,452	13%	17,350,283	18,745,783	8%
				(sub)metered exclusively to tenants	10,194,212	9,020,202	-12%	8,166,580	7,581,764	-7%
				Total landlord-obtained electricity	29,268,097	30,657,654	5%	25,516,863	26,327,547	3%
				Proportion of landlord obtained electricity from renewable and low carbon sources	91%	92%	1%	94%	92%	-2%
	DH&C-Abs, DH&C-LfL		District heating and cooling	for landlord shared services	9,695,332 ¹	11,535,851	19%	9,363,610	10,019,840	7%
				(sub)metered exclusively to tenants	-	-	-	-	-	-
				Total landlord-obtained district heating and cooling	9,695,332 ¹	11,535,851	19%	9,363,610	10,019,840	7%
				Proportion of landlord obtained district heating and cooling from renewable and low carbon sources	0%	6%	-	0%	7%	-
	Fuels-Abs, Fuels-LfL		Fuels	for landlord shared services	22,141,926	25,730,631	16%	19,994,312	21,852,453	9%
				(sub)metered exclusively to tenants	295,969	2,498	-99%	6,997	2,498	-64%
				Total landlord-obtained fuels	22,437,895	25,733,129	15%	20,001,309	21,854,951	9%
	Energy-Total-Group	kWh	Total energy	Total Group energy ³	61,401,324 ¹	67,926,634	11%	54,881,782	58,202,339	6%
				Total Group energy (net) ^{3 4}	50,911,143	58,903,934²	16%	46,708,205	50,618,076	8%
	Energy-Total-UK			Total UK energy	31,850,023	38,018,541	19%	28,769,113	31,866,817	11%
	Energy-Total-UK	%		Total UK energy as % of total Group energy	53%	56%	6%	52%	55%	5%
Energy-Int	kWh/m ² /year	Energy intensity	Landlord-obtained energy intensity	146 ¹	134	-8%	121	136	12%	
Greenhouse gas emissions	GHG-Dir-Abs	tonnes CO ₂ e	Direct	Scope 1 ⁴	4,722	5,407²	15%	4,213	4,625	10%
	GHG-Indir-Abs	tonnes CO ₂ e	Indirect	Scope 2 (location based) ⁴	6,428 ¹	8,556²	33%	5,848	7,342	26%
				GHG emissions	Total Group Scope 1 & 2 emissions ⁴	11,150	13,963²	25%	10,061	11,966
	GHG-Total-Abs-UK	tonnes CO ₂ e	GHG emissions	Total UK Scope 1 & 2 emissions ⁴	4,947	5,946	20%	4,463	5,024	13%
				Total UK Scope 1 & 2 emissions as % of total Group emissions	45%	43%	-5%	44%	42%	-5%
	GHG-Indir-Abs	tonnes CO ₂ e	Indirect	Scope 2 (market based)	1,827 ¹	1,743²	-5%	1,701	1,553	-9%
				Scope 3	2,204	2,136	-3%	1,842	1,830	-1%
	GHG-Total-Abs		GHG emissions	Total Scope 1, 2 & 3 emissions	13,354 ¹	16,099	21%	11,903	13,796	16%
	GHG-Int	kg CO ₂ e/m ² /year	GHG emissions intensity	Scope 1 & 2 emissions intensity ⁴	26	28²	4%	22	28	26%
				Scope 1, 2 & 3 emissions intensity	31	32	3%	26	32	23%

1 Restated 2020 figure

2 Assured 2021 figure

3 In the 2020 annual report, the total Group energy was stated as being assured. However, only the landlord energy portion of this figure, (i.e. excluding the portion sub-metered to tenants) was assured and this net figure has been included this year as an additional line in the above table.

4 SECR disclosure

Impact Area	EPRA Code	Units of measure	Indicator	Absolute performance (Abs)			Like-for-like performance (LfL)			
				2020	2021	% change	2020	2021	% change	
				Boundary						
Water	Water-Abs, Water-LfL	m ³	Water	Number of applicable properties	85	85	0%	68	68	0%
				for landlord shared services	127,580	167,343	31%	114,114	136,193	19%
				(sub)metered exclusively to tenants	-	-	-	-	-	-
	Total landlord-obtained water	127,580	167,343	31%	114,114	136,193	19%			
Water-Int	m ³ /m ² /year	Water intensity	Total building water intensity	0.30	0.33	10%	0.25	0.32	26%	
Waste	Waste-Abs, Waste-LfL	tonnes	Waste	Total hazardous waste	1	2	71%	1	1	-23%
				Total non-hazardous waste	1,197	1,628	36%	1,118	447	-60%
				Total waste collected	1,198	1,630	36%	1,119	448	-60%
				Total waste incinerated with energy recovery	751	650	-13%	718	242	-66%
				Total waste recycled	447	980	119%	401	206	-49%
				Proportion of waste recycled	37%	60%	61%	36%	46%	28%
				Proportion of waste incinerated with energy recovery	63%	40%	-36%	64%	54%	-16%

Methodology

As a UK publicly listed FTSE250 company we are subject to the greenhouse gas ('GHG') reporting requirements defined within the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the energy reporting requirements under the Streamlined Energy and Carbon Reporting ('SECR') requirements as stated in the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (the 2018 Regulations). The table above includes all the required information under these regulations as well as the disclosures under the EPRA Sustainability best practices reporting guidelines.

The scope, boundary and methodology adopted by CLS for the calculation of the Scopes 1 and 2 GHG emissions and SECR metrics are set out in the Additional Sustainability Information document in the Sustainability section of our website as well as the geographical splits of the data above and any EPRA and SECR disclosures which are not included in this annual report.

Assurance

For the second year we have engaged DNV, an independent expert in assurance and risk management, to undertake limited independent assurance over our 2021 greenhouse gas emissions and energy metrics. The specific metrics that have been subject to assurance are identified in the table above. A copy of DNV's Assurance Statement can be found on our website. Having reviewed our energy data processes during assurance, we have identified several metrics from 2020 that require restating to ensure alignment with the 2021 methodology or where corrections have occurred. The restated figures have not been subject to assurance, and are identified in the above table.

Year-on-year movements

As mentioned earlier, it is difficult to make comparisons with last year due to significant periods of low or no occupancy throughout 2020 and 2021 as a result of the continuation of the Covid-19 pandemic.

Our total absolute Scope 1, 2 & 3 GHG emissions have increased by 21% in 2021 due to a combination of asset acquisition and adding previously missing data for F-gas assets, UK diesel for standby generators and district heating in Germany and France.

There has been an increase in total electricity consumption from the 68 like-for-like buildings of 3% across the Group made up of a 8% increase in landlord areas and a reduction of 7% in tenant areas. Similarly, absolute electricity consumption has increased 5% primarily resulting from the inclusion of six new acquisitions into the portfolio which were larger than those disposed during the year.

Water consumption across the Group increased 31% as people partially returned to offices. On a like-for-like basis the increase was 26%, once acquisitions and disposals are removed.

The Task Force on Climate-related Financial Disclosures ('TCFD')

Compliance statement

The following table shows the Group's disclosures in line with the TCFD recommendations. The steps we are taking to be able to make consistent disclosures in the future including timeframes are as follows:

- During 2022, we will be engaging external consultants to assist us with in-depth analysis of climate-related resilience risks set across different climate scenarios (namely 2°C and 4°C scenarios) and to consider the resilience of the Group and its properties under these scenarios as well as to incorporate any results into our strategy and business plans as well as understand any financial implications of the risks.

Governance

Describe the Board's oversight of climate-related risks and opportunities.

The Board has overall responsibility for ESG matters, in which climate-related aspects are included, and monitors the management of our climate-related risks and opportunities, which in turn is informed by our Risk and Sustainability Committee. Both the Chief Operating Officer, David Fuller, and Head of Sustainability, Will Ray, provide written quarterly updates to these committees on our climate-related work, the associated risks and opportunities and progress against our current year and longer term targets including our Net Zero Carbon pathway. Data and performance reports are provided to the committees to provide oversight.

Describe management's role in assessing and managing climate related risks and opportunities.

The Chief Executive Officer is the main Board member with overall accountability for sustainability. The Group's Chief Operating Officer chairs the Risk and Sustainability Committee and oversees the performance of our climate-related work. They are supported by the sustainability team, led by the Head of Sustainability, which has day-to-day management responsibility of climate-related issues and maintains contact with industry practices. We also utilise the services of expert third-party consultants where necessary. Where appropriate, training and presentations by the sustainability team and external third parties are provided to the Board and management to maintain up-to-date industry knowledge.

Strategy

Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term.

Sustainability remains one of the six core risk themes for the CLS Group, with each individual risk captured in our sustainability risk register maintained by the sustainability team and reviewed twice a year or when a material change in the risk landscape occurs.

Short-term (0-5 years)

- market shift in terms of stricter legislation e.g. the introduction in the UK of the potential new minimum energy efficiency standards (MEES) for commercial and domestic property in response to the UK committing to becoming net zero carbon by 2050; and
- market demand from occupiers for buildings and spaces with higher levels of efficiency, climate resilience and lower carbon footprints.

Medium-term (5-10 years)

- shift in sources of energy with the end of natural gas and electrification;
- price volatility associated with market shifts and changes in pricing structures; and
- technology changes associated with energy source shifts and increased efficiency requirements

Long-term (15+ years)

- significant changes in climatic conditions in the UK, Germany and France, principally storm events, extreme weather frequency, flooding and rising temperatures, and their impact on our buildings.

These risks are reviewed in accordance with the UKGBC 'A Framework for Measuring and Reporting of Climate-related Physical Risks to Built Assets'.

The set of identified risks are consistent across the Group's sectors and geographies.

Describe the resilience of the organisation's strategy, taking into consideration different climate related scenarios, including a 2°C or lower scenario.

As mentioned above we recognise that climate change does have an impact on our business, and part of our strategic evolution has been our commitment to becoming a net zero carbon business by 2030 so that we can transparently address the transitional and physical risks and opportunities which apply to our business. This is in addition to our existing science-based targets, which are already aligned to a 1.5°C scenario.

Our pathway sets out a clear plan on how we will transition towards becoming a net zero carbon business by:

- reducing the energy consumption and improving the efficiency of our assets;
- increasing renewable energy procurement e.g. green gas procurement, self-generated energy managing the future risk of higher energy costs;
- reducing the embodied carbon associated with our development and refurbishment schemes; and
- for those carbon emissions we cannot eliminate we will offset using verified schemes which remove carbon from the atmosphere.

For more detail on our Net Zero Carbon pathway please see pages 60 to 61 and our website.

During 2022, we will be engaging external consultants to assist us with in-depth analysis of climate-related risk set across different climate scenarios – namely 2°C and 4°C scenarios.

Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.

We invest in, develop, and manage property in the UK, Germany and France and, as such, climate-related issues affect the way we develop new buildings and how we manage and refurbish existing ones.

Recognising that climate change has an impact on our business and subsequently our stakeholders has led us to develop our Net Zero Carbon pathway and announce our ambition to be a net zero carbon business by 2030 (aligned to a 1.5°C climate scenario) – to find out more please see pages 60 to 61 as well as the full report on our website. Our pathway covers the breadth of our business activities to ensure we are reducing our carbon footprint and exposure to risk, examples include:

Developments – our design standards and processes ensure we are designing buildings to be resilient to physical risks such as changes in future weather patterns by making them long life, flexible and less reliant on mechanical cooling and free from fossil fuel use (i.e. all electric heating and cooling).

Managing assets – our Net Zero Carbon pathway ensures we have Asset Management Plans in place for each asset which sets out how we will reduce energy consumption/carbon emissions effectively.

Acquisitions – our business model is based on acquiring older buildings and improving them to add value. During the acquisition process, we look to assess the true carbon cost of a potential purchase and how we can transition it to a Net Zero Carbon pathway.

Access to capital – our financing strategy has been specifically developed to increase the proportion of our 'green' loans which will allow us to link our finances to our net zero carbon ambition by setting out performance criteria and a governance framework.

Part of the review mentioned below to be carried out in 2022 will be to establish the potential impact of climate scenarios on the resilience of our properties as well as our operations and asset values.

Additionally, we recognise the interdependence of climate-related risks with our carbon reduction plans. e.g. the effect of increasing temperatures on energy use of cooling.

Risk management

Describe the processes for identifying and assessing climate-related risks.

Each year senior managers from the various business functions report their key risks (which includes sustainability/climate change related risks) to the Executive Committee. The risks are assessed by the Committee to understand their severity, likelihood and the optimal controls and/or mitigation required.

The Group's climate-related risks are maintained in our sustainability risk register and are reviewed twice a year or when a material change in the risk landscape occurs.

The internal controls and risk software being implemented in 2022 and discussed on pages 44 and 107 will allow the Group to monitor and report its risks more effectively and efficiently, including those climate-related.

Describe the organisation's processes for managing climate-related risks.

The sustainability team has the responsibility for managing the Group's climate-related risks in conjunction with the Group's Risk and Sustainability Committee. The team has significant knowledge and experience of climate-related and sustainability matters. In addition, we utilise the services of expert third-party consultants where necessary. Where appropriate, training and presentations by the sustainability team and external third parties are provided to the Board and management to maintain up-to-date industry knowledge. The Board has experience with listed and non-listed organisations on their approach to ESG matters in the built environment and across corporate disciplines and knowledge of ESG issues facing listed and non-listed organisations in the property sector and wider UK businesses and charities.

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

The Group's risk management process, including a heat map showing the likelihood and impact of the Group's risks, is shown on pages 42 to 52 in this report.

The purpose of the Risk and Sustainability Committee is to: assist with the embedding of the Net Zero Carbon pathway and Social Value Framework throughout the Group; allow more efficient and effective monitoring and reporting of the Group's ESG objectives; and to increase the discussions and focus upon risk within the organisation. This work is supported by the sustainability team.

Metrics and targets

Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

To enable our stakeholders to understand our impact and subsequent performance we report an extensive range of consumption and intensity metrics relating to energy, carbon, waste and water. These are shown in the table on pages 72 and 73.

Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

We provide extensive disclosure of our Scope 1, 2 and 3 emissions in our EPRA reporting. This reporting also includes the disclosures required by Streamlined Energy and Carbon Reporting ('SECR') and can be found on pages 72 and 73. Additional disclosures are also included in the Additional Sustainability Information document which can be found on our website.

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

We have developed a set of science-based targets which have been approved by the Science-Based Targets Initiative (SBTI). These targets align our carbon reduction programme with our business activities and minimise the effects of climate change on our managed portfolio. Please see our sustainability strategy and Net Zero Carbon reports on our website for further details on our science-based targets.








UNSDG disclosures




The United Nations Sustainable Development Goals ('SDGs') are an international standard developed to support global change and sustainable growth. We believe that we have a part to play in supporting the cities in which we operate in responding to this standard and helping to effect change.

We have reviewed the suite of 17 goals and have selected those goals which align most closely to our ESG pillars.

Additional disclosures

Set out in the table below is a summary of our progress against the goals which are particularly significant to our business.

Our ESG pillars	UN Goal	Applicable target	Applicable indicator	Our efforts
Environment A positive environmental impact		7.2	7.2.1	92% of the Group's electricity which supplies our buildings is from renewable or low-carbon sources, and as part of our Net Zero Carbon programme, we are looking at how we can increase our renewable electricity supplies to 100%, procure renewable gas supplies and incorporate higher levels of on-site renewable energy generation.
		7.3	7.3.1	As part of our science-based targets we have a specific energy intensity target (see our sustainability strategy report), designed to help us improve our energy intensity.
		12.5	12.5.1	We have established a portfolio-wide minimum recycling target of 75% and a no waste to landfill policy.
		12.6	12.6.1	We integrate comprehensive sustainability reporting information into our company reporting cycles and public reporting.
		13.2	13.2.2	We have independently verified science-based carbon targets which are set to a 1.5°C reduction scenario. This means we are committed to reducing our carbon emissions and making sure our portfolio is climate resilient.
		15.5	15.5.1	We are committed to improve the biodiversity at our properties. During 2021, we completed 47 initiatives at 40 sites (49% of assets under management). These included such projects as beehives, insect hotels and planting of native species of plants. In 2022, we will assess existing implemented biodiversity and local nature measures/initiatives and identify best practices, potential improvements and measures for broader rollout and commission a Biodiversity Net Gain and Rewilding Study for each of our properties. In 2023, the recommendations from those studies will be implemented at the respective properties.
	Social Creating shared value		1.2	1.2.2
			4.4	4.4.1
		5.1	5.1.1	Beyond any legislative requirement, we are active in ensuring meaningful gender equality in our business. Whether that is making sure our business structure is representative or benchmarking against our peer group. Some of our recent work internally includes the formation of our Workforce Advisory Panel and in 2022 we will be undertaking unconscious bias training.
		5.5	5.5.2	51% of our employees are women and throughout the Group, 41% of managerial roles/positions are filled by women.

Our ESG pillars	UN Goal	Applicable target	Applicable indicator	Our efforts
Social Creating shared value		8.6	8.6.1	<p>Our Social Value Framework contains the following measures:</p> <ul style="list-style-type: none"> Number of hours dedicated to support young people into work e.g. CV advice, mock interviews, careers guidance – (under 24 years old) Number of staff hours spent on local school and college visits e.g. delivering career talks, curriculum support, literacy support, safety talks <p>Targets and benchmarks for these and all other measures in our Social Value Framework will be established during 2022.</p>
		10.2	10.2.1	<p>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. Whilst the Living Wage only applies to the UK, we are investigating how to establish equivalent benchmarks in Germany and France.</p> <p>We are committed to diversity in all its forms. In 2021, we recalibrated our approach to diversity monitoring and invited UK employees to self-report on a broader range of demographic information and this is provided on page 68. The information collected from our recent information gathering exercise together with input from the workforce, will be used to set the DE&I agenda for 2022 as well as to develop and implement a broader DE&I policy.</p>
		11.7	11.7.1	<p>We actively promote the inclusion of public spaces in and around our buildings and ensure they are fully accessible to those with disabilities.</p>

Non-financial reporting

As we have fewer than 500 employees, the Non-Financial Reporting requirements contained in the Companies Act 2006 do not apply to us. However, in order to provide additional transparency, we have elected to provide further information in the table below.

Our key policies and standards	Additional information
Environmental matters <ul style="list-style-type: none"> Our target to be net zero carbon by 2030 Science-based carbon targets Task Force on Climate-related Financial Disclosures Streamlined Energy and Carbon Reporting ('SECR') disclosure 	<ul style="list-style-type: none"> Sustainability strategy report (see our website) Net Zero Carbon pathway (see pages 60 and 61) Climate change governance (see page 70) and risk management (see page 47)
Social and employee aspects <ul style="list-style-type: none"> Volunteering Policy Diversity and Inclusion Policy Learning and Development Policy Shared Parental Leave Flexible Working Policy 	<ul style="list-style-type: none"> CSR initiatives (see pages 64 and 65) Our people (see pages 65 to 68) Diversity and inclusion (see pages 67 and 68)
Respect for human rights <ul style="list-style-type: none"> Health and Safety Policy Statement Modern Slavery Statement 	<ul style="list-style-type: none"> Health and safety (see page 69) Human rights and modern slavery (see page 71)
Anti-corruption and bribery issues <ul style="list-style-type: none"> Anti-bribery and Anti-corruption Policy Whistleblowing Policy Expenses Policy Securities Dealing Code Preventing facilitation of Tax Evasion Policy 	<ul style="list-style-type: none"> Audit Committee Report (see pages 104 to 109) Our principal risks (see pages 42 to 52)

Our 2021 strategic report, from pages 2 to 77, has been reviewed and approved by the Board of Directors on 15 March 2022. Approved and authorised on behalf of the Board

David Fuller BA FCG

Company Secretary

16 March 2022

Corporate governance



Leading with purpose

Lennart Sten

Independent Non-Executive Chairman

Board focus areas in 2021

- Continued to receive information on the impact of Covid-19 across the business and the markets in which we operate.
- Approved the 2030 sustainability strategy and Net Zero Carbon pathway.
- Reviewed and approved financial statements following recommendations from the Audit Committee.
- Reviewed and decided on the Company's long-term strategy.
- Received and reviewed the results of the 2020 staff survey.
- Carried out an internal evaluation of the performance of the Board and its Committees.

Dear Shareholder,

On behalf of the Board, I am pleased to present the Corporate Governance Report for the year ended 31 December 2021. This report sets out our governance framework, the Board's key focus areas in the last year as well as our approach to monitoring company culture and aligning our strategy with our purpose, vision and values.

UK Corporate Governance Code

This report also outlines how we have complied with the principles set out in the UK Corporate Governance Code 2018. Our code compliance statement can be found on page 85.

Living our purpose and culture

2021 proved to be yet another challenging year for both our business and our employees. As we, and many other companies, continued to embrace our new working environment following the impact of the Covid-19 pandemic, I and my fellow Board members were acutely aware of the impact this has had on our culture and therefore active monitoring has been essential.

“ Our positive culture, strong relationships and robust governance framework has continued to ensure the success of the Company ”

We have benefited from a long established purpose, vision and values, which we regularly articulate and so are embedded in our culture. This has been key in our ability to adapt to the “new norm” but also a strength in rebuilding those inter-personal relationships and connections in a hybrid working environment to drive the business forward.

One of our core values is “our tenants, our focus”. Our teams worked tirelessly to ensure our buildings remained open to support our business and those of our tenants. Supporting our tenants has ensured we understood their needs and we were able to deliver the sustainable space they want.

Despite these difficulties, the publication of our new sustainability strategy, driven by our purpose, aligns our core values with those of our tenants to deliver a business that is supporting our key stakeholders.

Balancing the interests of stakeholders

At the forefront of our decision making is reflecting on the impact of our decisions on the interests of stakeholders when considering the long-term strategy for the Group.

Our employees have been brilliant in actively engaging with the Workforce Advisory Panel and, through its Chair, Elizabeth Edwards, we ensure a two-way open communication that enables us to both monitor culture but facilitate discussion on workforce policies and practices. Notably, this year how we developed our working from home strategy.

Later on during 2021, we were able to return to holding in-person meetings with tenants, giving us valuable insight into how we can meet their needs going forward. Our Executive Directors continued to meet with investors and analysts and, in November, we hosted a Capital Markets Day, followed by a tour of some of our UK properties and development projects. The day provided a great opportunity for our Senior Leadership Team to meet with our investors and analysts and showcase a small selection of our high-quality portfolio.

We recognised the impact of the pandemic on the communities in which we invest, which included some tenants who are local charitable organisations. Through our CSR Committee and the efforts of our employees, we were able to support them with our time, expertise or financial assistance.

The Board acknowledges its s.172 duties to all key stakeholders and I believe the strength of the Board's relationships, with the support of a strong governance framework will continue to enable us to deliver on our long-term strategy to the benefit of all stakeholders.

Sustainability

One of our greatest achievements this year has been launching our 2030 sustainability strategy along with our Net Zero Carbon pathway. While the continued restrictions have come with a unique set of challenges, we have not wavered from our purpose of being a sustainably focused landlord. In 2022, and in years to come, we look forward to working with our tenants to achieve our sustainability commitments whilst also aiding them in achieving theirs.

Looking forward

While the outcomes of the pandemic continue to manifest in our industry, we are confident that our robust strategy and well-located high-quality and flexible portfolio will continue to ensure the success of the Company in 2022. We are looking forward to an exciting year ahead.

Lennart Sten

Non-Executive Chairman

16 March 2022

How governance supports our business model and strategy

Our governance structure enables the Board and Directors to provide the necessary oversight of the Company's long-term strategic plan and business model.

The Board and Executive Committees facilitate the implementation of the Group's strategy and business model with two way dialogue ensuring that the Group's Vision, Purpose and strategic goals are aligned.

Clear reporting lines and division of responsibilities ensure efficient and effective strategic decision making.

➔ Read more on pages 24 and 25



We acquire the right properties

➔ Read more on pages 18-23 & 26-27

The Board Governance role

The Board considers the Group's investment criteria and market conditions in the regions to ensure it supports its long-term strategy.

What we considered for 2021

- Regularly reviewed proposals for acquisitions throughout the year which lead to the acquisition of six properties and the disposal of eight properties
- Received detailed updates on the markets in which we operate together with investments at each Board meeting



We secure the right finance

➔ Read more on pages 40-41 & 28-29

The Board Governance role

The Board considers the Group's financing strategy to ensure it remains appropriate, dynamic and diverse.

What we considered for 2021

- Received regular updates on the Group's debt position
- Approved the Group's second 'green' loan with Scottish Widows
- Received detailed updates on the Group's financing strategy
- Investigated the impact of other debt facilities



We deliver value through active management and cost control

➔ Read more on pages 18-23

The Board Governance role

The Board considers the Group's operational strategy to deliver on the Group's vision to be a supportive, progressive and sustainably focused commercial landlord.

