

CLS HOLDINGS PLC
("CLS", the "Company" or the "Group")
ANNOUNCES ITS ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2020

Resilient performance - well placed for the future

CLS is a leading FTSE250 office space specialist and a supportive, progressive and sustainably focused commercial landlord, with a c.£2.2 billion portfolio in the UK, Germany and France, offering geographical diversification with local presence and knowledge. For the year ended 31 December 2020, the Group has delivered the following results:

	31 December		Change (%)
	2020	2019	
EPRA Net Tangible Assets ("NTA") per share (pence)	345.2	326.3	5.8
EPRA Net Asset Value ("NAV") per share (pence)	350.1	329.2	6.3
Basic NAV per share (pence)	311.9	295.1	5.7
Contracted rents (£'million)	107.9	109.3	(1.3)
Profit before tax (£'million)	96.5	159.0	(39.3)
EPRA Earnings per share ("EPS") (pence)	12.2	12.0	1.7
Basic EPS from continuing operations (pence)	19.0	33.3	(42.9)
Dividend per share (pence)	7.55	7.40	2.0

Note: A reconciliation of statutory to alternative performance measures is set out in Note 5 to the financial statements

Fredrik Widlund, Chief Executive Officer of CLS, commented:

"The strengths of our diversified business model and close relationships with our tenants proved invaluable during a challenging year and led to the delivery of positive financial results with EPRA EPS and EPRA NTA both increasing. Our active management approach resulted in our country teams in the UK, Germany and France delivering on leasing transactions, refurbishments and strong rent collection despite the backdrop of the pandemic.

"Our portfolio is strategically well placed for the future, concentrated on great locations and offering high quality, flexible space and leases. CLS' balance sheet remains strong and once the six most recent acquisitions complete, which were exchanged at the end of 2020 and the start of 2021, contracted annualised rent will increase to £115 million."

FINANCIAL HIGHLIGHTS

- EPRA NTA up 5.8% and EPRA NAV up 6.3% primarily due to increased EPRA earnings, and portfolio valuation gains and profit on disposal of £36.8 million (2019: £52.5 million)
- Profit before tax down 39.3% to £96.5 million (2019: £159.0 million) and basic EPS down 42.9% due to lower portfolio valuation gains and profit on disposal of our shareholding in Catena (2019: £38.7 million), sold in September 2019
- EPRA EPS was up 1.7%, which was achieved through strong rent collection, operational cost savings and favourable foreign exchange movements
- A proposed final dividend of 5.20 pence per share to be paid on 29 April 2021, resulting in a total 2020 dividend of 7.55 pence per share, an increase of 2.0% (2019: 7.40 pence per share) and total accounting return for the year of 8.1% (2019: 9.3%)

OPERATIONAL HIGHLIGHTS

- Rent collection remained strong in 2020 with 99% collected (2019: 98%) and 98% of first quarter 2021 contracted rent due now collected
- Net rental income flat at £109.8 million (2019: £110.6 million) with rental increases from net acquisitions offset by Covid-19 related weakness across our hotel and student accommodation
- Portfolio valuation up 1.4% in local currency, largely driven by Germany up 8.6% through positive letting activity and other asset management with France up 0.3% and the UK down 2.6%
- Acquired eleven properties for £202.7 million (4.7% net initial yield). Three of the acquisitions will complete in the first quarter of 2021 for £89.9 million. Three further acquisitions in Germany which exchanged at the start of 2021 for £79.2 million will complete by the end of May 2021
- Disposed of eight properties for £69.7 million (4.0% net initial yield), two of which will complete in the first half of 2021 for £5.9 million. In February 2021, exchanged on the sale of a UK property at £6.1 million, which is over 20% above the 31 December 2020 valuation
- Completed 116 lease deals securing £13.6 million of annual rent at 8.2% above 31 December 2019 estimated rental values
- Vacancy rate has increased to 5.3% (2019: 4.0%) due to the current economic uncertainty which has impacted the pace of new lettings

FINANCING

- Weighted average cost of debt at 31 December 2020 down 14 basis points to 2.28% (2019: 2.42%)
- Balance sheet loan-to-value as at 31 December 2020 at 33.7% (2019: 31.4%) reflecting net acquisitions during the year. Gross debt of £970.8 million (2019: £891.7 million) with cash of £235.7 million (2019: £259.4 million) and £50 million (2019: £50 million) of undrawn facilities
- First 'green' loan secured over 12 UK properties for £154.0 million at 2.62% fixed interest rate, split equally between 10-year and 12-year tranches. This transaction also significantly contributed to the increase in weighted average debt maturity to 4.6 years (2019: 3.5 years)
- In 2020 financed, refinanced or extended £261.5 million of debt at an average of 2.08%, including £231.3 million fixed at 2.16%, and repaid £59.0 million of debt
- The loan portfolio as at 31 December 2020 had 84% at fixed rates (31 December 2019: 77%)

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

- On 15 December 2020, CLS was very sad to report that Mr Sten Mortstedt, founder and Executive Director passed away. He will be deeply missed by all at CLS
- In March and April 2020, Bill Holland and Denise Jagger became the chairs of the Audit and Remuneration Committees respectively
- Throughout 2020 the welfare of all stakeholders has been prioritised. It was pleasing that this prioritisation and our supportive culture were reflected in the very positive staff survey
- GRESB score increased to 72 (2019: 70) and all managed buildings have been independently certified by BREEAM to assess their sustainability rating and highlight areas for improvement
- Net Zero Carbon pathway target to be announced later in 2021 once detailed analysis concluded

DIVIDEND TIMETABLE

Further to this announcement, in which the Board recommended a final dividend of 5.20 pence per ordinary share, the Company confirmed its dividend timetable as follows:

Announcement date	10 March 2021
Ex-Dividend date	25 March 2021
Record date	26 March 2021
Payment date	29 April 2021

– ends –

Results presentation

A presentation for analysts and investors will be held by webcast and conference call on Wednesday 10 March 2021 at 10:30am followed by Q&A. Questions can be submitted either online via the webcast or to the operator on the conference call.

Webcast: The live webcast will be available here: <https://secure.emincote.com/client/cls/cls002>

Conference call: In order to dial in to the presentation via phone, please register at the following link and you will be provided with dial-in details and a unique access code: https://secure.emincote.com/client/cls/cls002/vip_connect

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Forward-looking statements

This document may contain certain 'forward-looking statements'. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Actual outcomes and results may differ materially from those expressed or implied by such forward-looking statements. Any forward-looking statements made by or on behalf of CLS speak only as of the date they are made and no representation or warranty is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. Except as required by its legal or statutory obligations, the Company does not undertake to update forward-looking statements to reflect any changes in its expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based. Information contained in this document relating to the Company or its share price, or the yield on its shares, should not be relied upon as an indicator of future performance.

Chairman's letter

Dear shareholder,

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

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

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

Performance and our property portfolio

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

Environmental, Social and Governance

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

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

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

Looking to the future

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

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

Dividends

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

Thank you

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

Lennart Sten

Non-Executive Chairman

10 March 2021

Chief Executive's review

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

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

Long-term investor

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

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

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

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

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

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

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

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

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

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

Asset and property management

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

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

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

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

Financial results

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

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

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

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

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

Vision and values

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

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

Sustainability

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

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

This data collection will allow us to launch our new Group sustainability strategy and Net Zero Carbon pathway in our sustainability report later this year. In 2021 we intend to seek to execute more green financings following the completion of our first 'green' loan with Aviva in 2020 (more detail in a case study in the annual report). 2020 also saw the roll-out of more solar

PV technology on our properties, including the start of the roll-out in Germany, and we will seek to achieve our stretch target of increasing our installed renewable energy capacity by 100% by the end of 2021.

Outlook

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

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

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

Fredrik Widlund

Chief Executive Officer

10 March 2021

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

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

Hybrid model

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

We recognise the benefits of home working, such as avoiding a long commute or balancing the responsibilities of home life. It is also clear that there are certain types of role that can be done successfully, and potentially cheaper, remotely. However, the impact of the current situation has shown us that WFH has, for many, reinforced the benefits of the office whereas others have potentially forgotten important aspects. Face-to-face interaction cannot be underestimated for driving collaboration, creativity and business innovation as well as providing motivation and support networks. Many aspects of employee development, networking and training are easier in an office environment as well as hiring and managing employee well-being. These factors come together to provide a clear division between work and home-life, which provides routine, structure, purpose and fulfilment.

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

For many companies as well as individuals, we expect the new norm will be a hybrid of working part of the time from home and part of the time in the office to give the best of both worlds. There may be companies who embrace working from home as a cost cutting measure or others who decide they no longer need disaster recovery sites. However, we also expect lower workplace densities and less hot-desking which may increase requirements. We also expect differences between countries with Germany less keen on WFH whereas the UK is more keen.

Hybrid model space requirements

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

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

One thing to make crystal clear is that the office and retail markets are not comparable. Many investors missed the impact of ecommerce on shopping habits and thus the significantly reduced demand for retail space. However, the same decline is not going to happen to office space for two primary reasons:

- 1) As highlighted above there are some experiential aspects of offices that simply cannot be replicated online in terms of collaboration, mentoring and innovation. Even more importantly culture cannot be built, nurtured and grown online – there is no comparative to the ecommerce ability to return goods. Continual lockdowns have eroded many companies' cultures and the majority of employees are desperate to return to office life; and
- 2) Office rent as a percentage of salary costs have reduced from the near 50% of salary costs in the 1970s to c.10% today. This compares to retail where occupancy costs of rent and rates remain over half of employment costs.

How CLS offices stack up

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

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

119 average car parking spaces per property

76% of our properties have cycle spaces

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

80% of buildings have between two to seven floors

CLS' responses to future trends

Flexibility

This is possibly the most important evolution we have seen over the last decade and it continues. Competing as the three most important factors about property are flexibility, flexibility and flexibility.

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

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

Building enhancements

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

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

The health benefits of good air quality are better understood in the work environment and technology makes it easy and cost effective to monitor. With our new developments, CO₂ monitoring will link automatically to the mechanical ventilation of the office floors thereby increasing air changes when more people are in. Equally there are sustainable benefits, in that if there is low occupancy then the ventilation will adjust down. Furthermore, new developments and major refurbishments will incorporate openable windows.

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

Concluding remarks

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

Chief Financial Officer's review

Resilient business model and robust balance sheet continue to deliver results

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

Summary

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

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

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

Exchange rates

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

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

Income statement

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

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

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

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

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

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

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

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

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

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

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

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

EPRA net tangible assets and gearing

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

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

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

Cash flow and net debt

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

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

The weighted average cost of debt at 31 December 2020 was 2.28%, 14 basis points ('bps') lower than 12 months earlier and a new all-time low for CLS. The movement was as a result of four factors: *rates* as the UK base rate reduced (8 bps reduction); *financing activity* from refinancing UK debt at a lower all-in rate (5 bps reduction); *currency* due to a reduction proportion of more expensive UK financing due to weaker sterling (5 bps reduction); partly offset by *mix* with more expensive UK debt drawn and

cheaper euro debt repaid during the year (4 bps increase). In 2020, interest cover remained at a healthy level of 3.3 times (2019: 3.4 times).

Financing strategy and covenants

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

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

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

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

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

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

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

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

Distributions and total return to shareholders

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

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

Andrew Kirkman

Chief Financial Officer

10 March 2021

Business review

United Kingdom

Value of property portfolio	£1,125.7m
Percentage of Group's property interests	52%
Number of properties	47
Number of tenants	256
Vacancy rate	6.2%
Lettable space	2.2m sq. ft
Government and major corporates	62.8%
Weighted average lease length to end	4.7 years

Market overview

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

Acquisitions

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

Disposals

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

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

Asset management

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

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

Developments and refurbishments

In December, as highlighted in the Strategy in action case study in the annual report, detailed planning consent was granted for a new 28,500 sq. ft (2,648 sqm) 10-floor, office development at Vauxhall Walk next to our Spring Mews property. Demolition has

now commenced and construction is due to start in early Summer. Once completed, we expect to achieve EPC A and BREEAM Excellent ratings. In November, we received resolution to grant planning permission for a six-floor (43,000 sq. ft (3,995 sqm)) office development in Maidenhead and we are still assessing options for this building.

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

Valuation

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

Business review

Germany

Value of property portfolio	£747.7m
Percentage of Group's property interests	34%
Number of properties	29
Number of tenants	311
Vacancy rate	4.0%
Lettable space	3.0m sq. ft
Government and major corporates	32.4%
Weighted average lease length to end	5.2 years

Market overview

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

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

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

Acquisitions

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

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

Disposals

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

Asset management

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

Developments and refurbishments

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

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

Valuation

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

Business review

France

Value of property portfolio	£309.6m
Percentage of Group's property interests	14%
Number of properties	21
Number of tenants	176
Vacancy rate	5.1%
Lettable space	0.9m sq. ft
Government and major corporates	45.1%
Weighted average lease length to end	4.9 years

Market overview

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

Acquisitions

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

Disposals

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

Asset management

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

Developments and refurbishments

A series of important refurbishments took place in 2020 and will be continued in 2021 to upgrade our buildings. The refurbishment of Park Avenue is now ongoing after we secured full ownership. More details are provided in case studies in the annual report.