What we considered for 2021

- Received regular updates on asset, property and facilities management operations
- Ensured appropriate resourcing levels to facilitate active in-house management
- Monitored performance against budget and organisational structure as part of cost control measures



We continually assess whether to hold or sell properties

➔ Read more on pages 18-23 & 32-33

The Board Governance role

The Board oversees management's assessments to ensure the Company focuses on holding properties with the potential to add value in line with the Group's investment strategy and sustainability goals.

What we considered for 2021

- Received regular updates on vacancy rates and rent collections
- Considered and approved the acquisition of six properties
- Received regular senior management recommendations for capital and operational expenditure in relation to building management
- Approved 2030 sustainability strategy including Net Zero Carbon pathway

Governance at a glance

Highlights

7.70p

Proposed dividend per share for the year ended 31 December 2021

AGM

Held on 23 April 2021

50.8%

Percentage of portfolio visited by Board members

UK REIT

Decision to convert the UK business into a Real Estate Investment Trust

£37m

Total value of disposals approved

£164m

Total value of acquisitions approved

Major Board decisions

- Reviewed and approved acquisitions which completed during the year totalling over £164 million across the UK and Germany. Reviewed and approved the sale of properties totalling over £37 million
- Approved development of Vauxhall Walk site and major refurbishment of Prescott Street.
- Approved a final dividend of 5.20 pence per share for 2020 and an interim dividend of 2.35 pence per shares for 2021
- Approved second 'green' loan with Scottish Widows totalling £61.7m
- Approved 2030 sustainability strategy including Net Zero Carbon pathway
- Conversion of the UK business into a REIT
- Appointment of EY as auditor for the year ending 31 December 2022 following the completion of a formal tender process

Ongoing Covid-19 response

- Discussed the financial impact of the extended lockdown in early 2021, implementing appropriate risk mitigation actions
- Received regular updates on building footfall across each region, as well as on site property visits to understand Covid-19 measures in our buildings
- Continued publishing trading updates throughout the year to maintain communication with shareholders
- Understood the needs of employees through regular dialogue with the Workforce Advisory Panel

Governance improvements and updates

- Reviewed the Board Committees Terms of Reference, ensuring they remained appropriate and in line with best practice
- Reviewed and updated the Schedule of Matters Reserved for the Board to reflect the needs of the business
- Reviewed and updated the Division of Responsibilities to codify the Board's current structure and the roles associated with each Director
- Carefully considered responsibilities under s.172 during decision making process

Our Board

33%

Female representation as at 31 December 2021

100%

Board meeting attendance for the year ended 31 December 2021

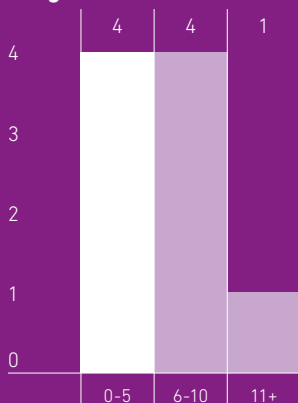
44%

Board independence (including the Chairman) as at 31 December 2021

Executive and Non-Executive Directors as at 31 March 2021



Length of tenure



What we bring to the Board

Number of Board members

Experience

9

Property

Wide ranging experience of the property sector including our European markets

4

International markets

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

4

Financial management

Substantial background of financial experience from wide ranging industries and markets

6

Governance

Significant listed company governance experience and understanding of investor requirements

9

Risk management

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

9

ESG

Knowledge of environmental, social and governance issues facing listed and non-listed organisations in the property sector and wider UK businesses and charities

3

Human resource

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

The right skills to deliver our strategy



Lennart Sten

Independent Non-Executive Chairman

Appointment as a Director
1 August 2014

Tenure
7 years 4 months

Former roles: CEO, GE Capital Real Estate Europe. President, GE Real Estate Nordic. CEO Fabega 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, Klara Bo Sverige AB



Anna Seeley

Non-Executive Director and Vice Chair

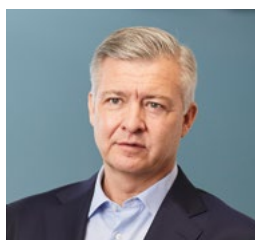
Appointment as a Director
11 May 2015

Tenure
6 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 and Finance, 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

Tenure
7 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, a social and housing charity



Andrew Kirkman

Chief Financial Officer

Appointment as a Director
1 July 2019

Tenure
2 years 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

Tenure
7 years 7 months

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

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

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



Denise Jagger
Non-Executive Director

Appointment as a Director
1 August 2019

Tenure
2 years 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, Chair St Giles Trust

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; Trustee National Trust



Christopher Jarvis
Non-Executive Director

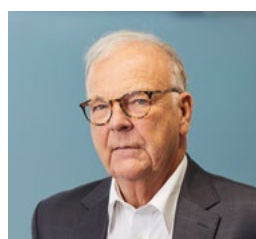
Appointment as a Director
25 November 2008

Tenure
13 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

Tenure
4 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

Tenure
2 years 1 month

Former roles: Senior Partner, KPMG real estate audit practice

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

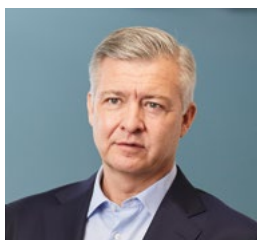
Experience: Real estate, finance and audit experience. Non-Executive Director, Urban&Civic and Ground Rents Income Fund plc. Governor, Winchester College

Attendance table

	Board	Audit Committee	Remuneration Committee	Nomination Committee	AGM
Lennart Sten	● ● ● ● ●	–	● ● ●	● ●	●
Anna Seeley	● ● ● ● ●	–	–	● ●	●
Fredrik Widlund	● ● ● ● ●	–	–	–	●
Andrew Kirkman	● ● ● ● ●	–	–	–	●
Elizabeth Edwards	● ● ● ● ●	● ● ● ● ●	–	● ●	○
Denise Jagger	● ● ● ● ●	● ● ● ● ●	● ● ●	–	○
Christopher Jarvis	● ● ● ● ●	–	–	–	○
Bengt Mortstedt	● ● ● ● ●	–	–	–	○
Bill Holland	● ● ● ● ●	● ● ● ● ●	● ● ●	–	○

● Attended ○ Did not attend due to Covid-19 restrictions

Senior Leadership Team



Fredrik Widlund
Chief Executive Officer

Please see full biography on page 82



Andrew Kirkman
Chief Financial Officer

Please see full biography on page 82



David Fuller
Chief Operating Officer and Company Secretary

Tenure
12 years 10 months

David is responsible for the Group's operational functions, including Secretariat, Human Resources, Legal, Sustainability, and Media and Communications

David is a Fellow of the Chartered Governance Institute with over 20 years' governance and operational experience.



Francesca Fear
Group Financial Controller

Tenure
6 years 3 months

Francesca is responsible for the Group's accounting and reporting functions.

Francesca is a Fellow Chartered Accountant and has over 10 years' experience in audit and reporting.



Rachel Broughton
Head of Development

Tenure
10 years 4 months

Rachel is responsible for the Group's Development activities.

Rachel has over 20 years' experience in the property sector.



Dan Howson
Head of UK

Tenure
11 years 4 months

Dan is responsible for the Group's UK portfolio.

Dan is a Chartered Surveyor and has over 20 years' experience in the UK property sector.



Rolf Mensing
Head of Germany

Tenure
15 years 6 months

Rolf is responsible for the Group's German portfolio.

Rolf is a Chartered Surveyor and has over 25 years' experience in the property sector.



Philippe Alexis
Head of France

Tenure
24 years 2 months

Philippe is responsible for the Group's French portfolio.

Philippe is a Chartered Surveyor and has over 30 years' experience in the property sector.

UK Corporate Governance Code

Principles and how the Company addresses them

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.

Compliance with the Code

Save as identified below and explained in this report, the Board considers that throughout 2021 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 95
- 17 – Nomination Committee membership, explanation on page 97

Board leadership and Company purpose

[+ See pages](#)

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 five Board meetings.

Board of Directors	82-83
Board activities	86-87
Approach to s.172(1)	88
Strategy, Purpose, Vision and Values	8

Division of responsibilities

[+ See pages](#)

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

Governance framework	94-95
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Composition, succession and evaluation

[+ See pages](#)

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 Committees' performance is overseen by our Chairman.

Nomination Committee Report/Chairman's statement	78-79 and 96-103
Internal Board evaluation	99

Audit, risk and internal control

[+ See pages](#)

The Audit Committee has oversight of the financial accounts production process and audit, and reviews the effectiveness of our risk management and internal controls system and the need for an internal audit function annually.

Audit Committee Report	104-109
Going concern basis	53
Viability statement	53
Assessment of the principal risks facing the Group	42-52
Annual review of systems of risk management and internal control	106
Fair, balanced and understandable	107

Division of responsibilities

[+ See pages](#)

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.

Remuneration Committee Report	110-129
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Board leadership and Company purpose

What we did in 2021/22

Key activities of the Board during 2021

Overview

The Board met six times during the year (including the Annual General Meeting). Once a year, the Board meets specifically to consider the Group's strategy and four-year plan. Additional meetings are arranged if necessary, to allow the Board to discharge its duties effectively. In 2021, a sub-committee of the Board met in December to consider and consequently approve the conversion of the UK business to a Real Estate Investment Trust. An overview of our Board's activities is provided below.

Property portfolio

- Approved the purchase of three properties across Germany
- Approved the sale of eight properties
- Received regular updates on key development projects
- Received regular updates on asset management, leasing and investment activities across the Group
- Reviewed and approved independent valuations of the Group's property portfolio
- Received regular updates on capital and operational expenditure across the Group's property portfolio
- Received regular feedback from tenants across the Group

Link to strategic objectives



Strategy and financing

- Carried out annual strategic review in October
- Regularly review long-term finance strategy
- Approved second 'green' loan with Scottish widows
- Regularly reviewed the impact of Covid-19 on the Group's financial position
- Periodically reviewed the impact of Brexit on the Group's financial position
- Received regular reports on geopolitical and macro-economic market conditions

Link to strategic objectives



Risk management and internal control

- Reviewed the Group's principal risks and considered emerging risks which could potentially impact long-term strategy
- Received regular verbal updates from the Audit Committee Chair at Board meetings
- Received regular updates from the Health and Safety Committee on matters across the portfolio
- Reviewed the results of a legal audit on Market Abuse Regulations procedures and approved update of documentation
- Received regular risk register updates for discussion
- Appointment of Ernst & Young as auditor for the year ended 31 December 2022

Link to strategic objectives



January

March

April

May

Board and Committee meetings

- Main Board
- Audit Committee
- Remuneration Committee

- Annual General Meeting

- Main Board
- Nomination Committee

Key announcements, decisions and Board approvals

- Trading update
- Acquisition of three office buildings across Germany

- Approval of the 2020 annual reports and accounts
- Approval of the going concern and viability statements
- Approval of the 2020 final dividend

- All shareholder resolutions passed

- Approval of the principles of the Group sustainability strategy and Net Zero Carbon pathway

Key

- 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

Corporate reporting and performance monitoring

- Reviewed the 2021 annual report to conclude that it is fair, balanced and understandable
- Approved the year-end and interim results
- Provided trading updates to shareholders throughout the year
- Approved the 2022-2024 budget
- Received regular verbal updates from the Remuneration Committee Chair at board meetings, including information from external advisors

Link to strategic objectives**Stakeholder engagement**

- Approved publication of the annual report and notice of meeting in a timely manner, facilitating engagement with shareholders
- Received feedback from investor roadshows and from the Capital Markets Day from Executive Directors at Board meetings
- Approved new 2030 sustainability strategy including the Group's Net Zero Carbon pathway in August
- Received regular tenant feedback through heads of countries at Board meetings
- Received regular employee feedback from the Workforce Advisory Panel Chair at Board meetings
- Maintained strong relationship with majority shareholder

Link to strategic objectives**Governance**

- Reviewed Terms of References of the Audit, Remuneration, Nominations and Disclosure Committees
- Reviewed Division of Responsibilities to ensure separation of the roles of the Chairman and CEO
- Reviewed Schedule of Matters Reserved for the Board to ensure approval levels remained relevant to the growth of the business
- Received regular governance updates from the Company Secretary at Board meetings
- Received Board and Committee Meetings papers in timely manner
- Carried out an internal board evaluation and reviewed outcomes to set objectives for the Board for 2022

Link to strategic objectives**June**

- Audit Committee

August

- Main Board
- Audit Committee
- Remuneration Committee

October

- Strategy awayday

November

- Board Meeting
- Audit Committee
- Remuneration Committee
- Nomination Committee

December

- Sub-committee to the Board

- Conducted Audit tender process

- Approval of the 2021 half-yearly report and interim dividend
- Review of principal risks and uncertainties including emerging risks
- Approval of the going concern statement

- Consideration of the Group strategy

- Recommendation and appointment of new external auditor
- UK property tour
- Trading update

- Approval of UK REIT election

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, Board presentations 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 2021 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

Purpose-led considerations

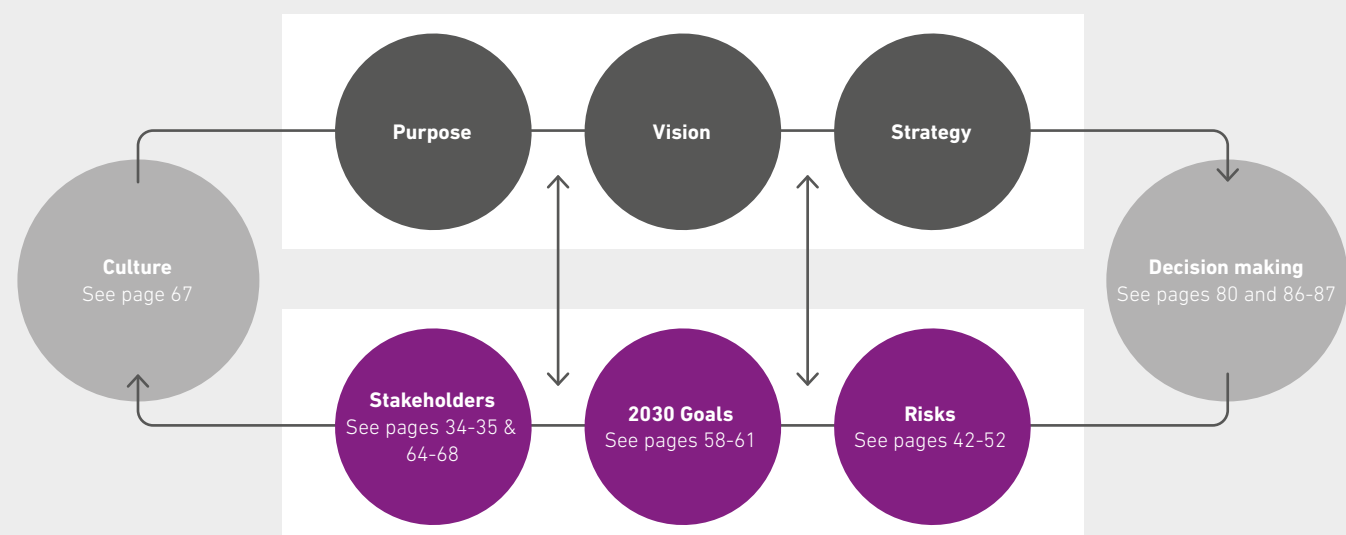
Our purpose is to transform office properties into sustainable, modern spaces that help businesses to grow. Our investments are based on long-term vision, continually modernising our portfolio into viable, future focused and sustainable properties.

Our vision is to be a leading office space specialist and a supportive, progressive and sustainably focused landlord. We achieve this by aligning our strategic vision to our tenants' business ambition, reinforcing our diversification in our key markets and elevating the importance of sustainability across all aspects of our business.

Our four key values of: collaboration gets the job done; our tenants our focus; agility unlocks opportunity; and openness creates closeness, define our culture.

Together, these underpin the decisions made at every level across the Group.

➔ Read more on page 8



Employees



Board considerations

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 2021 and discussed topics relating to employment conditions and practices within the Group. 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 92 and 93.

Staff survey

In 2021, the outcomes of the staff survey carried out at the end of 2020 were distilled into actionable objectives for the Group. Further details can be found on page 67.

Tenant meetings and surveys

The Board wanted to maintain close and regular engagement with tenants to continue to understand the impact of Covid-19 on their operations and assist them where possible.

Tenant meetings continued to be 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.

Tenant surveys were conducted across all regions.

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 justifiable opportunities that would support the Group's vision to be a sustainably focused landlord and business model to "secure the right finance".

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 on the Group.

Outcomes

The discussions from the Panel are fed back to the Board regularly to maintain strong lines of communication throughout the year.

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.

The outcomes of the staff survey were reviewed by the Panel and distilled into key objectives for the Group to achieve over the next 24 months.

All buildings remained Covid-secure and 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.

High level of satisfaction reported from 78% of tenants across the Group.

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. 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 18 to 23. Further details on the Group's second 'green' loan financing can be found on pages 28 and 29.

The Board concluded that given the financial and operational performance of the Group during the pandemic and ongoing uncertainty, the 2021 interim dividend was paid at the same level as the previous year.

The Board reviewed the financial and operational performance of the Group during 2021 and deemed it appropriate to pay a 2021 final dividend of 5.35 pence per share.

Tenants



Long-term strategy



Investors



Board leadership and Company purpose continued

Relationship with stakeholders

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, 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 during 2021 by 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 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 2021 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 2022 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 2021, as set out below, via voice and video calls.

Key shareholder events

January
7 institutional investor meetings
March
31 institutional investor meetings
Analyst presentation
April
Annual General Meeting
August
12 institutional investor meetings
Analyst presentation
September
14 institutional investor meetings
November
Capital Markets Day with 19 institutional investors in attendance

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.



Left to right: Chris Jarvis, Elizabeth Edwards, Andrew Kirkman, Lennart Sten, Fredrik Widlund, Denise Jagger, Bengt Mortstedt, Bill Holland, Anna Seeley

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.

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 assesses and monitors culture

The Board is able to assess and monitor Group culture through a range of key sources which are shown below. The Board understands that these key sources of data are crucial in maintaining good communication with the employees who are integral in ensuring the success of the Company.

Cultural identifier	Cultural priorities				
	Promoting integrity and openness	Valuing diversity	Being responsive to the views of stakeholders	Culture aligned to purpose and values	Culture aligned to strategy
Staff surveys and regular meetings with staff	●	●	●	●	●
Regular feedback through the Workforce Advisory Panel	●	●	●	●	
Flexible Working Policy	●	●	●	●	●
Training budget per head		●	●	●	●
Whistleblowing Policy	●		●	●	●
Anti-bribery and Corruption Policy	●		●	●	●
Modern Slavery Policy	●		●	●	●
Anti-Tax Evasion Policy	●		●	●	●
Employee data (HR updates, turnover and exit interview feedback)	●	●	●	●	●



Elizabeth Edwards

Senior Independent Director

Chair, Workforce Advisory Panel

“ The Panel continues to be integral in fostering open discussion and feedback on workforce policies and practices, which has led to a number of positive outcomes. ”

Helping to enhance our working environment

Dear Shareholder,

As Chair of the Workforce Advisory Panel, I am pleased to present the 2021 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 has established a Workforce Advisory Panel that has been operational for over two years.

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.

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.

In light of the ongoing pandemic, regular updates were received by the Panel on Covid-19 restrictions in each of the countries in which we operate and the impact for employees in terms of national lockdowns and working from home.

Staff survey outcomes

Following the staff survey undertaken at the end of 2020, this year the Panel acted as the forum to analyse its outcomes and put forward a number of actionable objectives for the Company to consider.

The outcomes of the staff survey were overwhelmingly positive, whilst also identifying areas in which the Company could improve.

The Panel, with the assistance of an external facilitator, identified four key areas of focus: the Flexible Working Policy; career and development opportunities; training in relation to mental health and wellbeing; and communication around compensation.

We have worked with our colleagues in HR and across the Senior Leadership Team on these areas to enhance our policies and practices, reflecting the views of the workforce and supporting our culture.

Reviewing the Group's Diversity and Inclusion Policy

This year the Panel also reviewed the Group's Diversity, Equality and Inclusion Policy, which ensured important input from the wider workforce on how we can facilitate better workplace diversity across the organisation through training and development.

Elizabeth Edwards

Chair, Workforce Advisory Panel

16 March 2022

Our focus for the year ahead

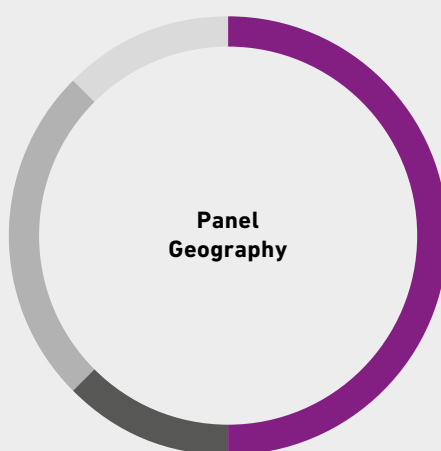
- Discuss the Company's implementation of the results of the Staff Survey
- Continue to facilitate communication between the Board and employees
- Continue to discuss the views of the employees and review CLS workplace practices
- Assisting HR in reviewing the Group's Diversity, Equality and Inclusion Policy

Workforce inclusivity

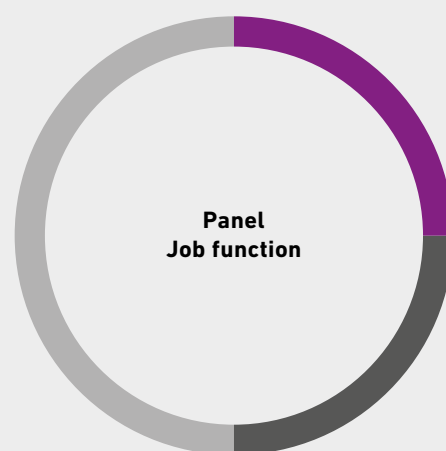
The Panel met four times during 2021.

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.



- 50% UK
- 12.5% France
- 25% Germany
- 12.5% Luxembourg



- 25% Legal, IT and Administration
- 25% Finance
- 50% Property

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. It is the Board's culture and accepted practice to give regular feedback, but once a year a more formal feedback session is undertaken with the Non-Executive Directors, led by the Senior Independent Director without the Chair present. This session reviews the Chair's overall performance, considering areas such as communication, effective leadership and oversight of board and company culture. 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

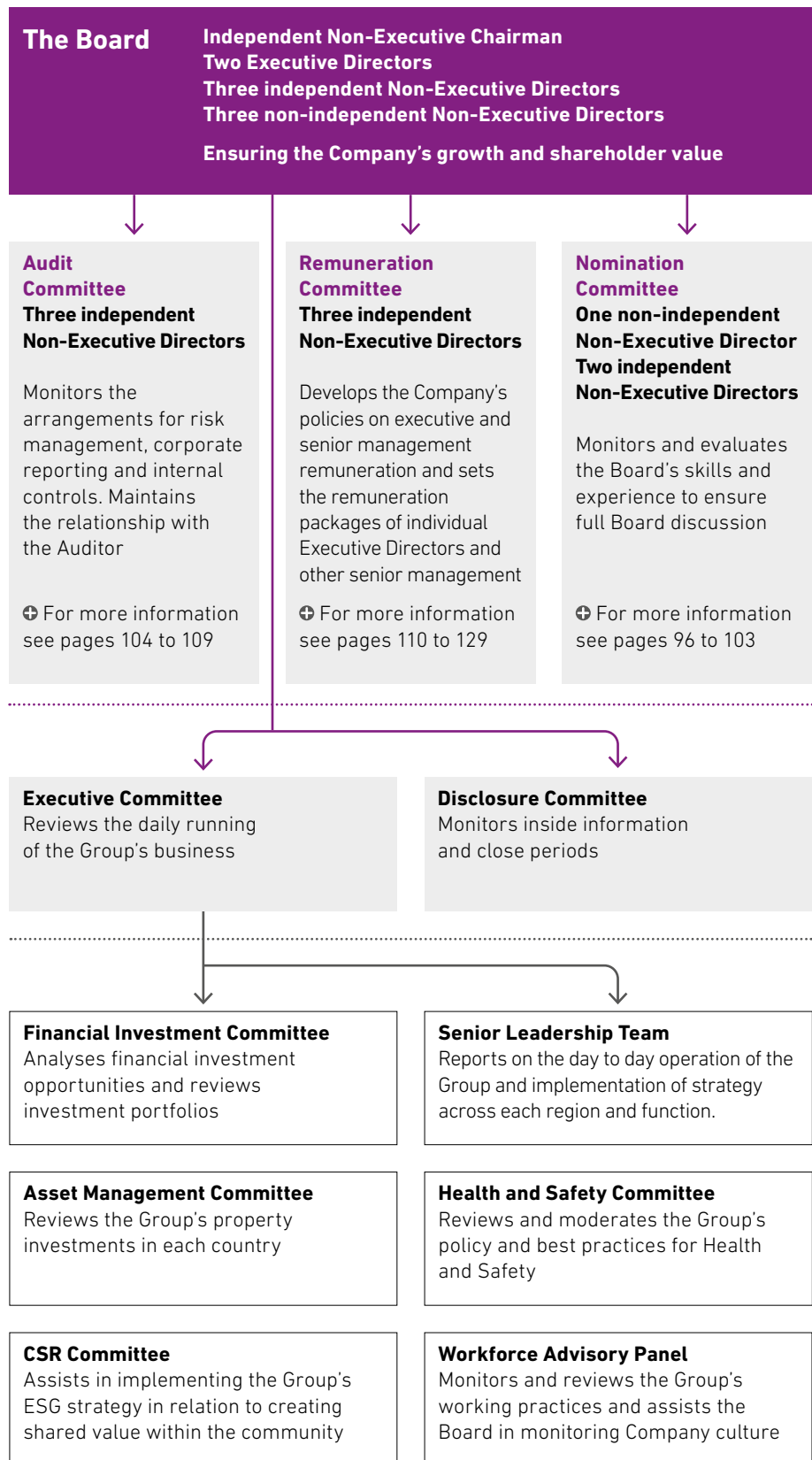
The Board's composition and responsibilities are set out in a formal schedule of matters specifically reserved to it for decisions. Matters reserved for Board decisions include identifying strategic long-term objectives, approving the annual Group budget, and approving substantial property transactions and investment decisions over £10 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.