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

Valuation

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

Key data

Rental data ¹	Rental income for the year £m	Net rental income for the year £m	Lettable space sqm	Contracted rent at year end £m	ERV at year end £m	Contracted rent subject to indexation £m	Vacancy rate at year end
United Kingdom	58.2	60.4	201,336	57.2	64.0	14.0	6.2%
Germany	33.3	32.7	277,851	34.7	39.2	22.3	4.0%
France	15.0	14.8	81,455	16.0	16.7	16.0	5.1%
Total portfolio	106.5	107.9	560,642	107.9	119.9	52.3	5.3%

Valuation data ¹	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	1,003.8	(25.7)	–	5.0%	5.2%	8.3%	3.1%	5.7%
Germany	743.4	58.4	38.2	4.1%	4.3%	12.3%	5.0%	4.4%
France	307.5	0.7	16.2	4.0%	4.7%	4.7%	3.6%	4.6%
Total portfolio	2,054.7	33.4	54.4	4.5%	4.8%	9.1%	3.5%	5.1%

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

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

Key performance indicators

Measuring the tangible performance of our strategy

Total shareholder return – Relative

Definition

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

Why this is important to CLS

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

Our target for 2020

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

Progress

The TSR was -22.8% (2019: 47.1%), making CLS the 18th (2019: 10th) ranked share of the FTSE 350 Real Estate Super Sector Index of 26 companies which was below our target for 2020.

Total accounting return

Definition

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

Why this is important to CLS

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

Our target for 2020

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

Progress

In 2020, the total accounting return was 8.1% (2019: 9.4%).

Vacancy rate

Definition

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

Why this is important to CLS

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

Our target for 2020

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

Progress

At 31 December 2020, the vacancy rate was 5.3% (2019: 4.0%).

Other performance indicators

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

Customer retention

Through our active asset management we seek to retain more than 50% of our tenants by value following lease expiries. Our retention rate for 2020 was 71.8% (2019: 57.2%).

Administration cost ratio

This measures the administration cost of running the core property business by reference to the net rental income that it generates, and provides a direct comparative to most of our peer group. We aim to maintain this ratio between 15% and 17%. For 2020, the administration cost ratio was 16.7% (2019: 17.7%).

Cost of debt

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

Sustainability

We seek to minimise our impact on the environment by targeting a reduction in carbon emissions of 25% in the managed portfolio by 2025 (baseline 31 December 2018). In 2020, the year-on-year reduction was 6.4% (2019: 3.1%).

Health and safety

We work hard to ensure that the health and safety of our employees, customers, advisors, contractors and the general public is not compromised and pride ourselves on remaining below the UK National Accident Frequency rate. This rate is calculated by dividing the number of accidents reported in the year by the number of people occupying our buildings. For 2020, our accident frequency rate was 95 (2019: 105) per 100,000 employees compared to the UK National Accident Frequency rate of 930 (2019: 930) per 100,000 employees.

Our principal risks

Risk management framework

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

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

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

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

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

Our risk management structure is set out below:

Board

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

Audit Committee

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

Executive Committee

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

Senior Operations Board

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

Management of risks throughout the business

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

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

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

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

Risk appetite

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

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

Very Low: Avoid risk and uncertainty

Low: Keep risk as low as reasonably practical with very limited, if any, reward

Medium: Consider options and accept a mix of low and medium risk options with moderate rewards

High: Accept a mix of medium and high risk options with better rewards

Very High: Choose high risk options with potential for high returns

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

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

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

Risk environment

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

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

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

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

In considering our principal risks (set out in the following pages), any potential impact as a result of Covid-19 has been taken into account.

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

Principal risks

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

Property risk

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

Risk assessment: High

Change in risk profile in year: Increase

Key risk indicators

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

Key/other performance indicator (KPI/OPI) link

Total shareholder return (Relative)

Total accounting return

Vacancy rate

Administration cost ratio

Business Model Link

“right properties”

“right financing”

“active management”

Risk mitigation in action

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

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

More detail is provided in the Country business reviews.

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

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

Risk mitigation priorities for 2021

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

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

Commentary

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

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

Sustainability risk

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

Risk assessment: Medium

Change in risk profile in year: Increase

Key risk indicators

Transition risks:

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

Physical risks:

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

KPI/OPI link

Total shareholder return (Relative)

Total accounting return

Vacancy rate

Administration cost ratio

Business Model Link

"right properties"

"active management"

Risk mitigation in action

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

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

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

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

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

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

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

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

Risk mitigation priorities for 2021

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

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

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

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

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

Commentary

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

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

Business interruption risk

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

Risk assessment: Medium

Change in risk profile in year: No change

Key risk indicators

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

KPI/OPI link

Total shareholder return (Relative)

Total accounting return

Vacancy rate

Administration cost ratio

Business Model Link

“right properties”

“right financing”

“active management”

Risk mitigation in action

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

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

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

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

Risk mitigation priorities for 2021

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

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

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

Commentary

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

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

Financing risk

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

Risk assessment: Medium

Change in risk profile in year: Increase

Key risk indicators

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

KPI/OPI link

Total shareholder return (Relative)

Total accounting return

Business Model Link

“right financing”

“hold or sell”

Risk mitigation in action

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

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

The Group’s weighted average cost of debt at 31 December 2020 fell to 2.28% (2019: 2.42%). At the same time, as a result of deliberately targeting longer term loans, the Group’s average debt maturity increased to 4.6 years (2019: 3.1 years).

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

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

More detail is provided in the Chief Financial Officer’s review.

Risk mitigation priorities in 2021

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

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

Further ‘green’ loans will also be targeted.

Commentary

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

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

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

Political and economic risk

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

Risk assessment: High

Change in risk profile in year: No change

Key risk indicators

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

KPI/OPI link

Total shareholder return (Relative)

Total accounting return

Vacancy rate

Administration cost ratio

Business Model Link

“right properties”

“right finance”

“active management”

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.