Board and committee structure



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 Deputy 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
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.

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.

Non-Executive Directors

A formal meeting of the Non-Executive 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, following an internal assessment and subsequent discussion, 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. The Board is of the view that despite not having a majority of independent Non-Executive Directors, the current balance provides appropriate oversight and supports our governance framework.

By setting the right culture and promoting openness and transparency, the Board ensures Non-Executive Directors maintain their oversight of the Executive Directors and their decision making. Our externally facilitated Board evaluation also provides an opportunity for a third party review on the operation of the Board, which would report on any undue closeness between the Board and Executive Directors. No such observations were made. Additionally, no Board Committee or Sub Committee can be established without independent Non-Executive Director or Chairman representation. As natural refreshing of Board membership occurs over the coming years, the balance will be redressed such that it will be in compliance with this provision of the Code.

Mr Jarvis is determined to be a "non-independent" Board member given his tenure of service. However, the Nomination Committee considers that his experience within the German commercial property market remains relevant and important to the delivery of the Group's strategy.

External directorships

Current external directorships for all Directors can be found on pages 82 and 83. 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

“Monitoring skills and experience at Board and Senior Management level ensures we have the depth and breadth of experience to oversee our strategic plan.”

Having the right skills and experience to deliver on our purpose

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 2021. 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 directors 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 Non-Executive Directors.

Nomination Committee members' attendance during the year ended 31 December 2021

Anna Seeley	●●
Lennart Sten	●●
Elizabeth Edwards	●●

● Attended ○ Did not attend

Membership and attendance

The Committee met twice during 2021 and held frequent discussions outside formal meetings.

During the year, the Committee comprised three Non-Executive Directors, with a majority being independent. Given the Group has a Controlling Shareholder, the composition of the Committee reflects the need for independent oversight whilst recognising the shareholder base.

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

Main activities during the year

The Committee continued to fulfil its core responsibility to review the structure of the Board and its Committees. Our review this year focussed again on evaluating the mix of experience, background, industry knowledge and constructive challenge of our Group strategy. It is the opinion of the Committee, and endorsed by the Board, that the Chairman and all the Non-Executive Directors bring independence of judgement and character, a wealth of experience and knowledge, and the appropriate balance of skills.

As highlighted in this year's internal Board Evaluation process, we have continued to build on the areas of focus despite the challenges of Covid-19. We were pleased to re-establish working relationships following the end of lockdown measures towards the end of 2021, through our onsite strategy meeting in October and a UK property tour in November, where we also met a number of key members of the team below Board level. It has shown us the value of in-person meetings, impromptu discussions and time outside of formal meetings to get to know each other better.

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 discussed 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. Our Board now comprises one third women and has a broad range of skills and experience 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, our succession plans do not always materialise but we aim to support those who we have identified as potential successors with other career development opportunities.

Nevertheless, 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. I am pleased to report that in 2021, we were able to fill 35% of positions through internal promotions.

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.

Whilst there were no further appointments during the year, I set out our induction programme, which has been designed 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, Germany and France are organised.

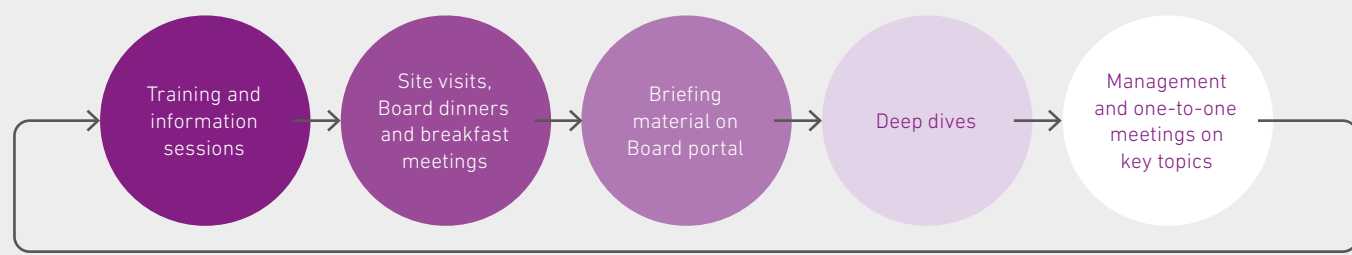
Additionally, the Board aims to hold one Board meeting a year either in France or Germany so that it can gain first hand knowledge into the activities, challenges and opportunities across the portfolio.

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 the external Auditor, valuers and brokers on an ongoing 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.

Professional development at a glance



Composition, succession and evaluation

Nomination Committee Report continued

This year, with travel restrictions in place, it has proved impossible for the Board to visit any of our overseas portfolio, or undertake in person Board meetings in Germany or France. However, we were able to undertake a UK property tour in November, visiting a number of our London properties.

We are fortunate to have a Board that has established relationships which allowed us to continue our collaborative work when the only communication method was via videoconference meetings. We were also able to receive presentations from, and interact with, the senior leadership team during the year. Our UK property tour undertaken in November also enabled us to meet the wider team of facilities and property managers, which gave us an insight into the skills and experience of a number of operational employees.

We hope to recommence our overseas meetings and regular property tours in 2022 when local Government guidance and travel restrictions allow.

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.

Our process for Board appointments starts with the Committee's review of Board composition. If an appointment is recommended, it is the Committee's policy to use an open advert and/or an external search consultancy for the appointment of the chair and non-executive directors.

A detailed role specification is reviewed with the Chairman and the Committee following which a final role specification is then approved.

The Committee then initiates two stage interview process, with candidates first meeting members of the Committee, then other members of the senior leadership team.

Following these interviews, a shortlist of two candidates will be made based on their level of experience, commercial focus and broad skill sets, and a decision made.

Succession planning review process



Prior to making recommendations to the Board, the Committee also considers the time commitment expected of the proposed director in line with any other commitments they may have already.

Directors are also required to seek approval from the Chairman and the Chief Executive prior to accepting additional commitments to ensure that they will be able to continue devoting a suitable amount of time to the Company.

Succession planning

In considering succession planning for the Board, the Committee assesses its optimal composition in terms of skills and experience, and aligns it to medium and long-term time horizons primarily based on individual tenure and the need to refresh Board membership. Because of the composition of the Committee, on which I serve as the representative of the majority shareholder, these plans are discussed with their input. As noted above, no appointments are made without full and open discussion through an independent search consultancy.

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

The Committee received updates from the Chief Executive Officer in relation to succession planning, both at Board and senior management level, to ensure there is a good quality pipeline in place. This enabled the Committee to challenge those plans in order to understand the actions taken to enhance the pipeline.

During the year we have been able to monitor the Group succession plans noting where we have potential internal successors or where we have to undertake an independent external appointments process.

The Committee is acutely aware that retaining talent is key to the successful execution of our succession plans. We also appreciate that, as a relatively small and flat organisation, this can be challenging. Through monitoring, benchmarking and career development opportunities we aim to retain our best talent.

Board composition and skills

Following a review of Board composition, we remain pleased with the structure and operation of the Board together with the balance of skills and experience of our directors. These factors were highlighted in the 2021 internal Board Evaluation process.

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

Of the three non-independent Non-Executive Directors, I am a director of Creative Value Investment Group Limited (CVIG), the investment vehicle for The Sten and Karin Mortstedt Family & Charity Trust; Bengt Mortstedt remains one of our largest shareholders; 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 reflects the skills required to meet the current needs of the Group to ensure it 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.

Training

In order to ensure that the Directors' knowledge and skills remain up-to-date, Directors are encouraged to attend regular training courses. As part of the Board papers, Directors receive a training schedule which highlights key events and seminars due to be held in the following quarter. The Company Secretary also provides regular governance updates to the Board.

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 Committee has met its target for female representation at Board level (currently 33%) and continues to monitor and support the aims and objectives of the Parker Review and the FTSE Women Leaders Review.

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 not just gender but also all diversity characteristics; 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, ethnicity, 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 earlier in this 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, Equality and Inclusion Policy underlines our commitment to attracting, promoting and developing talent no matter who they are.

Anna Seeley

Chair, Nomination Committee

16 March 2022

Our focus for the year ahead

- Annual review of our succession plans for the Board
- Annual review of succession plans and talent pipeline below Board level
- Ongoing Board development
- Implement findings from internal Board Evaluation process
- Develop and implement a broader Diversity, Equality and Inclusion Policy

Board Diversity Policy

Objectives and progress against targets

Policy objectives

Ensure the Board comprises an appropriate balance of skills, experience and knowledge required to oversee and support the management of the Company effectively.

Ensure consideration is given to candidates for Non-Executive Director Board appointments from a wide pool, including those with no listed company Board experience.

Ensure Board appointment 'long lists' contain diverse candidates, including diversity of social and ethnic backgrounds, and cognitive and personal strengths.

Implementation

Whilst no executive search firm was used during 2021, the Committee continues to monitor the composition of the Board and meets at least annually to review and discuss it.

The brief that is given to our independent executive search firms is to ensure that this Policy objective is met. When considering appointments to the Board the Committee endeavours to consider many candidates with a broad range of experiences. There were no further appointments made in 2021.

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Policy targets

One third female share of Board Directors by 2020.

Minimum of one Board Director from an ethnic minority background.

Progress against target

One third female representation on our Board as at the year end.

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 2021

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

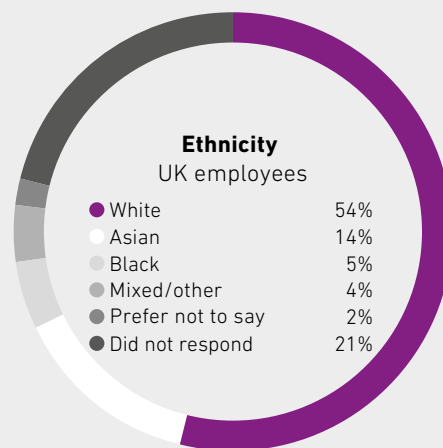
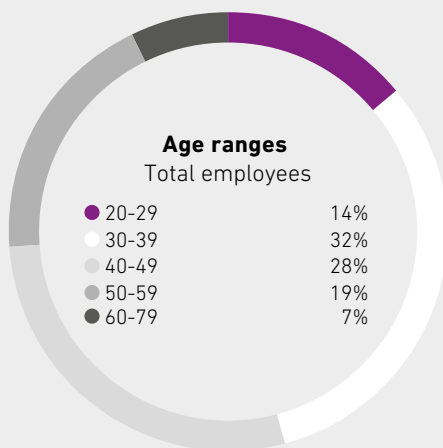
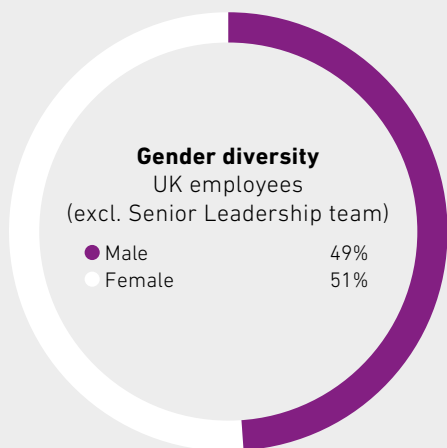
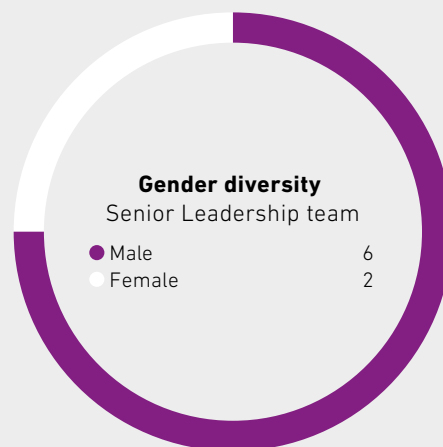
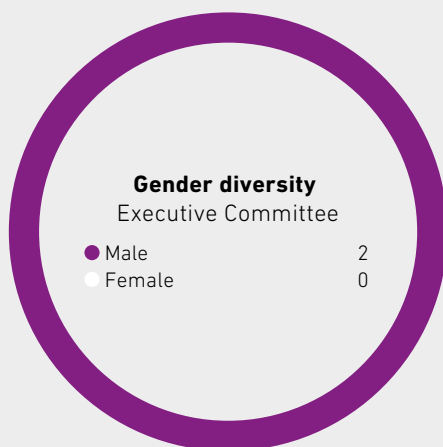
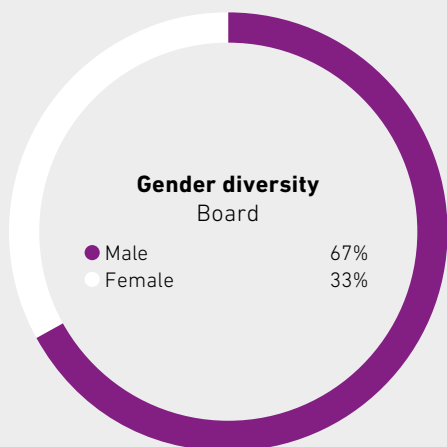
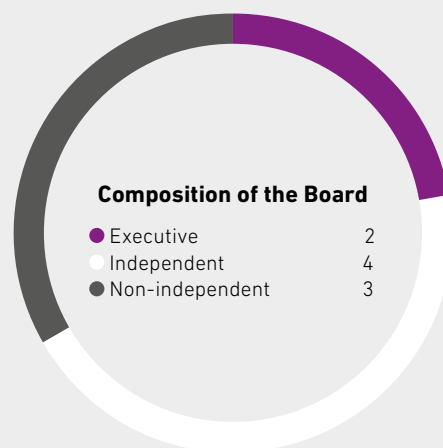
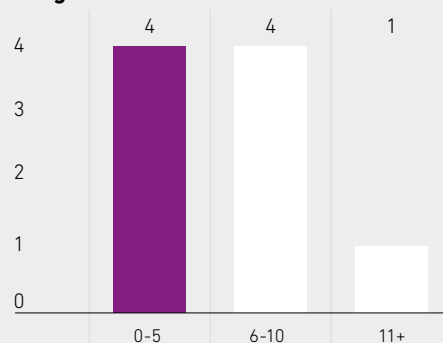
ESG matters

Experience with listed and non-listed organisations on their approach to ESG matters in the built environment and across corporate disciplines.

Human resources

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

Length of tenure



Composition, succession and evaluation

Nomination Committee Report continued

Review of Board effectiveness

Appointment of consultants

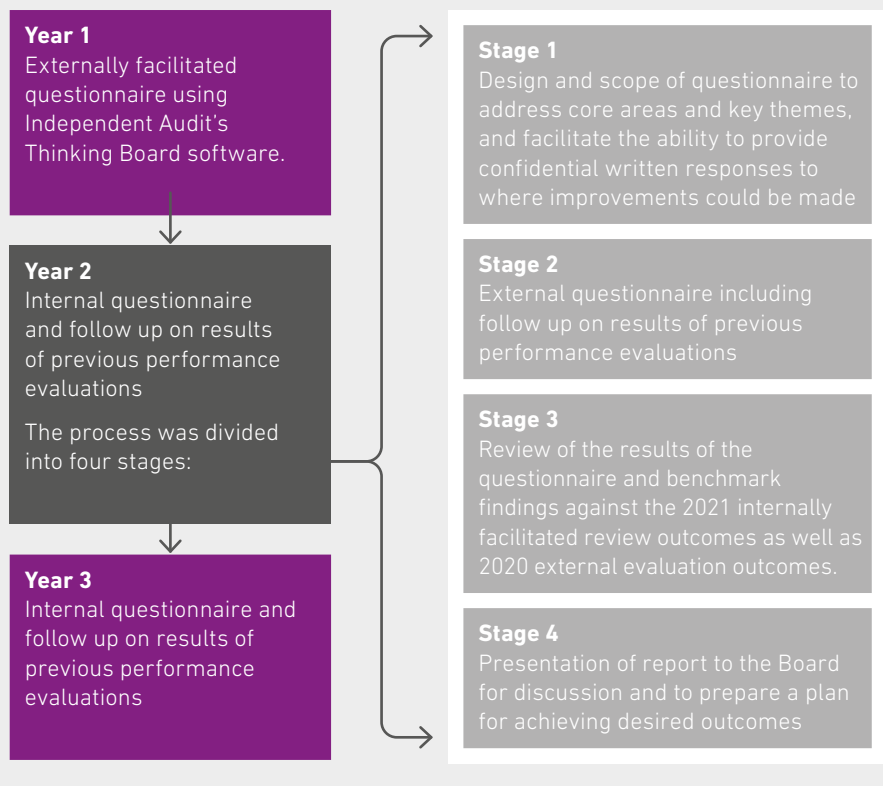
The last external Board evaluation was undertaken by Independent Audit Limited in 2020, using their online governance assessment service Thinking Board.

Over the following two years an internal questionnaire is used to assess Board effectiveness. Each year, the results of the review together with those of the previous year, are discussed in detail and enable the Board to understand better whether there have been improvements in the operation of the Board and also where it can be enhanced.

Based on the results of the 2021 review, this approach met the Board's objective.

Independent Audit Limited has no connection with CLS or any individual director.

Evaluation process



Board Evaluation Framework

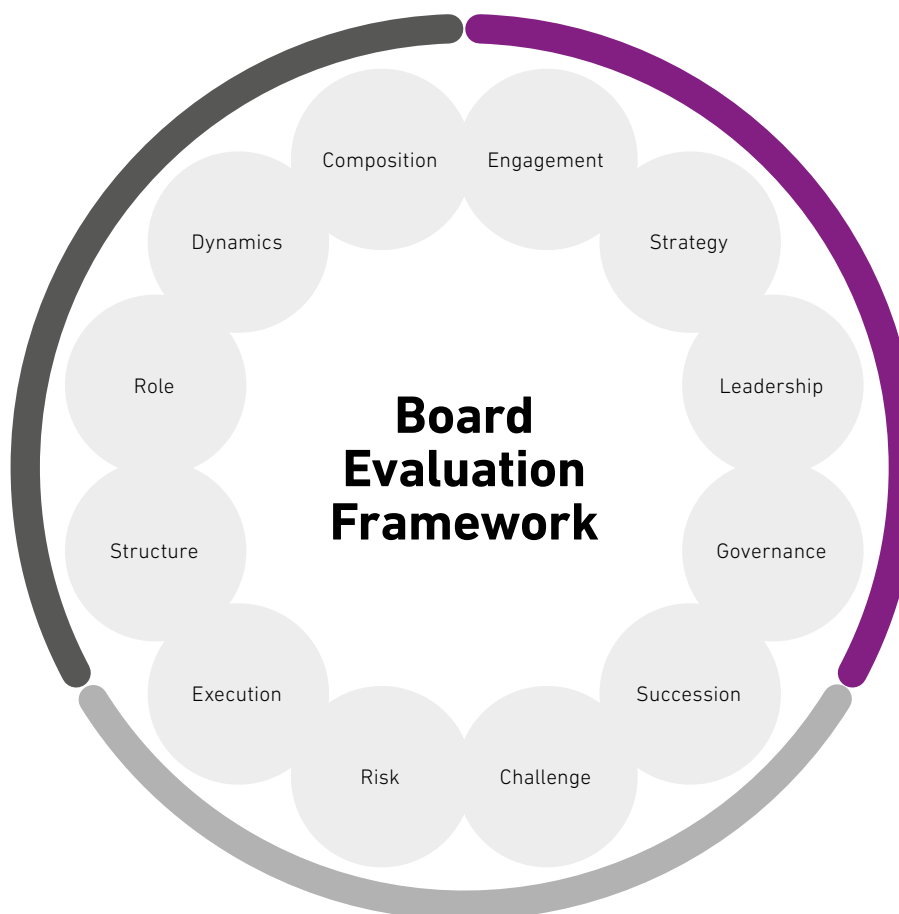
The internal evaluation process covered the key areas of Board Leadership and Company Purpose, Division of Responsibilities and Composition, Succession and Evaluation.

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.

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

Internal Board evaluation results 2021

Four key areas within the internal Board Evaluation Framework.

1. Leadership

There was unanimous agreement 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. There was a consistent view that the Chairman led and listened, and this was also reflective of the CEO. Members agreed that they kept abreast of changes to the regulatory and governance landscape, and concluded that as a result they were effective in discharging their duties.

2022 objective: Continue to have: more contact with senior leaders below Board level; and better interaction with employees.

2. Accountability and risk

The Board considered that more time had been allocated to the strategic opportunities, risks, emerging technology and changes in the real estate industry, and that consideration of scenario planning had improved. Nevertheless, the evaluation showed that this should continue into 2022. Board members agreed there was good focus on compliance and members are satisfied that the organisation is under control

2022 objective: Continue to spend time addressing opportunities but ensuring sufficient time is given to reviewing emerging risks given the changes to the office environment post Covid-19. As highlighted in the external review of the Group's internal controls, further work should be undertaken to document existing controls.

3. Board and Committee operation

Members agreed that there was a good balance between operational and strategic matters, and that free discussion facilitated better oversight of the monitoring of organisational risks and controls. It was noted that there was appropriate challenge of the views of the Chair and CEO which had created a feeling of mutual respect and understanding between members. Whilst there was an agreement that the Board communicated well with key stakeholders, further work could be focussed on spending more time in the business, meeting with employees and understanding their challenges.

2022 objective: Continued focus on employee engagement and communications below Board through various activities like property tours and informal meetings.

4. Board dynamics

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. Additional informal conversations with the Chair would be welcomed in between meetings.

2022 objective: More informal time together, continual communication with the Chair, and more contact with the business.

2021 objectives and outcomes arising from 2020 external board evaluation results

Objectives during 2021

More contact with senior leaders below Board level; and better interaction with employees.

Understanding the strategic opportunities, as well as the risks, from emerging technology; and scenario planning including questioning assumptions and considering alternative plans.

Continued focus on emerging risks and cyber risks.

More informal time together; and more contact with the business.

Outcomes

Despite the impact of the Covid-19 pandemic on the ability to meet in-person, the Board's agenda was widened to include a focus session that allowed senior leaders below Board level to present on their area of expertise. In November, the Board went on a London property tour, supported by our wider asset, property and facilities management teams.

The Board received updates from the Head of IT, which included a detailed presentation of the Group's Digitisation Strategy, IT security infrastructure (including cyber risks) and improvements that had been made during the year. Scenario planning was addressed at the strategy Board meeting in October and organisational risks were discussed at each Board, with input from members of the Audit Committee and the Executive Directors.

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.

There was, naturally, limited interaction outside of scheduled meetings in the first half of the year due to the pandemic. The Board was able to meet in-person at its October strategy meeting, after which the Board met for dinner with the Senior Leadership Team, and at its November Board meeting, before which a London property tour enabled informal conversations between members facilitated.

Audit, risk and internal control

Audit Committee Report



Bill Holland

Chair, Audit Committee

“ This year we have focused on an external audit tender process and reviewing the outcomes of our internal controls and risk management framework review.”

Ensuring oversight, risk management and integrity of financial reporting

Dear Shareholder,

On behalf of the Audit Committee, I am pleased to present the report of the Committee for the year ended 31 December 2021. 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

There has been no change to the membership of the Committee throughout 2021.

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 pages 81 to 83.

The Committee comprised independent Directors only, as required by the Code.

The Committee met five times during 2021.

Audit Committee members' attendance during the year ended 31 December 2021

Bill Holland	● ● ● ● ●
Denise Jagger	● ● ● ● ●
Elizabeth Edwards	● ● ● ● ●

● Attended ○ Did not attend

2021

June

Audit tender discussion

Following a comprehensive audit tender process for which five firms were invited to pitch (BDO, Deloitte, Ernst & Young, Grant Thornton and KPMG), the Committee received final presentations from three audit firms. The Committee considered key areas such as:

- Knowledge and understanding of the Real Estate industry;
- Use of data analytics and associated systems;
- Organisational fit and knowledge support;
- Tenure of incumbent auditing firm; and
- Future regulatory landscape.

It was agreed that Ernst & Young be recommended to the Board to be appointed as CLS' external Auditor for the financial year beginning 1 January 2022.

Internal controls update

We received a presentation on internal controls software that would assist in the management and monitoring of risks to the business which would enhance our control environment. It was agreed that management should progress with its implementation during 2022.

November

Annual audit planning and review

We received Deloitte's annual audit planning report, which highlighted the areas of focus for the external auditor, including our extended reporting under TCFD regulations.

We received a presentation from Grant Thornton on their internal controls review and adopted their recommendations.

In our Corporate Governance section, we reviewed our Risk Register, Anti-bribery and Whistleblowing policies, Terms of Reference and Committee performance.

August

Review of half-year results

The Committee reviewed the half-year results to 30 June 2021, and considered:

- the report from the external Auditor on their interim review assessment;
- going concern analysis statement; and
- that the principal and emerging risks had not changed since those published at the full year.

Internal audit

We received an update on the internal controls testing process and a proposal to implement a targeted programme of testing undertaken by a third party.

Other matters

The Committee received presentations from the German and French valuers on the portfolio and provided challenge on judgements made in respect of valuations.

2022

March (two meetings)

2021 audit report

We were presented with Deloitte's report on their 2021 audit. This focused on:

- valuation of the portfolio;
- management override of controls;
- going concern analysis statement;
- internal controls relevant to the preparation of the financial statements; and
- adequacy of the Group's TCFD disclosures.

We were pleased to note that no issues had arisen during the audit process.

Review of full year results

We reviewed the full year results for the year ended 31 December 2021 from a financial and narrative reporting perspective and concluded that:

- they were fair, balanced and understandable; and
- the internal controls, risk management including the assessment of principal risks and emerging risks, and the viability statements were appropriate.

Other matters

The Committee was given a presentation on corporate governance topics, including an update on the implementation of the TCFD framework and current government consultations relating to the audit landscape. We met with the UK valuers to discuss the year-end valuation process. We received a report from management on internal controls testing programme for 2022 and an update on the implementation of internal controls software.

Audit, risk and internal control

Audit Committee Report continued

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.

The programme of internal controls testing consisted of sample testing 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; completeness of sales invoicing; and debt collection.

An overview of the results was presented to the Committee with the external Auditor present. The testing 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 were provided by the Group heads of departments to confirm that internal controls were working effectively and any minor weaknesses had been addressed. In addition, Grant Thornton was appointed to undertake external review work of two key areas: the valuation process; and risk management processes.

The programme of work carried out by Grant Thornton concluded that the Group had established a good, top-down, strategy-led, principal risk identification and assessment, and monitoring process. However, whilst the operation of good practice was acknowledged, there were areas of the current framework that could be improved such as establishing (where necessary), and more comprehensively documenting in writing, policies, processes and related controls and the establishment of standardised, bottom-up risk registers across the business. These improvements are planned to be implemented during 2022 following the roll-out of the risk and internal control software discussed above. The valuation review highlighted good established processes and controls in the management of the valuation process and recommended a number of minor processes enhancements, all of which have subsequently been implemented.

Bill Holland

Chair, Audit Committee

16 March 2022

Our focus for the year ahead

- Ensure a smooth transition process with the new external Auditor.
- Ensure valuations and assumptions surrounding the valuations are appropriate.
- Monitor principal and emerging risks to ensure they remain appropriate and mitigations are in place.
- Review and monitor internal controls and receive regular updates on internal controls testing.
- Follow up on improvements recommended by Grant Thornton's 2021 review and consider further reviews for 2022.
- Receive regular reviews on the implementation of a new property and finance software system.
- Develop a good working relationship with the new 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.
- Implementation of risk and internal controls software.

Main activities during the year

Principal responsibilities of the Committee

Areas of responsibility

Monitoring the **integrity of the financial statements** and any formal announcements relating to financial performance, and reviewing significant financial reporting judgements contained in them

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

Reviewing our **risks, risk management systems and internal financial controls**

Monitoring and reviewing annually whether there is a need for an **internal audit function** and making a recommendation to the Board

Key areas discussed and reviewed by the Committee during the year in discharging its responsibilities

At our meetings in March 2022 and August 2021 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.

We reviewed the 2021 annual report and accounts at our Committee meeting in March 2022 and reported our conclusions to the Board that they contained sufficient information for shareholders to assess the Group's performance and strategic operations.

We also considered the alternative performance measures ('APMs') that CLS use alongside statutory figures and concluded that these should remain unchanged from last year and 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.

Additionally, having considered how the report was formulated, reviewed internally and by the external Auditor, we considered that the 2021 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 130.

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 principal risks and any movements in them, 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 ways in which the Group's principal and emerging risks are identified and addressed are set out on pages 42 to 52.

During the year, in addition to reviewing the established framework for internal controls and risk management systems, the Committee received and discussed reports from management on the operation of the Group's internal controls. It also received a report from Grant Thornton on their programme of works covering areas such as authorisation processes and property valuation process. The Committee is pleased to report that no material deficiencies were found, however, as set out above, recommendations were made by Grant Thornton, which we reported to the Board and are being actioned by management.

Further external assurance is being considered for 2022. Additionally, internal control software will be installed in 2022 to allow the Group to monitor its internal controls and the risks associated with them more efficiently.

We also monitored the roll-out of the Group's new property and finance system, which went live in the UK in August 2021. Extensive testing and documenting of controls were helpful in ensuring the ongoing effectiveness of internal controls and in dealing with issues in bedding in the system. Management expect to implement the system in Germany and France during 2022.

In light of the size and complexity of the organisation, and the regular updates the Committee receives on internal controls testing (from management and externally), 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 106.

Audit, risk and internal control

Audit Committee Report continued

Areas of responsibility

Conducting the audit 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

Reviewing and monitoring the external auditor's **independence and objectivity**

Reviewing the effectiveness of the **external audit process**, taking into consideration relevant UK professional and regulatory requirements

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

Key areas discussed and reviewed by the Committee during the year in discharging its responsibilities

Deloitte have been the Group's external Auditor since 2007. The lead audit partner responsible for the external audit rotates at least 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 in 2016, Deloitte was appointed and could serve for a further 10 years. However, as part of that process, the Committee decided that a tender process would in all likelihood take place in 2021 to choose an external Auditor for the Group for the 31 December 2022 audit onwards.

As a result of the tender process, Ernst & Young are to be appointed as the Group's external Auditor following the publication of the Group's final results and are to be recommended for appointment at the 2022 AGM.

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.

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 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. Given the external audit tender process Deloitte LLP will not be reappointed at the 2022 AGM.

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.

During the year non-audit services undertaken by Deloitte amounted to £40,000 (2020: £40,000) and related solely to the external Auditor's work on the review of the half-yearly financial report. 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

Property valuations

How these issues were addressed by the Committee

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.

Significant issues considered by the Committee relating to the financial statements	How these issues were addressed by the Committee
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 53.
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 Scottish Widows 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.
Covid-19 assessment	The Committee considered the impact of Covid-19 on the Group and received reports from management on tenant risk including rent collections, 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 appropriately mitigated.

Remuneration

Remuneration Committee Report



Denise Jagger

Chair, Remuneration Committee

“ Operationally, we are seeing improving market conditions and activity levels in all our geographies despite the ongoing challenges over the year. While the Group’s operational and financial performance has again been robust, as with last year, overall performance related pay has resulted in relatively low remuneration outcomes.”

Aligning reward to performance and stakeholder returns

Dear Shareholder,

I am pleased to present the Report of the Remuneration Committee (the ‘Committee’) for the year ended 31 December 2021.

This report sets out the implementation of the Company’s current Directors’ Remuneration Policy (‘Policy’), for the year ended 31 December 2021, and consists of:

- the Annual Statement from the Chair of the Remuneration Committee; and
- 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 2022 AGM.

Committee members’ attendance during the year ended 31 December 2021

Denise Jagger	● ● ●
Bill Holland	● ● ●
Lennart Sten	● ● ●

● Attended ○ Did not attend

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 did not change during the year to 31 December 2021.

At the year-end, the Committee comprised three independent Directors as required by the Code.

During 2021, 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.

It also sought market updates, presented at its meetings, from its retained remuneration consultant, PricewaterhouseCoopers LLP ('PwC').

2021 Company performance and outcomes

Covid-19

This year has been challenging and the Covid-19 global pandemic has continued to have an impact on the business and businesses worldwide. For example, student and hotel revenue continued to be lower than pre-pandemic levels as accommodation remained unoccupied due to the UK lockdown in the early part of 2021. 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 continued to be closely monitored by the Board.

The Group continued to safeguard our staff, tenants and other key stakeholders. Our teams focused on ensuring our buildings were safe and in accordance with local government guidelines and maintained regular contact with tenants, assisting those that were most in need through, for example, 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 continued to focus on cost control.

As a result, CLS continues to perform well in a market that remains challenging due to the ongoing impacts of Covid-19. Investment, and especially letting, markets have yet to return to pre-pandemic levels although we are seeing increasing levels of activity. Our focus on our tenants remains absolute and that investment in relationships is reaping rewards.

Our portfolio also remains well-placed in terms of: strategically well placed locations; the potential to capture the reversionary uplifts from vacancy, under renting and selected refurbishment and development; and the ability to provide tenants with modern, flexible, high-quality sustainable space. As workers return, the attractions of the office will again be proved.

In light of the Group's overall performance, the Board maintained its decision 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 2020 final dividend was payable in April 2021 and our 2021 interim dividend in September 2021. 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. Given the overall performance of the Group, the Board have agreed to recommend a final dividend for 2021 of 5.35 pence per share.

At the year end, when the Group annual salary and bonus review took place, the Group wished to reward employees with pay increases that took account of the inflationary environment and bonuses that, like the interim dividend, remained flat compared to the prior year. As a result, a 3% salary increase was applied on average throughout the Group, including the Executive Directors. I was pleased to note that above inflationary salary adjustments were made for some employees to achieve market parity and reward professional development. The Committee considered that this was an appropriate response to Group performance, the current economic environment and the efforts of the workforce in difficult circumstances.

Key performance indicators

EPRA vacancy rate was 5.8%, which was marginally above target but a solid achievement given that a large proportion of the strategic acquisitions in Germany that had significant vacancies have subsequently been re-let. There were also some property refurbishments becoming available to let that increased the vacancy rate towards the end of the year.

Total accounting return, based on EPRA NTA, was 3.7%, as NTA increased from 345.2 pence per share to 350.5 pence per share mainly through revaluation uplifts and EPRA earnings.

EPRA EPS was 11.3 pence, which was below the forfeiture threshold target of 11.5 pence. The forfeiture threshold target was set following the approval by the Board of the 2021 budget in November 2020, before the announcement of extended lockdowns at the start of 2021. Lockdown resulted in a further difficult trading period for the hotel and student operation as students were unable to return to halls of residence and there was lower hotel occupancy which impacted revenues and profitability for the Group.

As set out in more detail on page 119, the Committee determined that the KPIs consisting of EPRA vacancy rate and total accounting return were broadly at or above the benchmark targets. However, the EPRA EPS KPI fell marginally below the benchmark target, reflecting the impact of Covid-19 on the Group's student accommodation and hotel portfolio.

Remuneration

Remuneration Committee Report continued

As a result, Element A of the PIP paid out at 46.6% for the CEO and 31.1% for the CFO of salary. The Bonus Pool which is linked to share price performance fell by 2.8%, resulting in a reduction in its value for the CEO of £7,654 and CFO of £2,232.

The Committee considered the factors leading to the KPI outcomes and, taken together, concluded that based on their holistic view of the financial and operational performance of the Group, that there should be no reduction in the notional balance of shares under PIP Element A. Therefore, 100% of the notional balance was paid in cash as cycle 3 of the PIP concluded its fourth year.

The second grants under the LTIP that replaced PIP Element B were made in March 2021, with the same award levels as in 2020 at 150% of salary for the CEO and 120% of salary for the CFO. As with the 2020 LTIP grant. The Committee considered whether it should exercise discretion upon grant, in relation to the size of the 2021 LTIP award, taking account of 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 that the share price was very similar to 12 months previously, it would be more appropriate to review the award upon vesting in 2024 to ensure that there were no windfall gains and that it was in line with shareholders' expectations.

It is also noted that the 107,720 shares granted to the CEO in 2018 under Element B of the PIP vested on 7 March 2021 and that the second and final tranche of the CFO's buy-out awards in respect of incentives foregone at his previous employer vested on 5 April 2021 in respect of 56,305 shares.

No other long-term incentive awards completed their performance period during 2021.

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 that the level of both Element A bonuses are similar to 2020 (caused by KPI performance and the impact of share price on Executive Director bonus pools). The Committee is comfortable that the Policy operated as intended during 2021.

Discretion

Under the terms of the PIP, as performance on the EPRA EPS 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, taking into account the strong performance of the Executive Directors in such a turbulent time and the fact that the UK lockdown announcement that primarily contributed to missing the EPS target was out of management's control, 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 2022

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 2022.

During the year, the Committee undertook its annual review of the underlying elements of the Policy and decided to make no changes to the performance measures for incentives schemes operating in 2022. The Committee believes that, following the adoption of industry standard EPRA metrics for the PIP Element A in 2021, performance measures are appropriately aligned to the Group's KPIs.

Given the increased focus on sustainability, the Committee will investigate the suitability of introducing an ESG KPI to either Element A or the LTIP. In particular we will consider whether it would be an appropriate measure over and above the existing KPIs that will drive strategic decision making notwithstanding the Committee's annual holistic assessment of the of the financial and operational performance of the Group.

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 117 for details).

We will be undertaking a detailed review of our Remuneration Policy during 2022, with a view to presenting an updated policy for approval by our shareholders at the 2023 AGM. We look forward to engaging with shareholders as part of this process.

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 the Committee 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 2021, this review was internally by way of a questionnaire and concluded that the Committee continued to perform effectively and had unfettered access to the information and advice it needed to make informed decisions on all matters related to remuneration.

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, 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 and general matters related to remuneration. In addition, this year the Company has obtained advice from independent remuneration consultants to benchmark remuneration of its senior leadership team. 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 2021 were £24,180 (2020: £53,400). The fees were fixed on the basis of agreed projects. Other services provided by PwC in the year included advice on Swedish social security and PAYE.

Concluding remarks

The Group has continued to face significant headwinds as a result of the pandemic during 2021 but has again performed well in this context as shown by the results contained in this annual report. The Remuneration Committee believes that the Executive Director pay outcomes are appropriately reflective of performance over the year, and the approach to pay for 2021 aligns with the Company's strategies of growing profitability and delivering appropriate returns in-line with expectations. 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 2022 AGM in respect of the advisory vote on the Annual Report on Remuneration.

Finally, I want to recognise that the Company's performance would not be possible without the resilience and flexibility shown by our employees during these unprecedented times. To all staff – thank you for your hard work and commitment to making CLS the strong business it remains today.

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.
- Investigate the viability of introducing an ESG KPI as a suitable performance measure.
- 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 Group's Remuneration Policy.
- Receive updates from the Head of HR in relation to developments in employee benefit structures.
- Continue to ensure compliance with the Code.

Denise Jagger

Chair, Remuneration Committee

Remuneration

Remuneration Committee Report continued

Remuneration at a glance

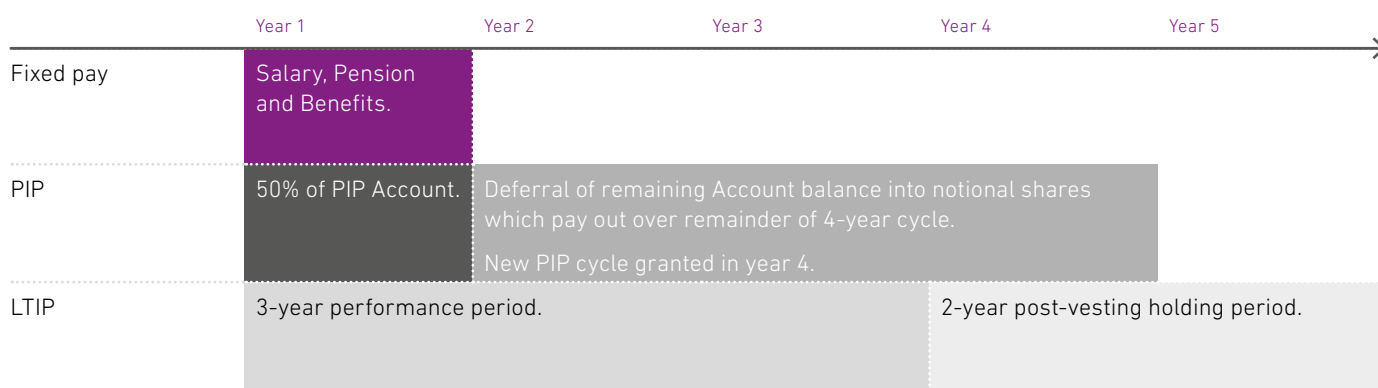
Remuneration Policy at a glance

The Company's Remuneration Policy is designed 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 elements 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 116 to 117.

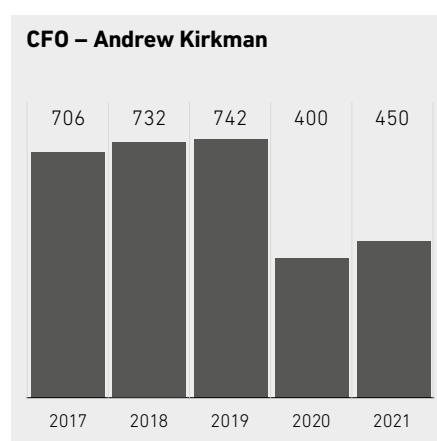
Key points to note

- 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 historically low Element A bonus outcomes and a reduction in the bonus pool value.
- The Committee considered the impact of Covid-19 on 2021 LTIP awards made in March 2021 and will review outcomes upon vesting to ensure that these are a true reflection of performance.

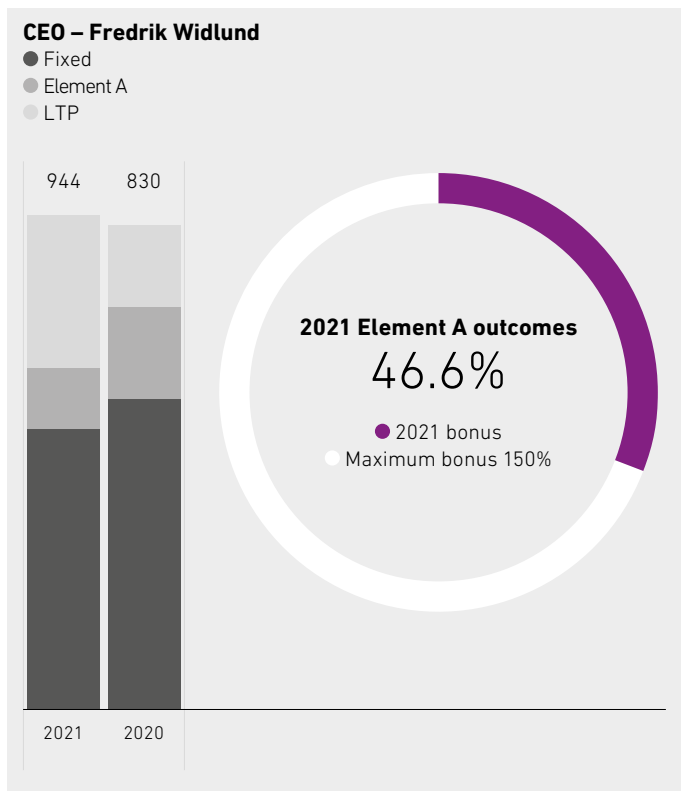


Total Executive remuneration

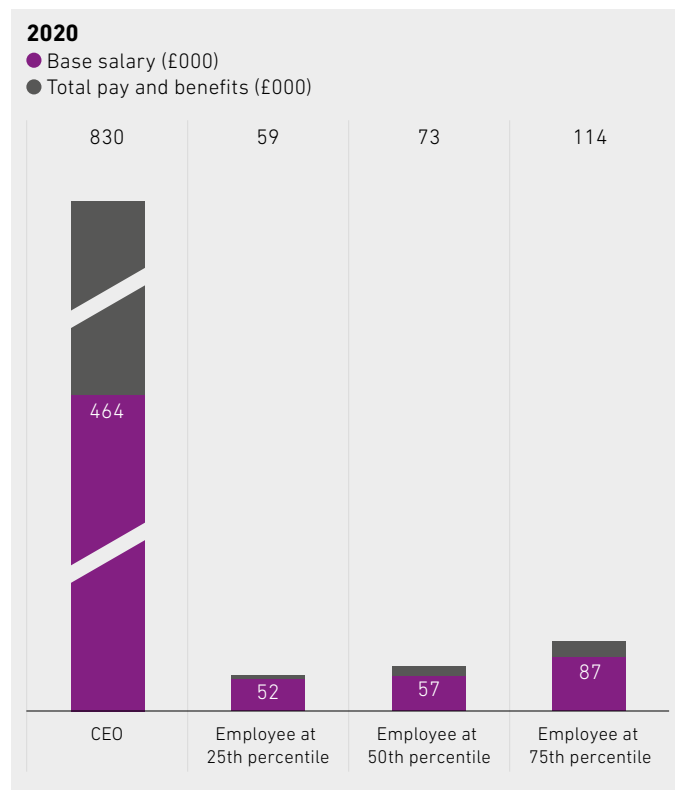
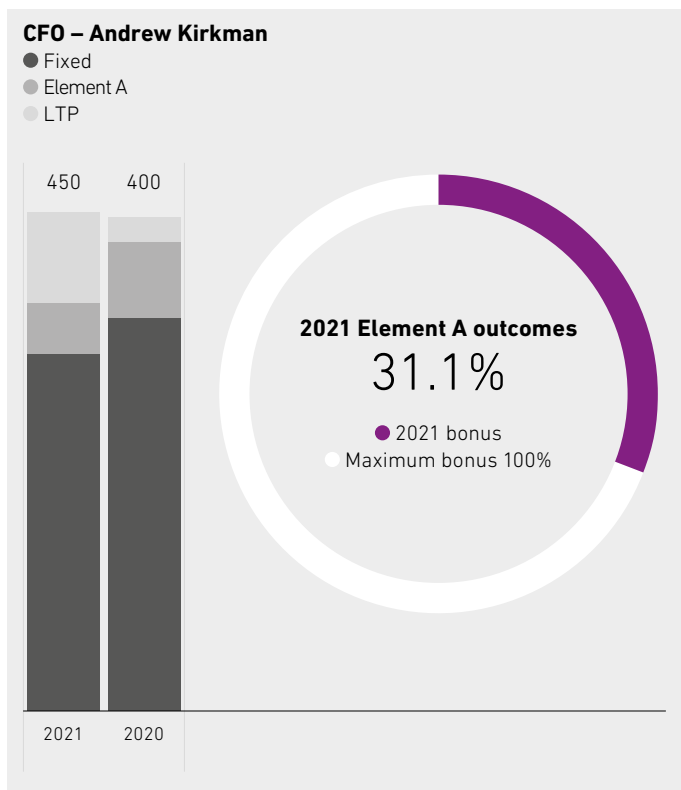
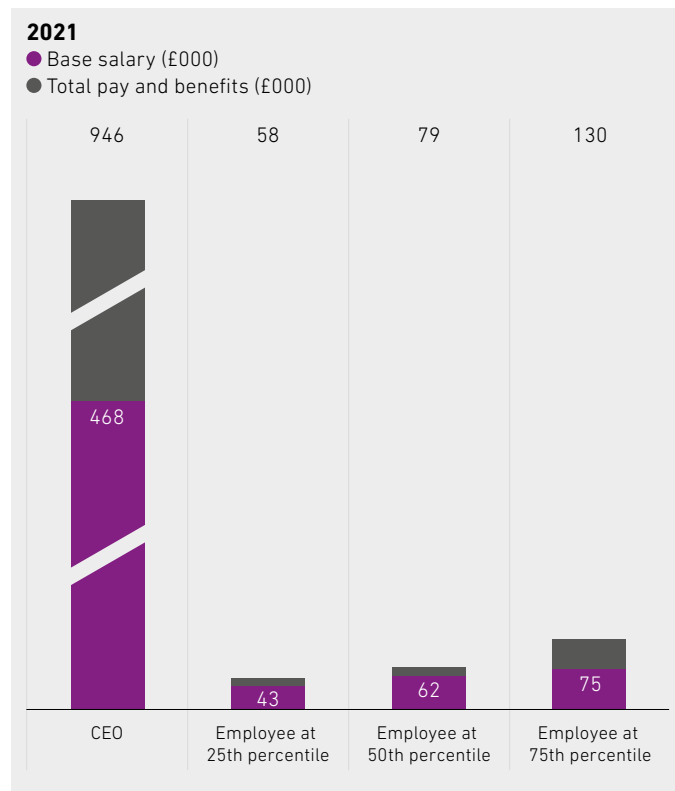
Total Executive remuneration	2021 £'000	2020 £'000
CEO – Fredrik Widlund	944	830
CFO – Andrew Kirkman	450	400



2021 Single Figure and Element A outcomes



CEO pay ratio



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

- Salaries are targeted to be at a conservative level and variable pay is targeted at above median so that combined, 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 and incentivises effective long-term decision making.