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

Risk mitigation priorities for 2021

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

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

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

Commentary

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

People risk

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

Risk assessment: Medium

Change in risk profile in year: No change

Key risk indicators

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

KPI/OPI link

Total shareholder return (Relative)

Total accounting return

Vacancy rate

Administration cost ratio

Business Model Link

“active management”

Risk mitigation in action

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

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

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

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

Risk mitigation priorities for 2021

We will continue:

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

Commentary

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

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

Emerging risks

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

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

Risk	Potential Impact	Mitigation	Time Horizon		
			Short < 2yrs	Medium 2-5 yrs	Long > 5 yrs
Regulation/ compliance	Increased capital cost of maintaining property portfolio	Continue with ongoing assessment of all properties against emerging regulatory changes and benchmarking of fit-out and refurbishment projects against third-party schemes.		X	X
Increasing energy costs	Increased cost base of operating properties will reduce attractiveness of tenancies to existing and potential customers	Ongoing consideration of, and investment in, energy efficient plant and building-mounted renewable energy systems.	X	X	X
Changes in technology	The challenge to adapt office facilities to changing work practices/environment expectations of customers	Each region updates the Senior Operations Board on trends, including technology, through the business. The in-house management model also gives valuable insights into tenants' ongoing needs and potential trend changes that can be incorporated into future fit-out of properties.		X	X
Changes in office occupation trends	Changes in social attitudes to agile working practices may reduce demand for space compared to historic trends	In-house asset management model provides the means for the property team to: proactively manage customers; and gain real-time insight and transparency on changes in needs and trends.	X	X	X
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.	X	X	X
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.		X	X

Viability statement

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

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

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

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

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

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

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

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

The modelling has focused on the cash position of the Group and potential covenant breaches. On average across its 45 loans, CLS has between 26% and 52% headroom for the three main covenant ratios of loan to value, interest cover and debt service cover. In addition, our loan agreements have equity cure mechanisms and in the downside scenarios it is assumed that sufficient, available cash is used to avoid covenant breaches. It has also been assumed that acquisitions, capital expenditure and dividends are either reduced or cancelled. Finally, property sales at the reduced modelled values are assumed.

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

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

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

Directors' responsibility statement

Directors' responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union, and have elected to prepare the parent company financial statements in accordance with FRS101 of United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This statement of responsibilities was approved by the Board on 9 March 2021.

Approved and authorised on behalf of the Board

David Fuller BA FCIS

Company Secretary

10 March 2021

Financial statements

Group income statement

for the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Continuing operations			
Revenue	4	139.4	138.3
Net rental income	4	109.8	110.6
Administration expenses		(18.5)	(19.9)
Other expenses		(15.1)	(13.7)
Revenue less costs		76.2	77.0
Net movements on revaluation of investment property	11	31.5	57.4
Profit on sale of investment property		11.6	8.6
Gain on sale of other financial investments		–	40.4
Operating profit		119.3	183.4
Finance income	8	3.2	5.0
Finance costs	9	(26.0)	(29.4)
Profit before tax		96.5	159.0
Taxation	10	(19.1)	(23.8)
Profit from continuing operations		77.4	135.2
Discontinued operations	21	–	(0.5)
Loss from discontinued operations			
Profit for the year	6	77.4	134.7
Attributable to:			
Owners of the Company		77.4	135.5
Non-controlling interests		–	(0.8)
		77.4	134.7
Earnings per share			
Basic and diluted earnings per share from continuing operations		19.0p	33.3p
Basic and diluted earnings per share from discontinued operations		–	(0.2)p
Basic and diluted earnings per share	5	19.0p	33.1p

Group statement of comprehensive income
for the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Profit for the year		77.4	134.7
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Foreign exchange differences		24.2	(28.8)
Items that may be reclassified to profit or loss			
Fair value loss taken to gain on sale of other financial investments, net of impairments		–	2.5
Revaluation of property, plant and equipment	11/12	(3.6)	(0.1)
Deferred tax on fair value movements	16	0.5	(0.3)
Discontinued operations		–	(0.9)
Total items that may be reclassified to profit or loss		(3.1)	1.2
Total other comprehensive income		21.1	(27.6)
Total comprehensive income for the year		98.5	107.1
Total comprehensive income attributable to:			
Owners of the Company		98.5	107.9
Non-controlling interests		–	(0.8)
		98.5	107.1

Group balance sheet
at 31 December 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Investment properties	11	2,032.8	1,961.0
Property, plant and equipment	11/12	130.5	43.1
Goodwill and intangible assets		2.2	1.4
Deferred tax	16	7.7	4.7
Other receivables	13	8.2	–
		2,181.4	2,010.2
Current assets			
Trade and other receivables	13	22.0	25.3
Properties held for sale	11	21.9	10.4
Derivative financial instruments	18	–	0.3
Cash and cash equivalents	14	235.7	259.4
		279.6	295.4
Total assets		2,461.0	2,305.6
Current liabilities			
Trade and other payables	15	(54.3)	(54.7)
Current tax		(0.3)	(11.9)
Borrowings	17	(103.6)	(132.3)
		(158.2)	(198.9)
Non-current liabilities			
Deferred tax	16	(159.5)	(140.8)
Borrowings	17	(867.1)	(759.4)
Derivative financial instruments	18	(5.6)	(4.1)
		(1,032.2)	(904.3)
Total liabilities		(1,190.4)	(1,103.2)
Net assets		1,270.6	1,202.4
Equity			
Share capital	22	11.0	11.0
Share premium		83.1	83.1
Other reserves	24	117.3	96.4
Retained earnings		1,059.2	1,011.9
Total equity		1,270.6	1,202.4

The financial statements of CLS Holdings plc (registered number: 02714781) were approved by the Board of Directors and authorised for issue on 10 March 2021 and were signed on its behalf by:

Mr F Widlund
Chief Executive Officer

Mr A Kirkman
Chief Financial Officer

Group statement of changes in equity
for the year ended 31 December 2020

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non- controlling interest £m	Total equity £m
	Note 22		Note 24				
Arising in 2020:							
Total comprehensive income for the year	–	–	21.1	77.4	98.5	–	98.5
Share-based payment credit	–	–	(0.2)	–	(0.2)	–	(0.2)
Dividends to shareholders	–	–	–	(30.1)	(30.1)	–	(30.1)
Total changes arising in 2020	–	–	20.9	47.3	68.2	–	68.2
At 1 January 2020	11.0	83.1	96.4	1,011.9	1,202.4	–	1,202.4
At 31 December 2020	11.0	83.1	117.3	1,059.2	1,270.6	–	1,270.6

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non- controlling interest £m	Total equity £m
	Note 22		Note 24				
Arising in 2019:							
Total comprehensive income for the year	–	–	(27.6)	135.5	107.9	(0.8)	107.1
Share-based payment charge	–	–	1.0	–	1.0	–	1.0
Dividends to shareholders	–	–	–	(28.7)	(28.7)	–	(28.7)
Total changes arising in 2019	–	–	(26.6)	106.8	80.2	(0.8)	79.4
At 1 January 2019	11.0	83.1	123.0	905.1	1,122.2	0.8	1,123.0
At 31 December 2019	11.0	83.1	96.4	1,011.9	1,202.4	–	1,202.4

Group statement of cash flows
for the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Cash flows from operating activities			
Cash generated from operations	25	76.9	75.3
Interest received		1.0	2.8
Interest paid		(22.1)	(22.8)
Income tax paid on operating activities		(11.5)	(6.4)
Net cash inflow from operating activities		44.3	48.9
Cash flows from investing activities			
Purchase of investment properties		(124.6)	(237.2)
Capital expenditure on investment properties		(18.9)	(16.7)
Proceeds from sale of properties		62.2	171.6
Income tax paid on sale of properties		(9.0)	(6.6)
Purchases of property, plant and equipment		(0.3)	(0.5)
Proceeds from sale of corporate bonds		–	34.5
Proceeds from sale of equity investments		–	113.1
Dividends received from equity investments		–	2.2
Net cash flow from sale of subsidiaries	21	(1.4)	4.5
Purchase of intangibles		(0.8)	–
Distributions received from associate and investment undertakings		0.1	–
Net cash flow on foreign currency transactions		0.3	(1.2)
Net cash (outflow)/inflow from investing activities		(92.4)	63.7
Cash flows from financing activities			
Dividends paid	23	(30.1)	(28.7)
New loans		182.5	292.4
Issue costs of new loans		(2.5)	(3.6)
Repayment of loans		(128.3)	(209.5)
Net cash inflow from financing activities		21.6	50.6
Cash flow element of net (decrease)/increase in cash and cash equivalents		(26.5)	163.2
Foreign exchange gain/(loss)		2.8	(4.1)
Net (decrease)/increase in cash and cash equivalents		(23.7)	159.1
Cash and cash equivalents at the beginning of the year		259.4	100.3
Cash and cash equivalents at the end of the year	14	235.7	259.4

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. Annual financial report

The annual financial report (produced in accordance with the Disclosure and Transparency Rules) can be found on the Company’s website www.clsholdings.com. The 2020 Annual Report and Accounts will be posted to shareholders on 22 March 2021 and will also be available on the Company’s website.

The financial information contained in this announcement has been prepared on the basis of the accounting policies set out in the statutory accounts for the year ended 31 December 2020. This financial information has been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union. Whilst the financial information included in this announcement has been computed in accordance International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union, this announcement does not itself contain sufficient information to comply with IFRS. Those accounts give a balanced, true and fair view of the assets, liabilities, financial position and profit and loss of the Group and the undertakings included in the consolidation taken as a whole.

The financial information set out in this announcement does not constitute the Group’s financial statements for the year ended 31 December 2020 or 31 December 2019 as defined by Section 434 of the Companies Act 2006. Statutory accounts for 2019 have been delivered to the Registrar of Companies and those for 2020 will be delivered following the Company’s Annual General Meeting.

The Auditors, Deloitte LLP, have reported on those accounts and their reports on both the 2020 and 2019 accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 (2) or (3) of the Companies Act 2006.

3. Going concern

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

4. Segment information

The Group has two operating divisions – investment properties and other investments. Other investments comprise the hotel at Spring Mews and other small corporate investments. The Group manages the investment properties division on a geographical basis due to its size and geographical diversity. Consequently, the Group's principal operating segments are:

Investment properties: United Kingdom

Germany

France

Other investments

	Investment properties			Other investments £m	Central admin- istration £m	Total £m
	United Kingdom £m	Germany £m	France £m			
Year ended 31 December 2020						
Rental income	58.2	33.3	15.0	–	–	106.5
Other property-related income	3.8	–	0.2	1.9	–	5.9
Service charge income	11.2	10.3	5.5	–	–	27.0
Revenue	73.2	43.6	20.7	1.9	–	139.4
Service charges and similar expenses	(12.8)	(10.9)	(5.9)	–	–	(29.6)
Net rental income	60.4	32.7	14.8	1.9	–	109.8
Administration expenses	(7.5)	(2.9)	(1.8)	(0.2)	(6.1)	(18.5)
Other expenses	(8.9)	(2.8)	(1.4)	(2.0)	–	(15.1)
Revenue less costs	44.0	27.0	11.6	(0.3)	(6.1)	76.2
Net movements on revaluation of investment property	(29.1)	60.1	0.5	–	–	31.5
(Loss)/profit on sale of investment property	(0.1)	11.7	–	–	–	11.6
Segment operating profit/(loss)	14.8	98.8	12.1	(0.3)	(6.1)	119.3
Finance income	–	–	–	3.2	–	3.2
Finance costs	(17.3)	(5.1)	(2.7)	(0.9)	–	(26.0)
Segment (loss)/profit before tax	(2.5)	93.7	9.4	2.0	(6.1)	96.5

	Investment properties			Other investments £m	Central admin- istration £m	Total £m
	United Kingdom £m	Germany £m	France £m			
Year ended 31 December 2019						
Rental income	59.2	32.4	16.1	–	–	107.7
Other property-related income	1.1	0.6	0.2	4.9	–	6.8
Service charge income	9.2	9.1	5.5	–	–	23.8
Revenue	69.5	42.1	21.8	4.9	–	138.3
Service charges and similar expenses	(10.8)	(11.3)	(5.6)	–	–	(27.7)
Net rental income	58.7	30.8	16.2	4.9	–	110.6
Administration expenses	(7.5)	(2.8)	(2.0)	(0.3)	(7.3)	(19.9)
Other expenses	(6.2)	(3.6)	(0.9)	(3.0)	–	(13.7)
Revenue less costs	45.0	24.4	13.3	1.6	(7.3)	77.0
Net movements on revaluation of investment property	(3.4)	50.7	10.1	–	–	57.4
(Loss)/profit on sale of investment property	(4.4)	6.9	6.1	–	–	8.6
Gain on sale of other financial investments	–	–	–	40.4	–	40.4
Segment operating profit/(loss)	37.2	82.0	29.5	42.0	(7.3)	183.4
Finance income	–	–	–	5.0	–	5.0
Finance costs	(17.8)	(4.9)	(2.8)	(3.9)	–	(29.4)
Segment profit/(loss) before tax	19.4	77.1	26.7	43.1	(7.3)	159.0

Other segment information

	Assets		Liabilities		Capital expenditure	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Investment properties						
United Kingdom	1,044.8	1,064.7	605.2	532.4	7.3	5.9
Germany	767.2	679.1	373.3	357.1	6.3	9.1
France	314.9	290.7	207.2	205.2	4.2	1.6
Other investments ¹	334.1	271.1	4.7	8.5	0.1	0.1
	2,461.0	2,305.6	1,190.4	1,103.2	17.9	16.7

¹ Following the transfer of student accommodation from investment properties to PPE discussed in note 11 the 'other investments' segment also includes student accommodation at 31 December 2020.