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 2022 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
<p>Clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.</p>	<ul style="list-style-type: none"> The Company's performance-linked 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.
<p>Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand.</p>	<ul style="list-style-type: none"> Element A of the PIP has been in place for a number of years so participants and shareholders have a good understanding of how it operates. Three performance metrics in Element A reduces complexity. An EPRA EPS performance measure in the PIP Element A accurately reflects annual absolute company performance and is therefore clear and motivational for those participating in this plan. The LTIP is a market standard structure which is familiar to participants and shareholders alike.
<p>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.</p>	<ul style="list-style-type: none"> The Policy includes: <ul style="list-style-type: none"> – 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: <ul style="list-style-type: none"> – 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; – providing an opportunity to reduce or cancel the awards if the behaviours giving rise to the awards were inappropriate; and – providing an opportunity to reduce or cancelling the awards, if it appears that the criteria on which the award was based do not reflect the underlying performance of the Company.
<p>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.</p>	<ul style="list-style-type: none"> 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.
<p>Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear.</p> <p>Outcomes should not reward poor performance.</p>	<ul style="list-style-type: none"> One of the key strengths of the 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.
<p>Alignment to culture – incentive schemes should drive behaviours consistent with Company purpose, values and strategy.</p>	<ul style="list-style-type: none"> 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 2021 financial year for each Executive Director:

Executive Director	Salary £000	Taxable benefits ⁶ £000	Bonus (PIP) ⁴ £000		LTIP ⁵ £000	Pension £000	Other fees ⁷ £000	Total rem £000	Total ⁸ fixed £000	Total ⁹ variable £000
			Cash	Deferred shares						
Fredrik Widlund ¹	515	9	109	–	290	–	23	946	524	420
Andrew Kirkman ²	311	7	44	–	84	4	–	450	322	128

Executive Director	Salary £000	Taxable benefits ⁶ £000	Bonus (PIP) ⁴ £000		LTIP ⁵ £000	Pension £000	Other fees ⁷ £000	Total rem £000	Total ⁸ fixed £000	Total ⁹ variable £000
			Cash	Deferred shares						
Fredrik Widlund	510	8	150	–	135	–	27	830	518	312
Andrew Kirkman	306	6	61	–	22	5	–	400	317	83
Sten Mortstedt ³	515	–	–	–	–	–	–	515	515	–

1 Mr Widlund would have received total pension contributions of £46,815 (2020: £46,350). 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 2021 LTIP was attributed to the deferred balance paid under PIP Element A (see "LTI in single figure calculation" on page 119).

2 Andrew Kirkman would have received total pension contribution of £28,610 (2020: £28,325). In accordance with the Policy, £24,610 (2020: £22,825) was paid as salary supplement and £4,000 (2020: £5,500) was paid to his SIPP (this element of salary is not bonusable or pensionable). Mr Kirkman's 2020 LTIP was attributed to the deferred balance paid under PIP Element A (see LTI calculation on page 119).

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 2021 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.

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 2021 of £2.115 in accordance with the rules of the PIP.

6 Taxable Benefits relate to the provision of private medical insurance and gym contribution.

7 Other fees relate to: £22,567 (2020: £26,197) in respect of the dividend equivalents following the vesting of Mr Widlund's 2018 Element B Award and £582 (2020: £704) in respect of the Matching Shares that vested during the year under the All Employee Share Incentive Plan.

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) – 2021 Element A structure

The schematic below illustrates the ongoing operation of PIP Element A, noting that the CFO joined the plan in the same year and cycle as the CEO:

Year	2021	2022	2023	2024
Cycle 3	4th year			
Cycle 4	1st year	2nd year	3rd year	4th year

With reference to the schematic above, Cycle 3 of the PIP Element A award was completed in 2021 and a new Cycle 4 award was granted in the same financial year.

Summary of PIP Element A matrix outcomes in the year

The Remuneration Committee determined the 2021 PIP contribution and forfeiture outcomes during 2021. A summary of the 2021 KPIs and their achievement is as follows:

KPI	Weighting	Maximum forfeiture	Forfeiture threshold	On-target performance	Good performance	Maximum performance	2021 actual achievement
EPRA earnings per share	40%	10.5p	11.5p	12.0p	12.5p	13.5p	11.3p
Total accounting return*	40%	(3)%	0%	3%	6%	9%	3.7%
EPRA vacancy rate	20%	10%	8%	5%	4%	3%	5.8%
Overall achievement	100%						41.0%

* Based on EPRA NTA.

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 2021	150%	100%
Maximum Element A award (£) in 2021	£702,225	£286,100
KPIs achievement as % of maximum	31.1%	31.1%
Contribution to Account based on achievement above	£218,216	£88,905
Bonus as a % of 2021 salary	46.6%	31.1%

The following table sets out the breakdown of the performance calculation of the 1st award under Cycle 4:

KPI	CEO	CFO
EPRA earnings per share	£0	£0
Total accounting return	£157,356	£64,110
EPRA vacancy rate	£60,860	£24,795
2021 total bonus	£218,216	£88,905

Cycle 3

The following table sets out for Cycle 3 the PIP Accounts for the participants and shows the number of deferred notional shares which formed the opening balance at 1 January 2021, and their opening value, the change in the value of the notional shares, and the payments which closed Cycle 3 in 2021:

	CEO	CFO
PIP Plan Element A Accounts (Cycle 3)		
Number of deferred notional shares in Account at the end of Year 3	131,432	38,326
Value of deferred notional shares at the end of Year 3 ¹	£285,603	£83,284
Change in value of deferred notional shares in 2021	£(7,654)	£(2,232)
Final value of deferred notional shares ²	£277,949	£81,052
Plus: dividends attributable to deferred notional shares during the year	£9,923	£2,894
Less: 2021 payment out of the Account	£287,871	£83,946
Value of deferred notional shares carried forward	nil	nil
Number of deferred notional shares carried forward	nil	nil

1 The price used to calculate the opening 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.

2 The price used to recalculate the final value of shares was the mid-market value of a share for the 30 day period to 31 December 2021, which was £2.115 per share.

Remuneration

Remuneration Committee Report continued

It should be noted that the Committee did not exercise its judgement under the PIP to reduce the payments from the formulaic outcome, from cycle 4 below, or to reduce the deferred share notional balance and final payment under cycle 3 above, given the general environment, the strong performance of the Executive Directors at this turbulent time and the fact that the forfeitable threshold for the EPRA EPS element was demonstrably missed because of the impact of the early 2021 UK lockdown which was entirely outside of management's control. The Committee also took into consideration the fact that the Group did not make use of any form of government loans or Covid-19 employment related schemes.

Cycle 4

The following table sets out for cycle 4 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 2022 which is at risk of forfeiture in respect of Year 2's performance

	CEO	CFO
PIP Plan Element A Accounts (cycle 4)		
Number of deferred notional shares in Account at the start of Year 1	nil	nil
Value of deferred notional shares at the start of Year 1	nil	nil
2021 bonus (contribution into the Account)	£218,216	£88,905
Cumulative Account following contribution	£218,216	£88,905
Less: 2021 payment out of the Account	£(109,108)	£(44,452)
Value of deferred notional shares carried forward into Year 2	£109,108	£44,453
Number of deferred notional shares carried forward into Year 2 ¹	51,587	21,017

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 2021, which was £2.115 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.

Reconciliation of PIP Element A with single figure table for 2021

	CEO	CFO
Annual bonus – Cash in single figure table		
50% of 2021 contribution into the PIP Element A Account ¹ from cycle 4	£109,108	£44,452
LTI in single figure table		
Comprising the opening balance of the PIP Element A account from cycle 3	£285,602	£83,284
Value of LTI due to share price increase/(decrease)	£(7,654)	£(2,232)
Dividends attributable to deferred notional shares during the year	£9,923	£2,894
Total LTI	£287,871	£83,946

¹ The reason that only 50% of Element A 2021 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.

Long-Term Incentive Plan (LTIP)

No LTIP awards completed their performance period during the 2021 financial year.

LTIP awards made in 2021

The 2021 LTIP awards were granted on 10 March 2021 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 10 March 2024, 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 £2.23, being the quoted closing price of the Company's Ordinary Share on 10 March 2021.

Name	Role	Base salary at date of grant	Face value of 2021 LTIP award (% of base salary)	Face value of 2021 LTIP award	Value at vesting (threshold vesting of 25%)	Number of shares granted
Fredrik Widlund	CEO	£468,150	150%	£702,225	£175,556	314,899
Andrew Kirkman	CFO	£286,100	120%	£343,320	£85,830	153,955

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 2023 in respect of the relative NTA growth per share element and ending on 9 March 2024 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.

On completion of the performance period, assuming that awards vest, they will be subject to a further two-year holding period. No discretion was used by the Committee in determining the basis of the award granted, which is in line with previous years, however the outcome will be reviewed at vesting to ensure no windfall gains have occurred as a result of changes in the share price between the grant and vesting.

Total pension entitlements

The Executive Directors are entitled to participate in a defined contribution pension scheme, into which the Company contributes up to 10% of base salary. No Directors were participants in the scheme as at 31 December 2021 (2020: none). As a result of the applicable HMRC limits, 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% (2020: 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 2021 remuneration

The Committee is satisfied that the current Policy operated as intended and that the overall 2021 remuneration paid to Executive Directors set out above was appropriate.

External appointments

Mr Widlund was appointed as a Trustee of Morden College, a social and housing charity, on 31 August 2018, for which no remuneration is paid. 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 is 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 2021:

	Base membership fees £000		Other committee fees £000		Additional fees £000		Taxable benefits ⁷ £000		Total £000	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Elizabeth Edwards ¹	55	45	10	16	10	2	–	–	66	63
Christopher Jarvis ²	45	45	–	4	–	–	1	2	46	51
Bengt Mortstedt	45	45	–	–	–	–	16	7	61	52
Anna Seeley ³	120	120	–	–	–	–	–	–	120	120
Lennart Sten ⁴	220	220	–	–	–	–	–	33	220	253
Denise Jagger ⁵	45	45	15	14	–	–	3	5	63	64
Bill Holland ⁶	45	45	15	14	–	–	2	1	62	60

1 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 £1,125. She became Senior Independent Director on 23 April 2020 and the corresponding fee for 2020 shown in the table above is prorated.

2 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 for 2020 are prorated.

3 Ms Seeley received the annual following fees: Non-Executive Vice-Chair fee of £120,000 (inclusive of all Committee fees).

4 Mr Sten received the following annual fees: Non-Executive Chairman fee of £220,000 (inclusive of all Committee fees).

5 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 2020 Remuneration Committee fees in the above table are prorated.

6 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 2020 Audit Committee fees in the above table are prorated.

7 In accordance with the Company's expenses policy, Non-Executive Directors receive reimbursement for their reasonable expenses for attending Board meetings. In instances where those costs are treated by HMRC as taxable benefits, the Company also meets the associated tax cost to the Non-Executive Directors through PAYE. Ms Edwards received such taxable benefits of £481, which being less than £500 is therefore not reported in the above table.

Remuneration

Remuneration Committee Report continued

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. £14,746 was paid to Mr Whiteley in respect of the dividend equivalents following the vesting on 7 March 2021 of 70,388 shares granted in 2018 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 2021.

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 2021, 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	399,348	173,161	3,674	3,674	579,857	262	Y	131,432	694,817
Andrew Kirkman ²	320,894	26,358	2,136	2,136	351,524	260	Y	38,326	395,997
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	12,273	–	–	–	12,273	n/a	n/a	–	–
Lennart Sten	71,350	–	–	–	71,350	n/a	n/a	–	–

1 On 10 March 2021, 107,720 Conditional PIP Element B shares vested of which 50,285 were sold to settle Mr Widlund's tax liabilities. As at the date of this report: the SIP balance for Mr Widlund consists of: 3,898 Partnership Shares and 3,898 Matching Shares. As set out on page 120 a closing balance of 51,587 Conditional PIP Element A notional shares will be awarded on 16 March 2022.

2 On 5 April 2021, 56,305 Conditional PIP Element B shares vested of which 26,378 were sold to settle Mr Kirkman's tax liabilities. As at the date of this report: the SIP balance for Mr Kirkman consists of: 2,360 Partnership Shares and 2,360 Matching Shares. As set out on page 120 a closing balance of 21,017 Conditional PIP Element A notional shares will be awarded on 16 March 2022.

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 2021, £2.115.

As part of the current policy, a post cessation of employment shareholding requirement has been implemented for the Executive Directors requiring the minimum shareholding requirement to be retained for two years. The Committee has determined that to ensure enforcement of this requirement, approval must be sought by the Company for any sales during this period. These restrictions would be set out in an agreement with the individual at the appropriate time.

Otherwise than as set out in the notes above, there have been no movements in interests held by Directors between 31 December 2021 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.

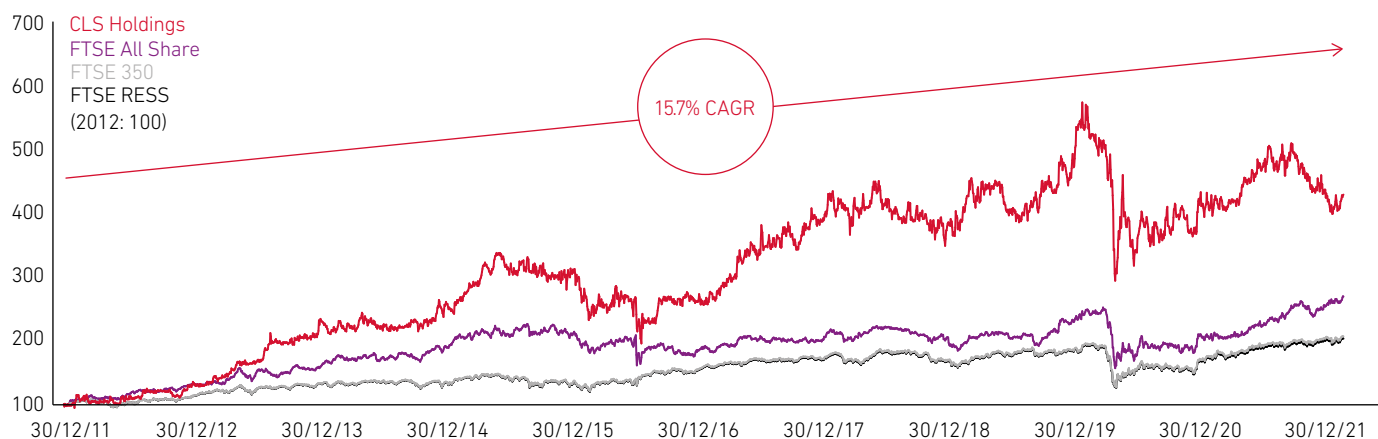
	2021 single figure £000	Shares held at start of year	Shares held at end of year	Value of shares at start of year £000	Value of shares at end of year £000	Difference increase/ (decrease) £000
CEO	944	465,789	579,857	1,012	1,226	214

Starting share price £2.173 (one-month average share price to 31 December 2020). End share price £2.115 (one-month average to 31 December 2021).

Total returns to shareholders 2011–2021 (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 2021 and prior years, together with the percentage of maximum PIP Element A awarded in that year. No LTIP vested in 2021.

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
CEO total remuneration (£000)	352	721	349	656	828	1,062	1,117	1,078	830	944
Element A of PIP – % of maximum	83.5%	86.6%	89.0%	81.0%	76.0%	93.3%	62.7%	87.3%	43.3%	31.1%
Element B of PIP – % of maximum	–	–	–	–	76.0%	93.3%	62.7%	87.3%	n/a	n/a

(–) The Company did not operate an incentive plan (PIP Element B) 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 2020 and 2021 compared with the percentage change in each of those components of pay for employees, as well as the disclosure for 2020.

	Percentage change 2020/21			Percentage change 2019/20		
	Salary/fees %	Taxable benefits %	Bonus %	Salary/fees %	Taxable benefits %	Bonus %
Fredrik Widlund	1.0	12.5	(27.3)	19	–	(72)
Andrew Kirkman	1.6	16.7	(27.9)	108	(87)	(56)
Elizabeth Edwards	4.8	–	–	8	n/a	–
Christopher Jarvis	(8.2)	(50.0)	–	(18)	(71)	–
Bengt Mortstedt	0.0	128.6	–	–	(76)	–
Denise Jagger	0.0	–	–	157	n/a	–
Bill Holland	0.0	–	–	883	n/a	–
Anna Seeley	1.7	(40.0)	–	50	–	–
Lennart Sten	1.7	100.0	–	86	n/a	–
Employees	1.4	(5)	2.7	(5)	(10)	0

There were no changes to the Board/Committee fees for the years ended 2019, 2020 and 2021. 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 (see page 118, single total figure for Non-Executive Directors Table Notes).

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.

Remuneration

Remuneration Committee Report continued

The Group's pay review, taking effect from 1 January 2022, awarded an average percentage increase in wages and salaries of 3% to all employees (including the Executive Directors).

The nature and level of benefits to employees in the year ended 31 December 2021 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.

Year	Method	Pay ratio		
		25th	50th	75th
2019	Option A	19:1	15:1	8:1
2020	Option A	14:1	11:1	8:1
2021	Option A	16:1	12:1	7:1

The CEO remuneration figure is as shown in the Single Total Figure for Executive Directors' Remuneration table on page 118.

The remuneration figures for the employee at each quartile were determined as at 31 December 2021. 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	Total pay and benefits
CEO	£468,150	£945,814
Employee at 25th percentile	£43,150	£58,157
Employee at 50th percentile	£62,000	£79,276
Employee at 75th percentile	£75,000	£129,875

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 25th and 50th percentile ratios have increased marginally in 2021 compared to 2020 mainly due to the increase in the CEO's single figure of remuneration. While the outcome under PIP Element A was lower for 2021 than for 2020, the CEO's remuneration increased primarily as a result of 100% of the notional balance of the PIP Element A account being paid in cash as cycle 3 of the PIP concluded its fourth year. We note that due to the change in LTIP structure under the new Remuneration Policy, no LTIP awards will be 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 2020, with the exception of the 25th percentile employee salary which has fallen versus 2020 as a result of a changes in headcount. The Committee notes that the Company continued to increase salaries and pay bonuses to the vast majority of employees and is satisfied that the median pay ratio is consistent with pay and progression policies for all CLS UK employees and is a reflection across the Group.

We expect the ratio to fluctuate in future years as awards under the 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 makeup 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.

Relative importance of the spend on pay

	2021 £000	2020 £000	Percentage change increase/ (decrease)
Remuneration paid to employees of the Group	9,562	10,138	(5.7)
Distributions to shareholders	30,758	30,147	2.0
Group revenue	139,824	139,351	0.3

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.

The Company's remuneration philosophy for all senior management from the Executive Directors downwards is that all employees should have a significant annual element of performance-based pay.

Executive Directors and senior management are participants in the LTIP, with the number of employees eligible to participate being 13. This ensures a focus on long-term sustainable value creation 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 bonus	Bonus deferral	LTIP	Share Incentive Plan	Shareholding guideline
Executive Directors	2	Y	Y	–	Y	Y	Y	Y
Senior Leadership Team (excl. Executive Directors)	6	Y	Y	–	–	Y	Y	–
Senior management (excl. Senior Leadership Team)	5	Y	Y	–	–	Y	Y	–
Wider Workforce	79	Y	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.

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.

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.

On behalf of the Committee, the Secretary provided the Workforce Advisory Panel with a presentation on the alignment of executive director and wider workforce pay. This facilitated two-way dialogue with the workforce around general pay issues which, during 2021, focussed on the effects of rising inflation and the impact on annual pay rises and the need to retain talent. The Committee ensured that management undertook benchmarking to ensure levels of remuneration were commensurate with market rates.

Remuneration

Remuneration Committee Report continued

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 92 UK employees as at 31 December 2021 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/investors/corporate-governance/board-and-committee-documents 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 2022. No deviations from this implementation of policy are expected.

	Overview of Policy	Implementation in 2022
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 2022 <ul style="list-style-type: none"> • CEO: £482,195 (2021: £468,150) 3% increase • CFO: £294,683 (2021: £286,100) 3% increase An average increase of 3% was applied to the UK 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.

	Overview of Policy	Implementation in 2022
Performance Incentive Plan (the 'PIP')	<p>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.</p> <p>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.</p> <p>Malus and clawback provisions will apply.</p>	<p>2022 performance measures will be:</p> <ul style="list-style-type: none"> • EPRA vacancy rate (20%); • EPRA earnings per share (40%); and • Total accounting return (based on EPRA NTA) (40%). <p>Maximum opportunity in 2022 will be 150% of salary for the CEO and 100% salary for the CFO. See below for the PIP matrix which will apply in 2022.</p>
Long-term Incentive Plan ('LTIP')	<p>Maximum annual LTIP opportunity of 150% of salary. 25% of awards vest for threshold performance.</p> <p>Performance will be measured over three years and vested awards will be subject to a further two-year holding period post vesting.</p> <p>Malus and clawback provisions will operate over the full 5-year lock-in period.</p>	<p>Awards to be granted at 150% of salary for the CEO and 120% for the CFO.</p> <p>The 2022 LTIP grant is based on:</p> <ul style="list-style-type: none"> • Total shareholder return (50%); and • EPRA NTA growth per share (50%) <p>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 2022.</p>
Shareholding requirement	<p>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.</p>	<p>No change.</p>
Non-Executive Directors (including Non-Executive Chairman and Non-Executive Vice Chair)		
Fees	<p>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.</p>	<p>See below for fees which will apply in 2022.</p>

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.

	Fees 2022 £000	Fees 2021 £000	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

Fees are reviewed in line with remuneration policy renewal. See page 121 for total fees received in 2021 by each of the Non-Executive Directors based on their respective responsibilities.

PIP Element A matrix for 2022

Performance targets are determined annually and calibrated by the Committee considering the Company's business plan, annual budget and market conditions. The following table sets out the targets for 2022 in respect of each KPI, as well as the maximum bonus which can be earned in respect of each KPI for 2022, expressed as a percentage of salary:

KPI	Maximum forfeiture	Forfeiture threshold	On-Target performance	Good performance	Maximum performance	Performance breakdown (% salary)	
						CEO (max bonus target)	CFO (max bonus target)
EPRA earnings per share*	-15%	-7.5%	0%	7.5%	15%	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 performance against 2022 budget.

** Based on EPRA NTA.

Long-Term Incentive Awards to be granted in 2022

The table below describes how the LTIP will be implemented in 2022. 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 2021

The consideration of matters relating to Directors' Remuneration for 2021 is on pages 118 to 129.

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
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.

As the outcome at the 2021 AGM was a vote in favour of the Remuneration Report of over 99%, and as no changes are being made in how Policy is implemented during 2022, the Committee was of the view that no shareholder engagement was required during 2021. However, we will be undertaking a detailed review of our Remuneration Policy in 2022, with a view to presenting it to shareholders for approval at our 2023 AGM and so intend to engage with shareholders again as part of this process.

Shareholder voting

The following table represents the voting outcome for the Directors' Remuneration Report at the 2021 Annual General Meeting. The current Policy was approved at the 2020 Annual General Meeting.

	Directors Remuneration Report (2021 AGM)		Directors Remuneration Policy (2020 AGM)	
	Number of votes	% of votes cast	Number of votes	% of votes cast
For	328,233,017	99.74	338,679,725	97.76
Against	842,563	0.26	7,771,550	2.24
Total votes cast	329,075,580		346,457,165	
Votes withheld	12,676		17,235	

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2021.

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 142.
- The Group objectives, business model and strategy are set out on pages 24 and 25. KPIs are set out on pages 36 and 37.
- Important events (including post balance sheet events) affecting the Company are set out on pages 2 to 77.
- The principal and emerging risks and uncertainties are set out on pages 42 to 52.
- The use of financial instruments are set out on page 40 and 41, and in note 20 to the Group financial statements.
- The risk management objectives are detailed in note 20 to the Group financial statements. See also pages 42 and 45.
- The Group's likely future developments are set out on pages 16 to 17.

Directors

Biographical details and experience of the current Directors of the Company are set out on pages 82 and 83.

All Directors will be subject to annual re-election at the 2022 Annual General Meeting in accordance with the UK Corporate Governance Code. In his role as independent Non-Executive Chairman, Lennart Sten recommends the re-election of the retiring Directors at the 2022 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 110 to 129.

Related party transactions are set out in note 32 to the Group financial statements.

Dividends

An interim dividend of 2.35 pence per share was paid on 24 September 2021. The Directors are proposing a final dividend of 5.35 pence per share making a total dividend for the year ended 31 December 2021 of 7.70 pence per share. The final dividend will be paid on 29 April 2022 to shareholders who are on the register of members on 25 March 2022.

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 2022 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 23 to the Group financial statements. At 31 December 2021, 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%
BlackRock Inc	16,377,705	4.02%
BMO Global Asset Management	16,192,006	3.97%
Janus Henderson Investors	13,420,068	3.29%
Invesco	7,774,612	1.91%
abrdn	7,708,932	1.89%
AXA	7,633,756	1.87%
Vanguard Group	6,717,428	1.65%
Amati Global Investors	6,036,432	1.48%

Details of the Directors' interests in shares are shown in the Remuneration Committee Report on page 122. 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 2021, 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, properties held for sale and the student accommodation, hotel, and landholding in plant, property and equipment in the Group at 31 December 2021 was carried out by Cushman and Wakefield for the UK and France, Jones Lang LaSalle in Germany and L Fällström AB in Sweden, which produced an aggregate market value of £2,331.3 million (2020: £2,183.0 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 78 to 129 and forms part of this report. It applies to the Company and its subsidiaries. It does not include associates. The Group has no joint ventures.

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 54 to 77. No political donations to any parties, organisations or candidates, or political expenditure were made during 2021. The Group has also published a Sustainability Strategy and a Net Zero Carbon pathway documents which are available on line at www.clsholdings.com.

Charitable donations during the year totalled £77,372 (2020: £77,501). As part of the Group's ESG 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 sections on pages 34 to 35 and 64 to 69 and our Prompt Payment Code is detailed in the environmental, social and governance review on page 71.

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 2021, 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.

Directors' report

Continued

Auditor

Deloitte LLP will not be standing for re-appointment at the forthcoming Annual General Meeting. A resolution to appoint Ernst & Young LLP as Auditor to the Company will be proposed at the forthcoming Annual General Meeting.

2022 Annual General Meeting

The 2022 Annual General Meeting will be held on Thursday, 28 April 2022. 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 53. 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 123 and 185
9.8.4(4)	Long-term incentive schemes with directors	Pages 110-128
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 131

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 122
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 130
9.8.6(3)	The going concern statement	Page 132
9.8.6(4)(a)	Amount of authority to purchase own shares available at year end	40,739,576 shares
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 85
9.8.6(6)(b)	Details of non-compliance with the UK Corporate Governance Code	Pages 85, 95 and 97
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	Page 129
9.8.6R	Climate-related financial disclosures consistent with the TCFD recommendations and recommended disclosures	Pages 74-75. Exceptions noted in compliance statement

Approved and authorised on behalf of the Board

David Fuller BA FCG

Company Secretary

16 March 2022

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 the Companies Act 2006 and United Kingdom adopted International Accounting Standards and International Financial Reporting Standards (IFRSs) 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 15 March 2022.

Approved and authorised on behalf of the Board

David Fuller BA FCG

Company Secretary

16 March 2022

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 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- 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 32 to the Group financial statements and 1 to 14 to the Company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and United Kingdom adopted international accounting standards. 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 we have not provided any non-audit services prohibited by the FRC's Ethical Standard 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	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none">• Valuation of the investment property portfolio <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none">● Newly identified● Increased level of risk● Similar level of risk● Decreased level of risk
Materiality	<p>The materiality that we used for the group financial statements was £26m which was determined on the basis of 2% of net assets. For testing of balances that impacted EPRA earnings (see note 5), a lower materiality of £2.2m was used based on 5% of the measure.</p>
Scoping	<p>Our scoping covers 100% of the group's net assets, revenue and profit before tax.</p>
Significant changes in our approach	<p>There have been no significant changes to our approach in the current year.</p>

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 assessing 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;
- Evaluation of 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.

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 assumptions and judgements used to derive the property valuations.
	<p>The group's investment properties in the UK, Germany, and France (including assets held for sale and PPE valued by external valuers) are valued at £2,331m at 31 December 2021 (31 December 2020: £2,183m), making this the most quantitatively material balance in the financial statements.</p> <p>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 focussed 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.</p> <p>In addition, given the size of the portfolio and the judgements involved, we consider there to be a risk that the inputs used in the data supplied to the group's external valuers for the valuation process (specifically the accuracy and completeness of this data) may potentially be manipulated by management in order to fraudulently misstate the valuation.</p> <p>Refer to the audit committee report on page 108 where this is included as a significant issue. The relevant accounting policy for the group is presented in note 2 on page 149 and further details in note 13 to the financial statements on pages 162 and 163</p>

Independent Auditor's report to the members of CLS Holdings plc

continued

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 and tested the operating effectiveness of the key controls.

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 judgements 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.

In addition to assessing the key assumptions used in the valuation, with the involvement of our real estate specialist, we also assessed whether the models used by the valuers were appropriate.

We assessed, on a sample basis, the accuracy and completeness 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 the investment property portfolio and evaluated whether property valuations, the underlying assumptions and sensitivity to change were appropriately disclosed.

Key observations



Based on the work performed above, we are satisfied with the valuation of the investment property portfolio.

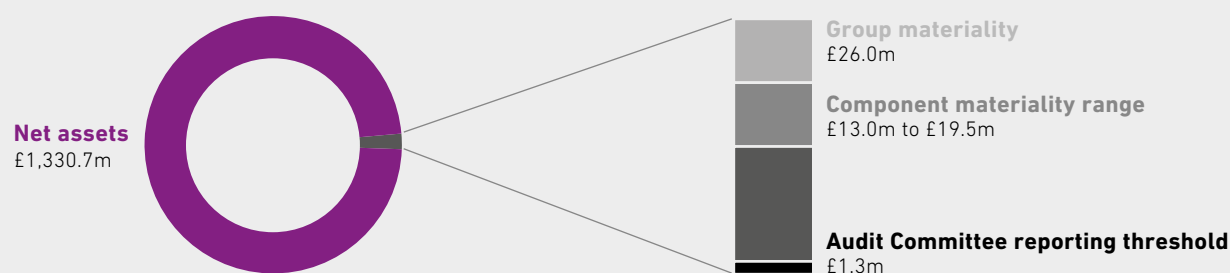
6. Our application of materiality

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	£26.0 million (2020: £25.4 million) and a lower materiality of £2.2 million (2020: £2.5 million) for EPRA earnings.	£9.0 million (2020: £9.2 million)
Basis for determining materiality	2% (2020: 2%) of net assets. 5% (2020: 5%) of EPRA earnings for testing of balances that impact the measure.	2% of total assets (2020: 2% of total assets)
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 determining materiality. We continue to consider EPRA 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 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.



● Net assets ● Group materiality

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% (2020: 70%) of Group materiality	70% (2020: 70%) of parent company materiality
Basis and rationale for determining performance materiality	<p>In determining performance materiality, we considered the following factors:</p> <p>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</p> <p>b. our past experience of the audit, which has indicated a low number of uncorrected misstatements identified in prior periods.</p>	

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 (2020: £1.3m), 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 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 account for 100% (2020: 100%) of the group's net assets, revenue and profit before tax.

Our audit work at each of the three significant components has been executed by Deloitte component auditors at levels of materiality applicable to each individual component which were lower than group materiality and ranged from £13.0m to £19.5m (2020: £12.8m to £19.1m) with lower materialities being used for those items impacting EPRA earnings ranging from £1.2m to £1.8m (2020: £1.4m to £1.5m), consistent with the group audit approach.

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.

7.2 Our consideration of the control environment

From our understanding of the Group and after assessing relevant controls, we tested controls in respect of rental income and relied on them in performing our audit of the rental income for the UK group.

Whilst we did not take controls reliance, we also assessed and tested the controls relating to the valuation of investment property given the significance to the group.

In addition, we have obtained an understanding of the relevant controls such as those relating to the financial reporting cycle.

There were no areas where we had planned to test or rely on controls, other than those set out above.

With the support of our IT specialists, we obtained an understanding of the IT environment. We did not test the general IT controls and we did not place reliance on IT controls.

Independent Auditor's report to the members of CLS Holdings plc

continued

7.3 Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements.

The group continues to develop its assessment of climate-related risks and resilience of the group and its properties under different climate scenarios, as explained in the Strategic Report on pages 70 to 77.

As a part of our audit, we have held discussions with management and head of sustainability to understand the process of identifying and assessing climate-related risks, the process for managing the identified risks and the determination of mitigating actions as well as the impact on the group's financial statements. Management has assessed that there is currently no material impact arising from climate change on the judgements and estimates that have been made in the preparation of the financial statements (see note 13).

We performed our own assessment of the potential impact of climate change on the group's financial statements and did not identify any reasonably possible risks of material misstatement. Our procedures also included reading disclosures included in the Strategic Report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

7.4 Working with other auditors

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.

All component audit partners were included in our team briefing where the risk assessment was discussed and there was frequent two-way communication between the group and component auditors. In the current year, we did not visit our component auditors in Germany or France but we maintained regular communication utilising a number of collaboration tools and attended both close meetings via a teleconference call. We also performed a remote review of their audit files.

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.

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;
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including tax, IT 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. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

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, Health and Safety Act and environmental regulations.

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.

Independent Auditor's report to the members of CLS Holdings plc

continued

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 on 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. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 15 years, covering the years ending 2007 to 2021.

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.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Georgina Robb FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

16 March 2022

Group income statement

for the year ended 31 December 2021

	Notes	2021			2020		
		Recurring items £m	Non-recurring items £m Note 10	Total £m	Recurring items £m	Non-recurring items £m	Total £m
Revenue	4	139.8	–	139.8	139.4	–	139.4
Net rental income	4	108.0	–	108.0	109.8	–	109.8
Administration expenses		(15.0)	(1.2)	(16.2)	(18.5)	–	(18.5)
Other expenses		(14.4)	–	(14.4)	(15.1)	–	(15.1)
Revenue less costs		78.6	(1.2)	77.4	76.2	–	76.2
Net revaluation movements on investment property	13	28.5	–	28.5	31.5	–	31.5
Net revaluation movements on equity investments		1.0	–	1.0	–	–	–
(Loss)/profit on sale of investment property		(0.1)	–	(0.1)	11.6	–	11.6
Operating profit		108.0	(1.2)	106.8	119.3	–	119.3
Finance income	8	5.9	–	5.9	1.1	–	1.1
Finance costs	9	(25.4)	–	(25.4)	(26.0)	–	(26.0)
Foreign exchange (loss)/gain		(2.3)	–	(2.3)	2.1	–	2.1
Share of profit of associates after tax	31	5.1	1.4	6.5	–	–	–
Profit before tax		91.3	0.2	91.5	96.5	–	96.5
Taxation	11	(14.0)	42.0	28.0	(19.1)	–	(19.1)
Profit for the year attributable to equity shareholders	6	77.3	42.2	119.5	77.4	–	77.4
Basic and diluted earnings per share	5			29.3p			19.0p

The notes on pages 147 to 178 are an integral part of these Group financial statements.

Group statement of comprehensive income

for the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Profit for the year		119.5	77.4
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Foreign exchange differences	25	(32.8)	24.2
Items that may be reclassified to profit or loss			
Revaluation of property, plant and equipment	14	5.5	(3.6)
Deferred tax on fair value movements	18	(1.0)	0.5
Total items that may be reclassified to profit or loss		4.5	(3.1)
Total other comprehensive (expense)/income		(28.3)	21.1
Total comprehensive income for the year attributable to equity shareholders		91.2	98.5

The notes on pages 147 to 178 are an integral part of these Group financial statements.

Group balance sheet

at 31 December 2021

	Notes	2021 £m	2020 £m
Non-current assets			
Investment properties	13	2,153.0	2,032.8
Property, plant and equipment	14	135.4	130.5
Goodwill and intangible assets		3.1	2.2
Investment in associate	31	4.9	–
Other financial investments		1.7	–
Deferred tax	18	2.6	7.7
Derivative financial instruments	20	0.4	–
Other receivables	15	7.7	8.2
		2,308.8	2,181.4
Current assets			
Trade and other receivables	15	18.1	22.0
Assets held for sale		44.2	21.9
Cash and cash equivalents	16	167.4	235.7
		229.7	279.6
Total assets		2,538.5	2,461.0
Current liabilities			
Trade and other payables	17	(57.6)	(54.3)
Current tax		(4.5)	(0.3)
Borrowings	19	(169.1)	(103.6)
Derivative financial instruments	20	(0.7)	–
		(231.9)	(158.2)
Non-current liabilities			
Deferred tax	18	(109.9)	(159.5)
Borrowings	19	(862.5)	(867.1)
Leasehold liabilities		(3.4)	–
Derivative financial instruments	20	(0.1)	(5.6)
		(975.9)	(1,032.2)
Total liabilities		(1,207.8)	(1,190.4)
Net assets		1,330.7	1,270.6
Equity			
Share capital	23	11.0	11.0
Share premium		83.1	83.1
Other reserves	25	88.7	117.3
Retained earnings		1,147.9	1,059.2
Total equity		1,330.7	1,270.6

The financial statements of CLS Holdings plc (registered number: 02714781) were approved by the Board of Directors and authorised for issue on 16 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 147 to 178 are an integral part of these Group financial statements.

Group statement of changes in equity

for the year ended 31 December 2021

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
	Note 23		Note 25		
Arising in 2021:					
Total comprehensive income for the year	–	–	(28.3)	119.5	91.2
Share-based payment charge	–	–	(0.3)	–	(0.3)
Dividends to shareholders	–	–	–	(30.8)	(30.8)
Total changes arising in 2021	–	–	(28.6)	88.7	60.1
At 1 January 2021	11.0	83.1	117.3	1,059.2	1,270.6
At 31 December 2021	11.0	83.1	88.7	1,147.9	1,330.7
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
	Note 23		Note 25		
Arising in 2020:					
Total comprehensive income for the year	–	–	21.1	77.4	98.5
Share-based payment charge	–	–	(0.2)	–	(0.2)
Dividends to shareholders	–	–	–	(30.1)	(30.1)
Total changes arising in 2020	–	–	20.9	47.3	68.2
At 1 January 2020	11.0	83.1	96.4	1,011.9	1,202.4
At 31 December 2020	11.0	83.1	117.3	1,059.2	1,270.6

The notes on pages 147 to 178 are an integral part of these Group financial statements.

Group statement of cash flows

for the year ended 31 December 2021

	Notes	2021 £m	2020 £m
Cash flows from operating activities			
Cash generated from operations	26	73.1	76.9
Interest received		0.5	1.0
Interest paid		(24.3)	(22.1)
Income tax paid on operating activities		(5.1)	(11.5)
Net cash inflow from operating activities		44.2	44.3
Cash flows from investing activities			
Purchase of investment properties		(164.6)	(124.6)
Capital expenditure on investment properties		(35.8)	(18.9)
Proceeds from sale of properties		37.0	62.2
Income tax paid on sale of properties		(1.3)	(9.0)
Purchases of property, plant and equipment		(0.6)	(0.3)
Net cash flow from sale of subsidiaries		–	(1.4)
Purchase of intangibles		(0.9)	(0.8)
Distributions received from associate and investment undertakings		0.2	0.1
Disposal of associate undertakings		0.5	–
Net cash flow on foreign currency transactions		–	0.3
Net cash outflow from investing activities		(165.5)	(92.4)
Cash flows from financing activities			
Dividends paid	24	(30.8)	(30.1)
New loans		196.7	182.5
Issue costs of new loans		(1.4)	(2.5)
Repayment of loans		(107.2)	(128.3)
Net cash inflow from financing activities		57.3	21.6
Cash flow element of net decrease in cash and cash equivalents			
Foreign exchange (loss)/gain		(4.3)	2.8
Net decrease in cash and cash equivalents		(68.3)	(23.7)
Cash and cash equivalents at the beginning of the year		235.7	259.4
Cash and cash equivalents at the end of the year	16	167.4	235.7

The notes on pages 147 to 178 are an integral part of these Group financial statements.

Notes to the Group financial statements

for the year ended 31 December 2021

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 132 and have been prepared in accordance with the requirements of the Companies Act 2006 and United Kingdom adopted International Accounting Standards and International Financial Reporting Standards (IFRSs).

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 CLS Holdings plc.

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 2021. 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:

- Amendment to IFRS 16 on Covid 19 related rent concessions
- Amendments to IFRS 9, IAS 29, IFRS 7, IFRS 4 and IFRS 16 - interest rate benchmark reform phase 2

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:

- Amendment to IFRS 16 – Covid 19 related rent concessions beyond 30 June 2021
- Amendments to IAS 16 – Property, plant and equipment proceeds before intended use
- Annual improvements to IFRS Standards 2018-2020 (May 2020)
- Amendments to IFRS 3 (May 2020) – Reference to the conceptual framework
- Amendments to IAS 37 (May 2020) – Onerous contracts, cost of fulfilling a contract
- IFRS 17 – Insurance contracts
- Amendments to IAS 1 – Classification of liabilities as current or non current (including deferral of effective date)
- Amendments to IFRS 4 – Extension of the temporary exemption from applying IFRS 9
- Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of accounting policies
- Amendments to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction
- Amendments to IAS 8 – Definition of accounting estimates

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.

Transition from LIBOR to SONIA

The London Interbank Offered Rate (LIBOR) is a measure of the average rate at which banks are willing to borrow wholesale unsecured funds. It is administered by ICE Benchmark Administration and is calculated based on submissions from selected panel banks. It is published in five currencies and a range of tenors and underpins financial contracts including derivatives, bonds and loans. As a result of past market manipulation, LIBOR is being abolished from the end of 2021 and will be replaced by SONIA (Sterling Overnight Indexed Average). SONIA has been administered and published by the Bank of England since April 2018. It is robust and sustainable given the volume of transactions underpinning it and does not include a term bank credit risk component so is a better measure of the general level of interest rates than LIBOR. SONIA can be compounded to be used in term contracts and the compounded rates tend to be relatively predictable. Referencing alternatives such as SONIA is the most effective way of avoiding risks related to LIBOR discontinuation.

Discussions in relation to the transition from LIBOR to SONIA have taken place with our relationship banks during 2021 and new terms have been agreed. There is no resulting financial impact on our results as a result of the transition.

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 Assets held for sale

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 via other comprehensive income. When a foreign operation is sold, such exchange differences are recognised as part of the gain or loss on sale in the income statement.

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 the income statement.

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 via other comprehensive income, 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 or lease length, as follows:

Fixtures and fittings	4–5 years
Head Office fit-out	10 years
Hotel	250 years
Student	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 the income statement.

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.

(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 the income statement.

(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 their transaction price. 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 the income statement 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 relates to expenditure that is directly recoverable from tenants and 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.

(II) Other property income

Other property income relates to income from the Group's student accommodation and hotel in addition to dilapidations receipts and surrender premiums.

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 2021 and 31 December 2020 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 14 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 and student accommodation 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

	Investment properties			Other investments ¹	Central administration	Non-recurring items	Total
	United Kingdom ¹	Germany	France				
Year ended 31 December 2021	£m	£m	£m	£m	£m	£m	£m
Rental income	53.3	33.8	14.1	–	–	–	101.2
Other property-related income	1.9	0.3	0.5	6.8	–	–	9.5
Service charge income	12.3	11.2	5.6	–	–	–	29.1
Revenue	67.5	45.3	20.2	6.8	–	–	139.8
Service charges and similar expenses	(13.8)	(12.0)	(6.0)	–	–	–	(31.8)
Net rental income	53.7	33.3	14.2	6.8	–	–	108.0
Administration expenses	(6.9)	(2.9)	(1.7)	0.2	(3.7)	(1.2)	(16.2)
Other expenses	(5.9)	(3.3)	(1.1)	(4.6)	0.5	–	(14.4)
Revenue less costs	40.9	27.1	11.4	2.4	(3.2)	(1.2)	77.4
Net revaluation movements on investment property	3.7	24.2	0.6	–	–	–	28.5
Net revaluation movements on equity investments	–	–	–	1.0	–	–	1.0
Profit/(loss) on sale of investment property	0.7	(1.1)	0.3	–	–	–	(0.1)
Segment operating profit/(loss)	45.3	50.2	12.3	3.4	(3.2)	(1.2)	106.8
Finance income	3.8	0.2	–	1.9	–	–	5.9
Finance costs	(15.7)	(5.4)	(2.7)	(1.3)	(0.3)	–	(25.4)
Foreign exchange loss	–	–	–	(2.3)	–	–	(2.3)
Share of profit of associate after tax	–	–	–	5.1	–	1.4	6.5
Segment profit/(loss) before tax	33.4	45.0	9.6	6.8	(3.5)	0.2	91.5

	Investment properties			Other investments ¹	Central administration	Non-recurring items	Total
	United Kingdom ¹	Germany	France				
Year ended 31 December 2020	£m	£m	£m	£m	£m	£m	£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 revaluation movements on 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	–	–	–	1.1	–	–	1.1
Finance costs	(17.3)	(5.1)	(2.7)	(0.9)	–	–	(26.0)
Foreign exchange gain	–	–	–	2.1	–	–	2.1
Segment (loss)/profit before tax	(2.5)	93.7	9.4	2.0	(6.1)	–	96.5

¹ On 1 January 2021 the student accommodation was transferred from the United Kingdom investment property segment to the 'Other investments' segment due to the property's reclassification to property, plant and equipment at 31 December 2020.

Notes to the Group financial statements continued

4. Segment information continued

Other segment information

	Assets		Liabilities		Capital expenditure	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
Investment properties						
United Kingdom	1,065.6	1,044.8	555.0	605.2	20.6	7.3
Germany	900.2	767.2	462.4	373.3	9.4	6.3
France	293.8	314.9	183.8	207.2	6.0	4.2
Other investments	278.9	334.1	6.6	4.7	0.5	0.1
	2,538.5	2,461.0	1,207.8	1,190.4	36.5	17.9

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 October 2021 Financial Reporting Council ('FRC') thematic review of APMs in these results, whilst noting the International Organization of Securities Commissions (IOSCO) 2016 guidance and 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.

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. 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 which are:

- EPRA net initial yield;
- EPRA 'topped-up' net initial yield;
- EPRA vacancy;
- EPRA capital expenditure; and
- CLS administration cost ratio and EPRA cost ratio.

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.

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

	2021 Number	2020 Number
For use in earnings per share calculations		
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	2021 £m	2020 £m
Profit for the year		119.5	77.4
Non-recurring items after tax	10	1.5	–
Recurring profit for the year		121.0	77.4
Net revaluation movement on investment property	13	(28.5)	(31.5)
Deferred tax on revaluations		(38.6)	10.9
Net revaluation movement on equities		(1.0)	
Loss/(profit) on sale of investment property		0.1	(11.6)
Current tax thereon		3.2	2.7
Movement in fair value of derivative financial instruments	8/9	(5.2)	1.6
Uplift in value of associates		(5.1)	–
EPRA earnings		45.9	49.5
Basic and diluted earnings per share		29.3p	19.0p
EPRA earnings per share		11.3p	12.2p

Notes to the Group financial statements continued

5. Alternative performance measures continued

ii) Net asset value measures

	2021				2020			
	IFRS NAV £m	EPRA NTA £m	EPRA NRV £m	EPRA NDV £m	IFRS NAV £m	EPRA NTA £m	EPRA NRV £m	EPRA NDV £m
2021								
Net assets	1,330.7	1,330.7	1,330.7	1,330.7	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)	(1.1)
Other intangibles	–	(2.0)	–	–	–	(1.1)	–	–
Fair value of fixed interest debt	–	–	–	(4.2)	–	–	–	(13.2)
Tax thereon	–	–	–	0.8	–	–	–	2.5
Deferred tax on revaluation surplus	–	108.1	108.1	–	–	151.3	151.3	–
Capital allowances	–	(0.3)	(0.3)	–	–	(12.0)	(12.0)	–
Adjustment for short-term disposals	–	(7.8)	–	–	–	(6.9)	–	–
Fair value of financial instruments	–	0.4	0.4	–	–	5.6	5.6	–
Purchasers' costs ¹	–	–	149.3	–	–	–	140.9	–
	1,330.7	1,428.0	1,587.1	1,326.2	1,270.6	1,406.4	1,555.3	1,258.8
Per share	326.6p	350.5p	389.6p	325.5p	311.9p	345.2p	381.8p	309.0p

¹ EPRA NTA and EPRA NDV reflect IFRS values which are net of purchasers' costs. Purchasers' costs are added back when calculating EPRA NRV.

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).