5. Alternative performance measures

Alternative performance measures ('APMs') should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

Introduction

The Group has applied the October 2015 European Securities and Markets Authority ('ESMA') guidelines on APMs and the November 2017 Financial Reporting Council ('FRC') corporate thematic review of APMs in these results, whilst noting ESMA's December 2019 report on the use of APMs. An APM is a financial measure of historical or future financial performance, position or cash flows of the Group which is not a measure defined or specified in IFRS.

Overview of our use of APMs

The Directors believe that APMs assist in providing additional useful information on the underlying trends, performance and position of the Group. APMs assist our stakeholder users of the accounts, particularly equity and debt investors, through the comparability of information. APMs are used by the Directors and management, both internally and externally, for performance analysis, strategic planning, reporting and incentive-setting purposes.

APMs are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including peers in the real estate industry. There are two sets of APMs which we utilise, and which are reconciled where possible to statutory measures on the following pages.

1. EPRA APMs and similar CLS APMs

CLS monitors the Group's financial performance using APMs which are European Public Real Estate Association ('EPRA') measures as these are a set of standard disclosures for the property industry and thus aid comparability for our stakeholder users. In previous years, the two key APMs for CLS, which are in accordance with the November 2016 EPRA guidelines, were:

- EPRA earnings, which gives relevant information to investors on the long-term performance of the Group's underlying property investment business and an indication of the extent to which current dividend payments are supported by earnings; and
- EPRA net asset value (NAV), which excludes certain items not expected to crystallise in a long-term investment property business model, such as CLS'.

The latest edition of the EPRA guidelines were issued in October 2019 and replaced EPRA NAV and EPRA NNAV with three other balance sheet reporting measures, which are defined in the glossary:

- EPRA net tangible assets (NTA);
- EPRA net realisable value (NRV); and
- EPRA net development value (NDV).

CLS considers EPRA NTA to be the most relevant of these new measures as we believe that this will continue to reflect the long-term nature of our property investments most accurately. However, all the new measures have been disclosed along with the previous measures for comparative purposes. EPRA Earnings remains the same.

Whilst CLS primarily uses the measures referred to above, we have also disclosed all other EPRA metrics as well as disclosing the measures that CLS used to prefer for certain of these categories. The notes below highlight where the measures that we monitor differ and our previous rationale for using them. From 2021 onwards, following CLS' re-entry into the EPRA indices, we will be just using EPRA measures.

- EPRA net initial yield;
- EPRA 'topped-up' net initial yield;

- CLS and EPRA vacancy;
- EPRA capital expenditure; and
- CLS administration cost ratio and EPRA cost ratio.

2. Other APMs

CLS uses a number of other APMs, many of which are commonly used by industry peers:

- Total accounting return;
- Net borrowings and gearing;
- Loan-to-value;
- Dividend cover; and
- Interest cover.

Apart from the changes highlighted above, there have been no changes to the Group's APMs in the year with the same APMs utilised by the business being defined, calculated and used on a consistent basis. Set out below is a reconciliation of the APMs used in these results to the statutory measures.

1. EPRA APMs and similar CLS APMs

For use in earnings per share calculations	2020 Number	2019 Number
Weighted average number of ordinary shares in circulation	407,395,760	407,395,760
For use in net asset per share calculations		
Number of ordinary shares in circulation at 31 December	407,395,760	407,395,760

i) Earnings – EPRA earnings

	Notes	2020 £m	2019 £m
Profit for the year		77.4	135.5
Profit from discontinued operations	21	–	(0.3)
Net uplift on revaluation of investment property	11	(31.5)	(57.4)
Profit from sale of investment property		(11.6)	(8.6)
Current tax on disposals		2.7	13.4
Gain on sale of other financial investments		–	(40.4)
Tax thereon		–	0.1
Movement in fair value of derivative financial instruments	9	1.6	0.5
Movement in fair value of foreign exchange derivatives		–	0.4
Deferred taxation thereon	16	10.9	5.7
EPRA earnings		49.5	48.9

Basic and diluted earnings per share from continuing operations (pence)	19.0p	33.3p
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EPRA earnings per share (pence)	12.2p	12.0p
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ii) Net asset value measures

	IFRS NAV £m	EPRA NNNAV £m	EPRA NAV £m	EPRA NTA £m	EPRA NRV £m	EPRA NDV £m
2020						
Net assets	1,270.6	1,270.6	1,270.6	1,270.6	1,270.6	1,270.6
Goodwill as a result of deferred tax on acquisitions	–	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Other intangibles	–	–	–	(1.1)	–	–
Fair value of fixed interest debt	–	(13.2)	–	–	–	(13.2)
– tax thereon	–	2.5	–	–	–	2.5
Deferred tax on revaluation surplus	–	–	151.3	151.3	151.3	–
Capital allowances	–	–	–	(12.0)	(12.0)	–
Adjustment for short-term disposals	–	–	–	(6.9)	–	–
Fair value of financial instruments	–	–	5.6	5.6	5.6	–
Purchasers' costs	–	–	–	–	140.9	–
	1,270.6	1,258.8	1,426.4	1,406.4	1,555.3	1,258.8
Per share	311.9p	309.0p	350.1p	345.2p	381.8p	309.0p
2019						
Net assets	1,202.4	1,202.4	1,202.4	1,202.4	1,202.4	1,202.4
Goodwill as a result of deferred tax on acquisitions	–	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Other intangibles	–	–	–	(0.3)	–	–
Fair value of fixed interest debt	–	(9.9)	–	–	–	(9.9)
– tax thereon	–	1.9	–	–	–	1.9
Deferred tax on revaluation surplus	–	–	136.1	136.1	136.1	–
Capital allowances	–	–	–	(11.7)	(11.7)	–
Adjustment for short-term disposals	–	–	–	0.1	–	–
Fair value of financial instruments	–	–	3.8	3.8	3.8	–
Purchasers' costs	–	–	–	–	130.2	–
	1,202.4	1,193.3	1,341.2	1,329.3	1,459.7	1,193.3
Per share	295.1p	292.9p	329.2p	326.3p	358.3p	292.9p

iii) Yield

EPRA net initial yield (NIY)

EPRA NIY is calculated as the annualised rental income based on the cash rents passing at the balance sheet date less non-recoverable property operating expenses, divided by the gross market value of the property (excluding those that are under development, held as PPE or occupied by CLS).