	2021				2020			
	United Kingdom £m	Germany £m	France £m	Total £m	United Kingdom £m	Germany £m	France £m	Total £m
Rent passing	52.8	34.9	11.7	99.4	54.4	33.2	13.7	101.3
Adjusted for development stock	(2.6)	(0.5)	–	(3.1)	(1.1)	–	–	(1.1)
Forecast non-recoverable service charge	(2.0)	(0.6)	(0.3)	(2.9)	(2.5)	(0.8)	(0.5)	(3.8)
Annualised net rents (A)	48.2	33.8	11.4	93.4	50.8	32.4	13.2	96.4
Property portfolio ¹	1,034.5	883.0	280.1	2,197.6	1,003.8	743.3	307.6	2,054.7
Adjusted for development stock	(103.7)	(46.2)	–	(149.9)	(49.5)	(7.5)	–	(57.0)
Purchasers' costs at 6.8%	63.3	56.9	19.0	139.2	64.6	50.0	20.9	135.5
Property portfolio valuation including purchasers' costs (B)	994.1	893.7	299.1	2,186.9	1,018.9	785.8	328.5	2,133.2
EPRA NIY (A/B)	4.8%	3.8%	3.8%	4.3%	5.0%	4.1%	4.0%	4.5%

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).

	2021				2020			
	United Kingdom £m	Germany £m	France £m	Total £m	United Kingdom £m	Germany £m	France £m	Total £m
Contracted rent	55.0	38.8	13.8	107.6	57.2	34.7	16.0	107.9
Adjusted for development stock	(2.6)	(0.6)	–	(3.2)	(1.2)	–	–	(1.2)
Forecast non-recoverable service charge	(2.0)	(0.6)	(0.3)	(2.9)	(2.5)	(0.8)	(0.5)	(3.8)
'Topped-up' annualised net rents (A)	50.4	37.6	13.5	101.5	53.5	33.9	15.5	102.9
Property portfolio ¹	1,034.5	883.0	280.1	2,197.6	1,003.8	743.3	307.6	2,054.7
Adjusted for development stock	(103.7)	(46.2)	–	(149.9)	(49.5)	(7.5)	–	(57.0)
Purchasers' costs (6.8%)	63.3	56.9	19.0	139.2	64.6	50.0	20.9	135.5
Property portfolio valuation including purchasers' costs (B)	994.1	893.7	299.1	2,186.9	1,018.9	785.8	328.5	2,133.2
EPRA 'topped-up' NIY (A/B)	5.1%	4.2%	4.5%	4.6%	5.2%	4.3%	4.7%	4.8%

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

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, is the only measure used by the Group.

EPRA vacancy

	2021 £m	2020 £m
ERV of vacant space (A)	7.0	6.1
ERV of let space	113.0	113.9
ERV of total portfolio (B)	120.0	120.0
EPRA vacancy rate (A/B)	5.8%	5.1%

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	2021 £m	2020 £m
Acquisitions	13	179.5	119.1
Amounts spent on the completed investment property portfolio	13		
Creation of incremental space		8.6	1.9
Creation of no incremental space		27.4	15.9
EPRA capital expenditure		215.5	136.9
Conversion from accrual to cash basis		(15.1)	6.6
EPRA capital expenditure on a cash basis	CF ¹	200.4	143.5

1 Group statement of cash flows

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	2021 £m	2020 £m
Recurring administration expenses		15.0	18.5
Less: Other investment segment	4	0.2	(0.2)
Underlying administration expenses (A)		15.2	18.3
Net rental income (B)	4	108.0	109.8
Administration cost ratio (A/B)		14.1%	16.7%

5. Alternative performance measures continued

EPRA cost ratio

	Notes	2021 £m	2020 £m
Recurring administration expenses		15.0	18.5
Other expenses	4	14.4	15.1
Less: Other investment segment	4	(4.4)	(2.2)
		25.0	31.4
Net service charge costs	4	2.7	2.6
Service charge costs recovered through rents but not separately invoiced		(0.3)	(0.3)
Dilapidations receipts		(1.2)	(2.6)
EPRA costs (including direct vacancy costs) (A)		26.2	31.1
Direct vacancy costs		(3.4)	(2.9)
EPRA costs (excluding direct vacancy costs) (B)		22.8	28.2
Gross rental income	4	101.2	106.5
Service charge components of gross rental income		(0.3)	(0.3)
EPRA gross rental income (C)		100.9	106.2
EPRA cost ratio (including direct vacancy costs) (A/C)		26.0%	29.3%
EPRA cost ratio (excluding direct vacancy costs) (B/C)		22.6%	26.6%

2. Other APMs

i) Total accounting return

	Notes	2021 £m	2020 £m
EPRA NTA at 31 December	5	1,428.0	1,406.4
Distribution – prior year final	24	21.2	20.5
Distribution – current year interim	24	9.6	9.6
Less: EPRA NTA at 1 January (A)	5	(1,406.4)	(1,329.3)
Return before dividends (B)		52.4	107.2
Total accounting return (NTA) (B/A)		3.7%	8.1%

Notes to the Group financial statements continued

5. Alternative performance measures continued

ii) Net borrowings and gearing

	Notes	2021 £m	2020 £m
Borrowings short-term	19	169.1	103.6
Borrowings long-term	19	862.5	867.1
Add back: unamortised issue costs	19	5.9	6.3
Gross debt	19	1,037.5	977.0
Cash	16	(167.4)	(235.7)
Net borrowings (A)		870.1	741.3
Net assets (B)		1,330.7	1,270.6
Net gearing (A/B)		65.4%	58.3%

iii) Balance sheet loan-to-value

	Notes	2021 £m	2020 £m
Borrowings short-term	19	169.1	103.6
Borrowings long-term	19	862.5	867.1
Less: cash	16	(167.4)	(235.7)
Net debt (A)		864.2	735.0
Investment properties	13	2,153.0	2,032.8
Properties in plant, property and equipment	14	133.3	128.3
Properties and land held for sale	12	45.0	21.9
Total property portfolio (B)		2,331.3	2,183.0
Balance sheet loan-to-value (A/B)		37.1%	33.7%

iv) Dividend cover

	Notes	2021 £m	2020 £m
Interim dividend	24	9.6	9.6
Final dividend	24	21.8	21.2
Total dividend (A)		31.4	30.8
EPRA earnings (B)	5	45.9	49.5
Dividend cover (B/A)		1.46	1.61

5. Alternative performance measures continued

v) Interest cover

	Notes	2021 £m	2020 £m
Net rental income	4	108.0	109.8
Recurring administration expenses		(15.0)	(18.5)
Other expenses	4	(14.4)	(15.1)
Group revenue less costs (A)		78.6	76.2
Finance income (excluding derivatives and dividend income)	8	0.5	1.0
Finance costs (excluding derivatives)	9	(25.4)	(24.4)
Net interest (B)		(24.9)	(23.4)
Interest cover (-A/B)		3.16	3.26

6. Profit for the year

Profit for the year has been arrived at after charging/(crediting):

	Notes	2021 £m	2020 £m
Auditor's remuneration: Fees payable to the Company's Auditor for:			
Audit of the Parent Company and Group accounts		0.5	0.4
Audit of the Company's subsidiaries pursuant to legislation		0.1	0.1
Depreciation of property, plant and equipment	14	1.0	0.7
Employee benefits expense	7	11.3	13.5
Foreign exchange loss/(gain)		2.3	(2.1)
Provision against trade receivables	15	(0.3)	1.8

Other services provided to the Group by the Company's Auditor consisted of the 2021 interim review of £40k (2020: £40k).

7. Employee benefits expense

	2021 £m	2020 £m
Wages and salaries	8.6	9.1
Social security costs	1.1	1.1
Pension costs – defined contribution plans	0.4	0.4
Performance incentive plan	1.0	1.1
Other employee-related expenses	0.2	1.8
	11.3	13.5

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 110 to 129.

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

	2021			2020		
	Property Number	Hotel Number	Total Number	Property Number	Hotel Number	Total Number
Male	46	9	55	47	7	54
Female	48	9	57	53	9	62
	94	18	112	100	16	116

Notes to the Group financial statements continued

8. Finance income

	2021 £m	2020 £m
Interest income		
Financial instruments carried at amortised cost	0.5	1.0
Movement in fair value of derivative financial instruments	5.2	–
Dividend income	0.2	0.1
	5.9	1.1

9. Finance costs

	2021 £m	2020 £m
Interest expense		
Secured bank loans	21.4	20.0
Secured notes	2.1	2.3
Amortisation of loan issue costs	1.9	2.1
Total interest costs	25.4	24.4
Movement in fair value of derivative financial instruments	–	1.6
	25.4	26.0

10. Non-recurring items

	Notes	2021 £m	2020 £m
Administration costs – UK restructuring costs ¹	A	(1.2)	–
Share of associates – profit on sale of associate ¹	B	1.4	–
		0.2	
Taxation – tax credit on UK restructuring costs ¹	A	0.2	–
Taxation – deferred tax liability release due to REIT conversion	C	43.7	–
Taxation – deferred tax asset release due to REIT conversion ¹	C	(1.9)	–
Non-recurring tax		42.0	–
Total non-recurring		42.2	

A – UK restructuring costs

The Group incurred costs of £1.2m associated with redundancies made in the UK. These costs are tax deductible and so the associated tax credit of £0.2m has also been treated as non recurring.

B – Profit on sale of associate

This relates to the sale of our 21.8% share in Fragbite AB to Funrock (now renamed Fragbite Group AB). The consideration for the sale was a combination of cash and shares in the purchaser. Subsequent to our sale, the purchaser listed on the Nasdaq Nordic stock exchange and the shares are held as an 'other financial investment' on the Group balance sheet and were revalued at the year end. The revaluation of £1.0m has been treated as a recurring item.

C – Deferred tax arising on conversion to REIT

The UK property business became a REIT on 1 January 2022. As a result, the majority of the UK deferred tax liabilities and assets were released. The majority of the deferred tax liability released relates to the revaluation of the UK properties. The deferred tax assets disclosed as non-recurring relate to the non property business in the UK and were released as it is no longer probable that sufficient taxable profits will be generated in the future for the recognition criteria to be met.

¹ These items are included as non-recurring items in the ERPA earnings reconciliation presented in note 5.

11. Taxation

	2021 £m	2020 £m
Corporation tax		
Current year charge	11.7	8.1
Non-recurring tax on restructuring costs	(0.2)	
Adjustments in respect of prior years	(0.7)	0.3
	10.8	8.4
Deferred tax (see note 18)		
Origination and reversal of temporary differences	3.0	5.7
Effect of change in UK tax rate	–	5.0
Non-recurring deferred tax liability release due to REIT conversion	(43.7)	–
Non-recurring deferred tax asset release due to REIT conversion	1.9	–
	(38.8)	10.7
Tax charge for the year	(28.0)	19.1

A deferred tax charge of £1.0 million (2020: credit of £0.5 million) was recognised directly in equity (note 18). 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:

	2021 £m	2020 £m
Profit before tax	91.5	96.5
Expected tax charge at the weighted average applicable tax rate	17.0	16.3
Expenses not deductible for tax purposes	2.6	1.1
Change in tax basis of UK properties, including indexation uplift	–	0.7
Change in UK tax rate	–	5.0
Non-taxable income	(3.8)	(1.6)
Deferred tax on losses not recognised/(recognised)	0.7	(2.8)
Adjustments in respect of prior years	(0.7)	0.3
Release of deferred tax on election into UK REIT regime	(43.7)	–
Other	(0.1)	0.1
Tax charge for the year	(28.0)	19.1

The weighted average applicable tax rate of 18.6% (2020: 16.9%) 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% (2020: 19.0%).

12. Property portfolio

	United Kingdom £m	Germany £m	France £m	Total £m
Investment property	996.4	883.0	273.6	2,153.0
Property held as property, plant and equipment	126.4	5.0	1.9	133.3
Properties held for sale ¹	38.1	–	6.5	44.6
Land held for sale ¹	–	–	0.4	0.4
Property portfolio at 31 December 2021	1,160.9	888.0	282.4	2,331.3

1 Total differs from the assets held for sale on the Group balance sheet due to £0.8m of associated liabilities.

	United Kingdom £m	Germany £m	France £m	Total £m
Investment property	997.9	733.2	301.7	2,032.8
Property held as property, plant and equipment	121.9	4.3	2.1	128.3
Properties 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

Notes to the Group financial statements

continued

13. Investment property

	United Kingdom £m	Germany £m	France £m	Total investment properties £m
At 1 January 2021	997.9	733.2	301.7	2,032.8
Acquisitions	17.9	161.6	–	179.5
Capital expenditure	20.6	9.4	6.0	36.0
Disposals	(5.0)	–	(10.7)	(15.7)
Net revaluation movement	3.7	24.2	0.6	28.5
Lease incentive debtor adjustments	(0.6)	3.0	0.3	2.7
Exchange rate variances	–	(48.0)	(17.9)	(65.8)
Transfer to plant, property and equipment	–	(0.4)	–	(0.4)
Transfer to properties held for sale	(38.1)	–	(6.5)	(44.6)
At 31 December 2021	996.4	883.0	273.6	2,153.0

	United Kingdom £m	Germany £m	France £m	Total investment properties £m
At 1 January 2020	1,014.7	663.6	282.7	1,961.0
Acquisitions	98.1	17.3	3.7	119.1
Capital expenditure	7.3	6.3	4.2	17.8
Disposals	–	(40.4)	–	(40.4)
Net revaluation movement	(29.1)	60.1	0.5	31.5
Lease incentive debtor adjustments	3.4	(1.7)	0.2	1.9
Exchange rate variances	–	38.2	16.2	54.4
Transfer to plant, property and equipment	(90.8)	–	–	(90.8)
Transfer to properties held for sale	(5.7)	(10.2)	(5.8)	(21.7)
At 31 December 2020	997.9	733.2	301.7	2,032.8

Investment properties included leasehold properties with a carrying amount of £48.6 million (2020: £32.8 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 2021 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:

	Investment property 2021 £m	Other property 2021 £m	Property portfolio 2021 £m	Investment property 2020 £m	Other property 2020 £m	Property portfolio 2020 £m
Cushman and Wakefield	1,270.0	173.3	1,443.3	1,299.6	135.7	1,435.3
Jones Lang LaSalle	883.0	1.8	884.8	733.2	11.4	744.6
L Fällström AB	–	3.2	3.2	–	3.1	3.1
	2,153.0	178.3	2,331.3	2,032.8	150.2	2,183.0

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.

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 Country Head, who report to the Chief Executive, 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.

13. Investment property continued

Valuation techniques

The fair value of the property portfolio (excluding ongoing developments, see below) has been determined using the following approaches in accordance with International Valuation Standards:

United Kingdom	an income capitalisation approach whereby contracted and market rental values are capitalised with a market capitalisation rate
Germany	a 10 year discounted cash flow model with an assumed exit thereafter
France	both the market capitalisation approach and a 10 year discounted cash flow approach

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 as the income capitalisation approach to 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.

All valuations have considered the environmental, social and governance credentials of the properties and the potential cost of improving them to local regulatory standards along with the broader potential impact of climate change.

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 2021 or 2020.

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 £28.5 million (2020: £31.5 million) and are presented in the income statement in the line item 'Net movements on revaluation of investment properties'. The revaluation gain for the property, plant and equipment of £5.5 million (2020: deficit of £3.6 million) was included within the revaluation reserve via other comprehensive income.

All gains and losses recorded in profit or loss in 2021 and 2020 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 2021 and 31 December 2020, respectively.

Quantitative information about investment property fair value measurement using unobservable inputs (Level 3)

	ERV				Equivalent yield			
	Average		Range		Average		Range	
	2021 £ per sq. ft	2020 £ per sq. ft	2021 per sq. ft	2020 per sq. ft	2021 %	2020 %	2021 %	2020 %
UK	36.91	35.51	10.00-66.19	10.00-66.43	5.51	5.70	2.54-10.30	2.42-8.80
Germany	13.21	13.52	8.88-24.05	9.44-25.09	4.39	4.42	3.00-5.40	3.00-5.50
France	19.49	20.48	11.96-37.36	11.25-38.95	5.04	5.24	4.38-6.00	4.13-6.50

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 £126.3 million (2020: £115.2 million) whilst a 25 basis point increase would reduce the fair value by £125.4 million (2020: £103.7 million). A decrease in the ERV by 5% would result in a decrease in the fair value of the Group's investment property by £88.8 million (2020: £75.8 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 £74.7 million (2020: £75.6 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.

Sustainability and climate change

The Group published its new sustainability strategy including a pathway to net zero carbon in August 2021 and has set 2030 as its date to achieve this (see pages 58 to 61). During the year the Group employed technical experts to carry out individual property energy audits to identify energy and carbon saving opportunities. A total of 76 properties were visited from January to April 2021 across the UK, France and Germany, with new developments, properties under refurbishment and properties earmarked for sale all excluded from the programme. The investment needed to deliver the audit findings amounts to an estimated £58 million over 9 years. We have integrated these energy audits into each Asset Management Plan to enable strategic decisions about the refurbishment, sale or full redevelopment of assets to be made.

Notes to the Group financial statements continued

14. 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 2020	–	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
Additions	–	–	–	–	0.5	0.5
Disposals	–	–	–	–	(0.9)	(0.9)
Reclassification from investment property²	–	–	–	0.4	–	0.4
Reclassification to accumulated depreciation	–	(1.2)	–	–	(2.7)	(3.9)
Revaluation	3.3	1.2	0.4	0.1	–	5.0
Exchange rate variances	–	–	(0.3)	(0.1)	–	(0.4)
At 31 December 2021	94.1	25.0	3.2	11.0	3.2	136.5
Comprising:						
At cost	–	–	–	–	3.2	3.2
At valuation	94.1	25.0	3.2	11.0	–	133.3
	94.1	25.0	3.2	11.0	3.2	136.5
Accumulated depreciation and impairment						
At 1 January 2020	–	(1.0)	–	–	(3.6)	(4.6)
Depreciation charge	–	(0.2)	–	–	(0.5)	(0.7)
At 31 December 2020	–	(1.2)	–	–	(4.1)	(5.3)
Depreciation charge	(0.3)	(0.1)	–	(0.1)	(0.5)	(1.0)
Reclassification from cost	–	1.2	–	–	2.7	3.9
Disposals	–	–	–	–	0.8	0.8
Revaluation	0.3	0.1	–	0.1	–	0.5
At 31 December 2021	–	–	–	–	(1.1)	(1.1)
Net book value						
At 31 December 2021	94.1	25.0	3.2	11.0	2.1	135.4
At 31 December 2020	90.8	23.8	3.1	10.6	2.2	130.5

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.

² During 2021, the CLS Group opened an office in the City of Dusseldorf within a property classified as investment property. This is the transfer of the value of the part of this investment property that is now owner occupied by CLS.

15. Trade and other receivables

	2021 £m	2020 £m
Current		
Trade receivables	8.8	7.3
Other receivables	3.9	4.3
Prepayments	2.4	8.5
Accrued income	3.0	1.9
	18.1	22.0
Non-Current		
Other receivables ¹	7.7	8.2
	25.8	30.2

¹ This is the vendor loan granted on completion of the sale of First Camp Sverige Holdings AB in March 2019. The loan is due for repayment no later than June 2023 and can be repaid by the borrower at any time without penalty. Given current economic uncertainty the Group has assessed the likely repayment date to be more than 12 months from the year end.

Trade receivables are shown after deducting a provision of £2.4 million (2020: £2.8 million) which is calculated as an expected credit loss on trade receivables in accordance with IFRS 9 (see note 2). The movements in this provision were as follows;

	2021 £m	2020 £m
At 1 January	2.8	1.1
Debt write-offs	(0.1)	(0.1)
(Credit)/charge to the income statement	(0.3)	1.8
At 31 December	2.4	2.8

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 21.

16. Cash and cash equivalents

	2021 £m	2020 £m
Cash at bank and in hand	167.4	235.7

At 31 December 2021, cash at bank and in hand included £13.2 million (2020: £14.5 million) which was restricted by a third-party charge.

17. Trade and other payables

	2021 £m	2020 £m
Current		
Trade payables	3.0	1.7
Social security and other taxes	1.9	5.8
Other payables	12.1	12.1
Deferred income	19.8	18.2
Accruals	20.8	16.5
	57.6	54.3

Notes to the Group financial statements continued

18. Deferred tax

	Liabilities				Assets				Total deferred tax £m
	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	
At 1 January 2020	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
Charged/(credited)									
to income statement	(12.0)	(32.0)	0.1	(43.9)	0.3	3.6	1.2	5.1	(38.8)
to OCI ¹	–	1.0	–	1.0	–	–	–	–	1.0
Exchange rate variances	–	(6.5)	(0.2)	(6.7)	–	–	–	–	(6.7)
At 31 December 2021	0.3	107.8	1.8	109.9	–	(2.4)	(0.2)	(2.6)	107.3

1 Other Comprehensive Income.

Deferred tax has been calculated at a weighted average across the Group of 23.3% (2020: 17.5%) 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 2021 the Group did not recognise deferred tax assets of £7.5 million (2020: £5.7 million) in respect of losses amounting to £43.3 million (2020: £35.3 million) which may be carried forward and utilised against future taxable income or gains.

19. Borrowings

	At 31 December 2021			At 31 December 2020		
	Current £m	Non-current £m	Total borrowings £m	Current £m	Non-current £m	Total borrowings £m
Secured bank loans	122.7	862.5	985.2	99.5	820.7	920.2
Secured notes	46.4	–	46.4	4.1	46.4	50.5
	169.1	862.5	1,031.6	103.6	867.1	970.7

Issue costs of £5.9 million (2020: £6.3 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 (2020: 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 2.3% (2020: 1.1% and 2.4%). The bank loans are secured by legal charges over £2,194.3 million (2020: £1,904.3 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 £137.1 million (2020: £139.9 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 rate¹) 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.

19. Borrowings continued

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

	Secured bank loans £m	Secured notes £m	Total £m
At 31 December 2021			
Maturing in:			
Within one year or on demand	124.3	46.5	170.8
One to two years	111.3	–	111.3
Two to five years	432.7	–	432.7
More than five years	322.7	–	322.7
	991.0	46.5	1,037.5
Unamortised issue costs	(5.8)	(0.1)	(5.9)
Borrowings	985.2	46.4	1,031.6
Due within one year	(122.7)	(46.4)	(169.1)
Due after one year	862.5	–	862.5
At 31 December 2020			
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

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

	At 31 December 2021			At 31 December 2020		
	Sterling £m	Euro £m	Total £m	Sterling £m	Euro £m	Total £m
Fixed rate financial liabilities	290.0	450.8	740.8	255.2	399.8	655.0
Floating rate financial liabilities – hedged	140.9	–	140.9	143.0	18.7	161.7
Total fixed rate	430.9	450.8	881.7	398.2	418.5	816.7
Floating rate financial liabilities – capped	–	47.3	47.3	–	25.6	25.6
Floating rate financial liabilities – unhedged	94.3	14.2	108.5	119.1	15.6	134.7
Total floating rate	94.3	61.5	155.8	119.1	41.2	160.3
	525.2	512.3	1,037.5	517.3	459.7	977.0
Unamortised issue costs	(3.9)	(2.0)	(5.9)	(4.0)	(2.3)	(6.3)
Borrowings	521.3	510.3	1,031.6	513.3	457.4	970.7

Of the Group's total borrowings, 85% (2020: 84%) are considered fixed rate borrowings.

Notes to the Group financial statements continued

19. Borrowings continued

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

At 31 December 2021	Weighted average interest rate ¹			Weighted average life		
	Sterling %	Euro %	Total %	Sterling Years	Euro Years	Total Years
Fixed rate financial liabilities	2.9	1.4	2.0	8.0	3.2	5.1
Floating rate financial liabilities – hedged	3.4	–	3.4	2.2	–	2.2
	3.1	1.4	2.2	6.1	3.2	4.6
Floating rate financial liabilities – capped	–	1.3	1.3	–	5.1	5.1
Floating rate financial liabilities – unhedged	2.9	1.2	2.7	2.5	2.0	2.4
	2.9	1.3	2.2	2.5	4.4	3.3
Gross borrowings	3.1	1.4	2.2	5.5	3.3	4.4

At 31 December 2020	Weighted average interest rate ¹			Weighted average life		
	Sterling %	Euro %	Total %	Sterling Years	Euro Years	Total Years
Fixed rate financial liabilities	3.0	1.4	2.1	7.4	3.9	5.3
Floating rate financial liabilities – hedged	3.3	1.9	3.1	3.2	1.0	2.9
	3.2	1.5	2.3	5.9	3.7	4.8
Floating rate financial liabilities – capped	–	1.5	1.5	–	4.6	4.6
Floating rate financial liabilities – unhedged	2.5	1.2	2.4	3.1	2.3	3.0
	2.5	1.4	2.3	3.1	3.7	3.3
Gross borrowings	3.0	1.5	2.3	5.3	3.7	4.5

¹ The weighted average interest rate are based on the nominal value of the debt facilities.