	2020				2019			
	United Kingdom £m	Germany £m	France £m	Total £m	United Kingdom £m	Germany £m	France £m	Total £m
Rent passing	54.4	33.2	13.7	101.3	56.7	32.8	14.1	103.6
Adjusted for development stock	(1.1)	–	–	(1.1)	(1.4)	–	–	(1.4)
Forecast non-recoverable service charge	(2.5)	(0.8)	(0.5)	(3.8)	(2.2)	–	–	(2.2)
Annualised net rents (A)	50.8	32.4	13.2	96.4	53.1	32.8	14.1	100.0
Property portfolio	1,003.8	743.3	307.6	2,054.7	1,024.3	663.6	283.5	1,971.4
Adjusted for development stock	(49.5)	(7.5)	–	(57.0)	(52.4)	(8.2)	–	(60.6)
Purchasers' costs at 6.8%	64.6	50.0	20.9	135.5	66.1	44.5	19.3	129.9
Property portfolio valuation including purchasers' costs (B)	1,018.9	785.8	328.5	2,133.2	1,038.0	699.9	302.8	2,040.7
EPRA NIY (A/B)	5.0%	4.1%	4.0%	4.5%	5.1%	4.8%	4.7%	4.9%

EPRA "topped-up" NIY

EPRA "topped-up" NIY is calculated by making an adjustment to EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).

	2020				2019			
	United Kingdom £m	Germany £m	France £m	Total £m	United Kingdom £m	Germany £m	France £m	Total £m
Contracted rent	57.2	34.7	16.0	107.9	59.2	34.3	15.8	109.3
Adjusted for development stock	(1.2)	–	–	(1.2)	(1.5)	–	–	(1.5)
Forecast non-recoverable service charge	(2.5)	(0.8)	(0.5)	(3.8)	(2.2)	–	–	(2.2)
'Topped-up' annualised net rents (A)	53.5	33.9	15.5	102.9	55.5	34.3	15.8	105.6
Property portfolio	1,003.8	743.3	307.6	2,054.7	1,024.3	663.6	283.5	1,971.4
Adjusted for development stock	(49.5)	(7.5)	–	(57.0)	(52.4)	(8.2)	–	(60.6)
Purchasers' costs (6.8%)	64.6	50.0	20.9	135.5	66.1	44.5	19.3	129.9
Property portfolio valuation including purchasers' costs (B)	1,018.9	785.8	328.5	2,133.2	1,038.0	699.9	302.8	2,040.7
EPRA "topped-up" NIY (A/B)	5.2%	4.3%	4.7%	4.8%	5.4%	5.0%	5.2%	5.2%

iv) Vacancy

The EPRA vacancy rate calculates vacancy as a proportion of the ERV of the total portfolio and, from 2021, will be the primary measure used by the Group. Previously, CLS opted to use its own rate based on ERV of vacant space plus contracted rent, which provided a more prudent KPI, as a large proportion of our portfolio used to be under rented. Both measures are set out below:

CLS vacancy

	2020	2019
	£m	£m
ERV of vacant space (A)	6.1	4.6
Contracted rent	107.9	109.3
ERV of vacant space plus contracted rent (B)	114.0	113.9
CLS vacancy rate (A/B)	5.3%	4.0%

EPRA vacancy

	2020	2019
	£m	£m
ERV of vacant space (A)	6.1	4.6
ERV of lettable space	113.8	120.1
ERV of total portfolio (B)	119.9	124.7
EPRA vacancy rate (A/B)	5.1%	3.7%

v) Capital expenditure

EPRA capital expenditure

This measure shows the total amounts spent on the Group's investment properties on an accrual and cash basis with a split between expenditure used for the creation of incremental space and enhancing space ('no incremental space').

	Notes	2020	2019
		£m	£m
Acquisitions	11	119.1	232.9
Amounts spent on the completed investment property portfolio	11		
Creation of incremental space		1.9	2.6
Creation of no incremental space		15.9	14.0
EPRA capital expenditure		136.9	249.5
Conversion from accrual to cash basis		6.6	4.3
EPRA capital expenditure on a cash basis		143.5	253.8

vi) Cost ratios

CLS administration cost ratio

CLS' administration cost ratio represents the cost of running the property portfolio relative to its net income. CLS uses this measure to monitor the efficiency of the business as it focuses on the administrative cost of active asset management across three countries.

	Notes	2020 £m	2019 £m
Administration expenses	4	18.5	19.9
Less: Investment segment and First Camp	4	(0.2)	(0.3)
Underlying administration expenses (A)		18.3	19.6
Net rental income from investment property (B)	4	109.8	110.6
Administration cost ratio (A/B)		16.7%	17.7%

EPRA cost ratio

	Notes	2020 £m	2019 £m
Administration expenses	4	18.5	19.9
Other expenses	4	15.1	13.7
Less: Investment segment and First Camp	4	(2.2)	(3.3)
		31.4	30.3
Net service charge costs	17	2.6	3.9
Service charge costs recovered through rents but not separately invoiced	17	(0.3)	(0.7)
Dilapidations receipts	17	(2.6)	(0.9)
EPRA costs (including direct vacancy costs) (A)	17	31.1	32.6
Direct vacancy costs	14	(2.9)	(2.6)
EPRA costs (excluding direct vacancy costs) (B)		28.2	30.0
Gross rental income	4	106.5	107.7
Service charge components of rental income	17	(0.3)	(0.7)
Adjusted gross rental income (C)		106.2	107.0
EPRA cost ratio (including direct vacancy costs) (A/C)		29.3%	30.5%
EPRA cost ratio (excluding direct vacancy costs) (B/C)		26.6%	28.0%

2. Other APMs

i) Total accounting return

	Notes	2020 £m	2019 £m
EPRA NTA at 31 December	5	1,406.4	1,329.3
Distribution – prior year final	23	20.5	19.1
Distribution – current year interim	23	9.6	9.6
Less: EPRA NTA at 1 January (A)	5	(1,329.3)	(1,241.0)
Return before dividends (B)		107.2	117.0
Total accounting return (NTA) (B/A)		8.1%	9.4%