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

	Carrying amounts		Fair values	
	2021 £m	2020 £m	2021 £m	2020 £m
Current borrowings	169.1	103.6	169.1	103.6
Non-current borrowings	862.5	867.1	866.7	880.3
	1,031.6	970.7	1,035.8	983.9

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:

	2021 £m	2020 £m
Floating rate:		
– expiring within one year	–	30.0
– expiring after one year	30.0	–
	30.0	30.0

19. Borrowings continued

Contractual undiscounted cash outflows

The tables below show the contractual undiscounted cash outflows arising from the Group's gross debt.

	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
At 31 December 2021							
Secured bank loans	124.3	111.3	265.9	116.2	50.6	322.7	991.0
Secured notes	46.5	–	–	–	–	–	46.5
Total on maturity	170.8	111.3	265.9	116.2	50.6	322.7	1,037.5
Interest payments on borrowings ¹	21.1	18.4	14.6	9.7	7.6	30.0	101.4
Effect of interest rate swaps	1.1	–	0.1	–	–	–	1.2
Gross loan commitments	193.0	129.7	280.6	125.9	58.2	352.7	1,140.1
At 31 December 2020							
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

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.

20. Derivative financial instruments

	2021 Assets £m	2021 Liabilities £m	2020 Assets £m	2020 Liabilities £m
Non-current				
Interest rate caps and swaps	0.4	(0.1)	–	(5.6)
Current				
Forward foreign exchange contracts	–	(0.7)	–	–
	0.4	(0.8)	–	(5.6)

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 caps

The aggregate notional principal of interest rate caps at 31 December 2021 was £nil (2020: £nil). The average period to maturity of these interest rate caps was 4.2 years (2020: 4.6 years).

Interest rate swaps

The aggregate notional principal of interest rate swap contracts at 31 December 2021 was £159.4 million (2020: £161.9 million). The average period to maturity of these interest rate swaps was 1.9 years (2020: 2.2 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 2021 and 31 December 2020 the Group had no outstanding net foreign exchange contracts.

Notes to the Group financial statements continued

20. 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.

	2021 Assets £m	2021 Liabilities £m	2020 Assets £m	2020 Liabilities £m
Maturing in:				
Less than 1 year	–	(1.1)	–	(2.4)
1 to 2 years	–	(0.1)	–	(2.1)
2 to 3 years	0.1	(0.1)	–	(1.0)
3 to 4 years	–	–	–	(0.5)
4 to 5 years	–	–	–	–
Over 5 years	–	–	–	–
	0.1	(1.3)	–	(6.0)

21. 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; secured notes; and trade and other payables.

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

- 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;
- 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;
- 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;
- 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
- 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 2021 and 2020.

21. 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	2021 £m	2020 £m
Debt	19	1,037.5	977.0
Liquid resources	16	(167.4)	(235.7)
Net debt (A)		870.1	741.3
Equity (B)		1,330.7	1,270.6
Net debt to equity ratio (A/B)		65%	58%

Debt is defined as long-term and short-term borrowings before unamortised issue costs as detailed in note 18. 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	2021 Income statement £m	2020 Income statement £m
Cash +50 basis points	0.8	1.2
Variable borrowings (including swaps and caps) +50 basis points	(1.0)	(1.0)
Cash -50 basis points	(0.8)	(1.2)
Variable borrowings (including swaps and caps) -50 basis points	0.5	0.6

Notes to the Group financial statements continued

21. 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	2021 Net assets £m	2021 Profit before tax £m	2020 Net assets £m	2020 Profit before tax £m
1% increase in value of sterling against the Euro	(6.2)	(0.4)	(6.1)	(1.1)
1% fall in value of sterling against the Euro	6.3	0.4	6.2	1.2

(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.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of investment grade are accepted.

At 31 December 2021 the Group held £0.4 million (2020: £nil) of financial assets at fair value through other comprehensive income or fair value through profit and loss. 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.

22. Financial assets and liabilities

	Fair value through profit and loss £m	Amortised cost £m	Total carrying value £m
Financial assets			
Cash and cash equivalents	–	167.4	167.4
Derivative financial assets	0.4	–	0.4
Other assets – non-current ¹	–	7.7	7.7
Other assets – current ¹	–	15.7	15.7
	0.4	190.8	191.2
Financial liabilities			
Secured bank loans	–	(985.5)	(985.5)
Secured notes	–	(46.4)	(46.4)
Derivative financial liabilities	(0.8)	–	(0.8)
Other liabilities – current ²	–	(35.9)	(35.9)
	(0.8)	(1,067.8)	(1,068.6)
At 31 December 2021	(0.4)	(877.0)	(877.4)

	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)

1 Other assets included all amounts shown as trade and other receivables in note 14 except prepayments of £2.4 million (2020: £8.5 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 16 except deferred income and sales and social security taxes of £21.7 million (2020: £24.0 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

	2021 £m	2020 £m
Net financial assets and liabilities	877.4	749.2
Other assets – non-current	7.7	8.2
Other assets – current	15.7	13.5
Other liabilities – current	(35.9)	(30.3)
Cash and cash equivalents	167.4	235.7
Borrowings and derivative financial instruments	1,032.3	976.3

Notes to the Group financial statements continued

23. 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 2020 and 31 December 2021	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.

24. Dividend

	Payment date	Dividend per share p	2021 £m	2020 £m
Current year				
2021 final dividend ¹	29 April 2022	5.35	–	–
2021 interim dividend	24 September 2021	2.35	9.6	–
Distribution of current year profit		7.70	9.6	–
Prior year				
2020 final dividend	29 April 2021	5.20	21.2	–
2020 interim dividend	25 September 2020	2.35	–	9.6
Distribution of prior year profit		7.55	21.2	9.6
2019 final dividend	29 April 2020	5.05	–	20.5
Dividends as reported in the Group statement of changes in equity			30.8	30.1

¹ Subject to shareholder approval at the AGM on 28 April 2021.

25. Other reserves

	Notes	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 2021		22.7	64.0	0.5	2.0	28.1	117.3
Exchange rate variances		–	(32.8)	–	–	–	(32.8)
Property, plant and equipment							
– net fair value gains in the year	14	–	–	5.5	–	–	5.5
– deferred tax thereon	18	–	–	(1.0)	–	–	(1.0)
Share-based payment credit		–	–	–	(0.3)	–	(0.3)
At 31 December 2021		22.7	31.2	5.0	1.7	28.1	88.7
	Notes	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	14	–	–	(3.6)	–	–	(3.6)
– deferred tax thereon	18	–	–	0.5	–	–	0.5
Share-based payment charge		–	–	–	(0.2)	–	(0.2)
At 31 December 2020		22.7	64.0	0.5	2.0	28.1	117.3

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

25. Other reserves continued

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.

26. Notes to the cash flow

	2021 £m	2020 £m
Cash generated from operations		
Operating profit	106.8	119.3
Adjustments for:		
Net movements on revaluation of investment properties	(28.5)	(31.5)
Net movements on revaluation of equity investments	(1.0)	–
Depreciation and amortisation	1.1	0.7
Profit on sale of investment property	0.1	(11.6)
Lease incentive debtor adjustments	(2.7)	(1.9)
Share-based payment charge	(0.3)	(0.2)
Changes in working capital:		
Increase in receivables	(3.7)	(0.8)
Increase in payables	1.3	2.9
Cash generated from operations	73.1	76.9

	Notes	Non-cash movements					31 December 2021 £m
		1 January 2021 £m	Financing cash flows £m	Amortisation of loan issue costs £m	Fair value adjustments £m	Foreign exchange £m	
Changes in liabilities arising from financing activities							
Borrowings	19	970.7	88.1	2.0	–	(29.2)	1,031.6
Interest rate swaps	20	5.6	–	–	(5.2)	–	0.4
Forward foreign exchange contracts	20	–	–	–	–	–	–
		976.3	88.1	2.0	(5.2)	(29.2)	1,032.0

	Notes	Non-cash movements					31 December 2020 £m
		1 January 2020 £m	Financing cash flows £m	Amortisation of loan issue costs £m	Fair value adjustments £m	Foreign exchange £m	
Changes in liabilities arising from financing activities							
Borrowings	19	891.7	51.7	2.1	–	25.2	970.7
Interest rate swaps	20	4.1	–	–	1.6	(0.1)	5.6
Forward foreign exchange contracts	20	(0.3)	0.3	–	–	–	–
		895.5	52.0	2.1	1.6	25.1	976.3

27. Contingencies

At 31 December 2021 and 31 December 2020 CLS Holdings plc had guaranteed certain liabilities of Group companies. These were primarily in relation to Group borrowings and covered interest and amortisation payments. Principal amounts of loans secured from external lenders by two Group companies totalling £30.2 million at 31 December 2021 are also covered by guarantees provided by CLS Holdings plc (£30.6 million at 31 December 2020).

Notes to the Group financial statements continued

28. 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	2021 £m	2020 £m
Within one year	99.9	100.5
Between one and two years	88.7	91.0
Between two and three years	73.3	77.3
Between three and four years	59.2	62.6
Between four and five years	38.9	48.6
More than five years	133.4	90.7
	493.4	470.7

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

Other commitments

At 31 December 2021 the Group had contracted capital expenditure of £25.1 million (2020: £16.5 million). At the balance sheet date, the Group had not exchanged contracts to acquire any investment properties (2020: £89.9 million). There were no authorised financial commitments which were yet to be contracted with third parties (2020: nil).

29. Post balance sheet events

In February and March 2022, the Group exchanged on the acquisition of properties for £20.8 million and £54.9 million, before costs.

On 1 January 2022, we converted our UK operations to a REIT. As a result of the conversion, CLS will pay no UK corporation tax on its UK property operations (rental income, gains on property sales and sales of companies owning UK property) which fall within the REIT regime from the 2022 financial year onwards.

30. 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. Those marked with a * were dissolved during 2021.

United Kingdom

Registered Office: 16 Tinworth Street, London SE11 5AL

16 Tinworth Street (Residential) Limited	CLS Gateway House Limited	CLS UK Property Finance 2 Limited	NYK Investments Limited
401 King Street Limited	CLS Germany Limited	CLS Watford Limited	One Elmfield Park Limited
Apex Tower Limited	CLS Gresham Limited	CLSH Management Limited	Prescot Street Leasco Limited
Base Offices Limited	CLS Harrow Limited	Columbia Bracknell Limited	Quayside Lodge Limited
Brent House Limited	CLS Holdings UK Limited	Coventry House Limited	Rayman Finance Limited
Buspace Studios Limited*	CLS Kings Court Limited ¹	Dukes Road Limited	Reflex Bracknell Limited
Cassini Pascal Limited	CLS Lloyds Avenue Limited	Elmfield Road Limited	Sentinel House Limited
Centenary Court Limited	CLS London Limited	Fetter Lane Apartments Limited	Shard of Glass Limited
Central London Securities Limited	CLS London Properties Limited	Fetter Lane Leasehold Limited	Southern House Limited
Chancel House Limited*	CLS Northern Properties Limited	Great West House Limited	Spring Gardens III Limited
Citadel Finance Limited	CLS One Limited	Harman House Limited	Spring Mews (Block D) Limited
Citadel Holdings plc	CLS Pacific House Limited	Hygeia Harrow Limited	Spring Mews (Hotel) Limited
CI Tower Investments Limited	CLS Prescot Limited	Ingrove Limited	Spring Mews Limited
CLS Capital Partners Limited	CLS Prioory Place Limited	Instant Office Limited	Spring Mews (Student) Limited
CLS Chancery House Limited	CLS Residential Investments Limited	Kennington Road Limited	Three Albert Embankment Limited
CLS Church Road Limited	CLS South London Limited	Larkhall Lane Limited	Vauxhall Square Limited
CLS Cliffords Inn Limited	CLS Spring Gardens Limited	Maidenhead Cloud Gate Limited	Vauxhall Square (Nominee 3) Limited
CLS Clockwork Limited	CLS Staines Limited	Mirenwest Limited	Vauxhall Square One Limited
CLS Crawley Limited	CLS UK Properties plc	New Printing House Square Limited	Vauxhall Square (Student) Limited
CLS England and Wales Limited	CLS UK Property Finance Limited		Wandsworth Road Limited

¹ Previously named CLS Office Collection until 13 March 2021.

30. Subsidiaries continued

United Kingdom continued

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 Clemenceau 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

Luxembourg

Registered Office: 33 Avenue de la Liberte, 1931 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	Frohösestrasse 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 One Limited
 Hawkswell Two Limited

Sweden

Registered Office: Skönabäck 122, 274 91 Skurup

Rasstaf Sweden AB	With Young Attitude Media Group AB (98.87%)
Museion Förvaltning AB	Cood Investments AB (58.02%)
Xtraworks AB	

Notes to the Group financial statements continued

31. Associates

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

Name	Principal activity	Registered office	Country of incorporation	Holding Proportion of ownership interest and voting rights held by the Group	
				2021	2020
24 Media Network AB	To own and manage investments in the media sector	Stureplan 4, 114 35 Stockholm	Sweden	24.2%	24.2%

The above associates are accounted for using the equity method with an adjustment to the associate's accounting policies to conform to those of the Group.

The Group's share of loss from continuing operations of the associate was £0.1 million (2020: £nil)

There are no restrictions on the ability of the associate to transfer funds to the Group.

32. Related party transactions

Transactions with Directors

Distributions totalling £17,899,753 (2020: £17,508,017) 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 the majority shareholder:

- The Group charged a management fee in relation to providing property management and administration services. A Group company, CLSH Management Limited, invoiced fees totalling £23,980 (2020: £25,559). At the balance sheet date £nil was outstanding (2020: £25,500).
- The Group recharged salary costs in relation to providing administration services. CLS Holdings plc, invoiced costs totalling £62,705 (2020: £63,021). At the balance sheet date £62,705 was outstanding (2020: £63,021).
- The Group paid fees in relation to the provision of company administration and bookkeeping services in Sweden totalling £18,552 (2020: £19,823). At the balance sheet date £2,451 was outstanding (2020: £nil).

During the year, the Group invoiced rental related charges of £143,469 (2020: £132,216) to IKEA Limited, a company in a group of companies with a common Director. At the balance sheet date £nil was outstanding (2020: £38,362).

During the year, an internship was awarded to a person related to Denise Jagger, a director of the Company. The internship was for a period of three months and they received a salary equivalent to £25,000 per annum (£5,000 for the period).

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 110 to 129.

	2021 £000	2020 £000
Short-term employee benefits	995	1,550
Post-employment benefits	4	5
Other long-term benefits	372	157
	1,371	1,712

Company balance sheet

at 31 December 2021

	Notes	2021 £m	2020 £m
Non-current assets			
Investment in subsidiary undertakings	7	451.4	432.9
Intangible assets		2.0	1.1
Current assets			
Trade and other receivables	8	3.0	3.0
Total assets		456.4	437.0
Current liabilities			
Other payables	9	(43.9)	(36.8)
Total liabilities		(43.9)	(36.8)
Net assets		412.5	400.2
Equity			
Share capital	10	11.0	11.0
Share premium	11	83.1	83.1
Other reserves	11	28.1	28.2
Retained earnings	11	290.3	277.9
Shareholders' funds	12	412.5	400.2

The Company reported a profit for the financial year ended 31 December 2021 of £43.2 million (2020: £74.2 million).

The notes on pages 147 to 178 are an integral part of these Company financial statements.

These financial statements of CLS Holdings plc (registered number: 02714781) were approved by the Board of Directors and authorised for issue on 16 March 2022 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 2021

	Notes	Share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total £m
Arising in 2021:						
Profit for the year	11	–	–	–	43.2	43.2
Share-based payment charge	11	–	–	(0.1)	–	(0.1)
Dividends to shareholders	6	–	–	–	(30.8)	(30.8)
Total changes arising in 2021		–	–	(0.1)	12.4	12.3
At 1 January 2021		11.0	83.1	28.2	277.9	400.2
At 31 December 2021		11.0	83.1	28.1	290.3	412.5
Arising in 2020:						
Profit for the year	11	–	–	–	74.2	74.2
Share-based payment charge	11	–	–	(0.5)	–	(0.5)
Dividends to shareholders	6	–	–	–	(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

The notes on pages 181 to 184 are an integral part of these Company financial statements.

Notes to the Company financial statements

for the year ended 31 December 2021

1. General information

These separate Company 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 130.

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.

4. 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 Company's accounting policies, which are described in note 3, 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 2021 and 31 December 2020 there are no accounting judgements that are material to the financial statements.

Key sources of estimation uncertainty

There are no key sources of estimation uncertainty in these Company financial statements for the years ended 31 December 2021 and 31 December 2020.

Notes to the Company financial statements continued

5. 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 £43.2 million (2020: £74.2 million).

Audit fees for the Company were £0.1 million (2020: £0.1 million).

Details of the Directors employed during the year and of their remuneration is included in the Remuneration Committee Report on pages 110 to 129.

6. Dividend

	Payment date	Dividend per share p	2021 £m	2020 £m
Current year				
2021 final dividend ¹	29 April 2022	5.35	–	–
2021 interim dividend	24 September 2021	2.35	9.6	–
Distribution of current year profit		7.70	9.6	–
Prior year				
2020 final dividend	29 April 2021	5.20	21.2	–
2020 interim dividend	25 September 2020	2.35	–	9.6
Distribution of prior year profit		7.55	21.2	9.6
2020 final dividend	29 April 2020	5.05	21.2	20.5
Dividends as reported in the Group statement of changes in equity			30.8	30.1

¹ Subject to shareholder approval at the AGM on 28 April 2022.

7. Investment in subsidiary undertakings

	2021 £m	2020 £m
At 1 January	432.9	441.0
Additions	49.6	69.3
Disposals	(21.7)	(49.1)
Provision for impairment	(9.4)	(28.3)
At 31 December	451.4	432.9

8. Trade and other receivables

	2021 £m	2020 £m
Amounts owed by subsidiary undertakings	1.6	1.9
Other receivables	0.2	0.9
Prepayments and accrued income	1.2	0.2
	3.0	3.0

9. Other payables

	2021 £m	2020 £m
Trade payables	0.1	–
Amounts owed to subsidiary undertakings	42.0	34.5
Social security and other taxes	0.2	0.2
Accruals	1.6	2.1
	43.9	36.8

10. 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 2021, 31 December 2020 and 31 December 2021	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.

11. Reserves

	Share premium £m	Other reserves			Total £m	Profit and loss account £m
		Capital redemption reserve £m	Share-based payment reserve £m	Other £m		
At 1 January 2021	83.1	22.7	0.9	4.6	28.2	277.9
Share-based payment charge	–	–	(0.1)	–	(0.1)	–
Profit for the year	–	–	–	–	–	43.2
Dividends to shareholders	–	–	–	–	–	(30.8)
At 31 December 2021	83.1	22.7	0.8	4.6	28.1	290.3

	Share premium £m	Other reserves			Total £m	Profit and loss account £m
		Capital redemption reserve £m	Share-based payment reserve £m	Other £m		
At 1 January 2020	83.1	22.7	1.4	4.6	28.7	233.8
Share-based payment charge	–	–	(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

Notes to the Company financial statements continued

12. Reconciliation of movements in shareholders' funds

	2021 £m	2020 £m
At 1 January	400.2	356.6
Profit for the year	43.2	74.2
Dividends to shareholders	(30.8)	(30.1)
Share-based payment charge	(0.1)	(0.5)
At 31 December	412.5	400.2

13. Contingencies

At 31 December 2021 and 31 December 2020 CLS Holdings plc had guaranteed certain liabilities of Group companies. These were primarily in relation to Group borrowings and covered interest and amortisation payments. Principal amounts of loans secured from external lenders by two Group companies totalling £30.2 million at 31 December 2021 are also covered by guarantees provided by CLS Holdings plc (£30.6 million at 31 December 2020). Since the possibility of payment by the Company under any of these guarantees and warranties is considered remote, no provisions in relation to these have been made in the Company's financial statements and no reportable contingent liability exists.

14. Commitments

At 31 December 2021, the Company had no contracted capital expenditure (2020: £nil) and no authorised financial commitments which were yet to be contracted with third parties (2020: £nil).

Five-year financial summary (unaudited)

	2021 £m	2020 £m	2019 £m	2018 £m	Restated 2017 £m
Continuing operations					
Revenue	139.8	139.4	138.3	133.0	120.3
Net rental income	108.0	109.8	110.6	107.3	100.0
Administration expenses	(16.2)	(18.5)	(19.9)	(17.8)	(14.6)
Other expenses	(14.4)	(15.1)	(13.7)	(13.2)	(12.2)
Revenue less costs	77.4	76.2	77.0	76.3	73.2
Net movements on revaluation of investment property	28.5	31.5	57.4	62.8	94.2
(Loss)/profit on sale of investment property	(0.1)	11.6	8.6	2.3	43.7
Gain on sale of other financial investments	–	–	40.4	1.7	2.5
Net movement on revaluation of equity investments	1.0	–	–	22.2	–
Operating profit	106.8	119.3	183.4	165.3	213.6
Finance income	5.9	3.2	5.0	6.1	10.0
Finance costs	(27.7)	(26.0)	(29.4)	(26.5)	(32.4)
Share of profit/(loss) of associates after tax	6.5	–	–	–	(0.7)
Profit before tax	91.5	96.5	159.0	144.9	190.5
Taxation	28.0	(19.1)	(23.8)	(12.1)	(33.5)
Profit for the year from continuing operations	119.5	77.4	135.2	132.8	157.0
Discontinued operations					
(Loss)/profit for the year from discontinued operations	–	–	(0.5)	(14.9)	0.9
Profit for the year	119.5	77.4	134.7	117.9	157.9
Dividends paid	30.8	30.1	28.7	26.5	24.7
Distribution of current year's profit	31.4	30.8	30.1	28.1	25.9
Net assets employed					
Non-current assets	2,301.1	2,181.4	2,010.2	2,034.5	1,913.1
Current assets	237.4	279.6	295.4	173.0	244.3
	2,538.5	2,461.0	2,305.6	2,207.5	2,157.4
Current liabilities	(229.8)	(158.2)	(198.9)	(170.0)	(207.2)
Non-current liabilities	(978.0)	(1,032.2)	(904.3)	(914.5)	(916.9)
Net assets	1,330.7	1,270.6	1,202.4	1,123.0	1,033.3
Ratios					
	2021	2020	2019	2018	2017
Net assets per share (pence)	326.6	311.9	295.1	275.5	252.0
EPRA NAV per share (pence)	353.0	350.1	329.2	309.8	285.6
EPRA NTA per share (pence)	350.5	345.2	326.3	304.6	n/a
Earnings per share (pence)	29.3	19.0	33.3	30.5	38.7
EPRA earnings per share (pence)	11.3	12.2	12.0	13.1	12.6
Total Accounting Return – basic (%)	7.1	8.2	10.7	11.9	19.9
Total Accounting Return – EPRA NTA (%)	3.7	8.1	9.4	n/a	n/a
Net gearing (%)	65.4	58.3	53.0	63.4	65.2
Balance sheet loan-to-value (%)	37.1	33.7	31.4	36.7	36.9
Interest cover (times)	3.16	3.26	3.42	3.80	3.89

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. 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.

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.

Contracted rent

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

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 measurement 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 reinstatement value (NRV)

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)

Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.

EPRA net disposal value (NDV)

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 lettable 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.

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.

Real Estate Investment Trust (REIT)

A Real Estate Investment Trust (REIT) is a vehicle that allows an investor to obtain broadly similar returns from their investment, as they would have, had they invested directly in property. In the UK a REIT is exempt from UK tax on the income and gains of its property rental business. A REIT in the UK is required to invest mainly in property and to pay out 90% of the profits from its property rental business as measured for tax purposes as dividends to shareholders (property income distributions). In the hands of the shareholder, property income distributions (PID) are taxable as profits of a UK property rental business. The PID is received net of withholding tax, unless it is to a recipient entitled to gross payment

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.

Streamlined energy and carbon reporting (SECR)

The SECR regulations were introduced in April 2019 and require companies incorporated in the UK to undertake enhanced disclosures of their energy and carbon emissions in their financial reporting.

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.

The Task Force on Climate-related Financial Disclosures (TCFD)

Set up by the Financial Stability Board (FSB) in response to the G20 Finance Ministers and Central Bank Governors request for greater levels of decision-useful, climate-related information; the TCFD was asked to develop climate-related disclosures that could promote more informed investment, credit (or lending), and insurance underwriting decisions. In turn, this would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

Total accounting return – basic

The change in IFRS net assets before the payment of dividends.

Total accounting return

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.

UN Sustainable Development Goals (SDGs)

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries – developed and developing – in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

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* ⁰	(Non-Executive Chairman)
Anna Seeley ⁰	(Non-Executive Vice Chair)
Fredrik Widlund	(Chief Executive Officer)
Andrew Kirkman	(Chief Financial Officer)
Elizabeth Edwards ^{††0}	(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

0 Member of Nomination Committee

Chief Operating Officer & Company Secretary

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Chartered Accountants

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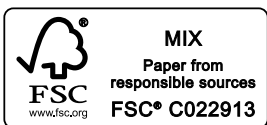
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