	Notes	2020 £m	2019 £m
EPRA NAV at 31 December	5	1,426.4	1,341.2
Distribution – prior year final	23	20.5	19.1
Distribution – current year interim	23	9.6	9.6
Less: EPRA NAV at 1 January (A)	5	(1,341.2)	(1,262.0)
Return before dividends (B)		115.3	107.9
Total accounting return (NAV) (B/A)		8.6%	8.6%

ii) Net borrowings and gearing

	Notes	2020 £m	2019 £m
Borrowings short-term	17	103.6	132.3
Borrowings long-term	17	867.1	759.4
Add back: unamortised issue costs	17	6.3	5.5
Gross debt	17	977.0	897.2
Cash	14	(235.7)	(259.4)
Net borrowings (A)		741.3	637.8
Net assets (B)		1,270.6	1,202.4
Net gearing (A/B)		58.3%	53.0%

iii) Balance sheet loan-to-value

	Notes	2020 £m	2019 £m
Borrowings short-term	17	103.6	132.3
Borrowings long-term	17	867.1	759.4
Less: cash	14	(235.7)	(259.4)
Net debt (A)		735.0	632.3
Investment properties	11	2,032.8	1,961.0
Properties in plant, property and equipment	11/12	128.3	40.7
Properties held for sale	11	21.9	10.4
Total property portfolio (B)		2,183.0	2,012.1
Balance sheet loan-to-value (A/B)		33.7%	31.4%

iv) Dividend cover

	Notes	2020 £m	2019 £m
Interim dividend	23	9.6	9.6
Final dividend	23	21.2	20.5
Total dividend (A)		30.8	30.1
EPRA EPS (B)	5	49.5	48.9
Dividend cover (B/A)		1.61	1.62

v) Interest cover

	Notes	2020 £m	2019 £m
Net rental income	4	109.8	110.6
Administration expenses	4	(18.5)	(19.9)
Other expenses	4	(15.1)	(13.7)
Group revenue less costs (A)		76.2	77.0
Finance income (excluding foreign exchange, dividend income)	8	1.0	2.8
Finance costs (excluding foreign exchange, derivatives and exceptionals)	9	(24.4)	(25.3)
Net interest (B)		(23.4)	(22.5)
Interest cover (-A/B)		3.26	3.42

6. Profit for the year

Profit for the year has been arrived at after charging:

	Notes	2020 £m	2019 £m
Auditor's remuneration: Fees payable to the Company's Auditor for:			
Audit of the Parent Company and Group accounts		0.4	0.4
Audit of the Company's subsidiaries pursuant to legislation		0.1	0.1
Depreciation of property, plant and equipment	12	0.7	0.9
Employee benefits expense	7	13.5	14.1
Foreign exchange (gain)/loss	8/9	(2.1)	3.6
Provision against trade receivables	13	1.8	0.3

Other services provided to the Group by the Company's Auditor consisted of the 2020 interim review of £40k (2019: £37k).

7. Employee benefits expense

	2020 £m	2019 £m
Wages and salaries	9.1	9.3
Social security costs	1.1	1.2
Pension costs – defined contribution plans	0.4	0.4
Performance incentive plan	1.1	1.1
Other employee-related expenses	1.8	2.1
	13.5	14.1

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

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

	2020				2019			
	Property Number	Hotel Number	Other operations Number	Total Number	Property Number	Hotel Number	Other operations Number	Total Number
Male	47	7	–	54	46	8	1	55
Female	53	9	–	62	49	9	–	58
	100	16	–	116	95	17	1	113

8. Finance income

	2020 £m	2019 £m
Interest income		
Financial instruments carried at amortised cost	1.0	0.7
Financial instruments carried at fair value through other comprehensive income	–	2.1
Foreign exchange gain	2.1	–
Other finance income	0.1	2.2
	3.2	5.0

9. Finance costs

	2020 £m	2019 £m
Interest expense		
Secured bank loans	20.0	20.6
Secured notes	2.3	2.4
Amortisation of loan issue costs	2.1	2.3
Total interest costs	24.4	25.3
Movement in fair value of derivative financial instruments	1.6	0.5
Foreign exchange loss	–	3.6
	26.0	29.4

10. Taxation

	2020 £m	2019 £m
Corporation tax		
Current year charge	8.1	20.5
Adjustments in respect of prior years	0.3	(2.4)
	8.4	18.1
Deferred tax (see note 16)		
Origination and reversal of temporary differences	5.7	5.7
Effect of change in UK tax rate	5.0	–
	10.7	5.7
Tax charge for the year	19.1	23.8

A deferred tax credit of £0.5 million (2019: charge £0.3 million) was recognised directly in equity (note 16). The charge for the year differs from the theoretical amount which would arise using the weighted average tax rate applicable to profits of Group companies as follows:

	2020 £m	2019 £m
Profit before tax	96.5	159.0
Expected tax charge at the weighted average applicable tax rate	16.3	31.4
Expenses not deductible for tax purposes	1.1	2.4
Change in tax basis of UK properties, including indexation uplift	0.7	0.3
Change in UK tax rate	5.0	–
Non-taxable income	(1.6)	(0.5)
Deferred tax on losses (recognised)/not recognised	(2.8)	0.4
Non-taxable gain on sale of investments	–	(7.8)
Adjustments in respect of prior years	0.3	(2.4)
Other	0.1	–
Tax charge for the year	19.1	23.8

The weighted average applicable tax rate of 16.9% (2019: 19.8%) was derived by applying to their relevant profits and losses the rates in the jurisdictions in which the Group operated. The standard UK rate of corporation tax applied to profits is 19.0% (2019: 19.0%).

11. Property portfolio

	United Kingdom £m	Germany £m	France £m	Total investment properties £m	Property held in PPE ¹ £m	Assets held for sale £m	Total property portfolio £m
At 1 January 2020	1,014.7	663.6	282.7	1,961.0	40.7	10.4	2,012.1
Acquisitions	98.1	17.3	3.7	119.1	–	–	119.1
Capital expenditure	7.3	6.3	4.2	17.8	0.1	–	17.9
Disposals	–	(40.4)	–	(40.4)	–	(10.2)	(50.6)
Net revaluation movement	(29.1)	60.1	0.5	31.5	(3.6)	–	27.9
Lease incentive debtor adjustments	3.4	(1.7)	0.2	1.9	–	–	1.9
Exchange rate variances	–	38.2	16.2	54.4	0.5	–	54.9
Depreciation	–	–	–	–	(0.2)	–	(0.2)
Transfer to plant, property and equipment	(90.8)	–	–	(90.8)	90.8	–	–
Transfer to properties held for sale	(5.7)	(10.2)	(5.8)	(21.7)	–	21.7	–
At 31 December 2020	997.9	733.2	301.7	2,032.8	128.3	21.9	2,183.0

	United Kingdom £m	Germany £m	France £m	Total £m
Investment property	997.9	733.2	301.7	2,032.8
Property held in PPE ¹	121.9	4.3	2.1	128.3
Assets held for sale	5.9	10.2	5.8	21.9
Property portfolio at 31 December 2020	1,125.7	747.7	309.6	2,183.0

	United Kingdom £m	Germany £m	France £m	Total investment properties £m	Property held in PPE ¹ £m	Assets held for sale £m	Total property portfolio £m
At 1 January 2019	954.1	625.9	308.1	1,888.1	30.9	4.3	1,923.3
Acquisitions	161.3	58.3	13.3	232.9	–	–	232.9
Capital expenditure	5.9	9.1	1.6	16.6	0.1	–	16.7
Disposals	(86.1)	(42.3)	(30.4)	(158.8)	–	(4.3)	(163.1)
Reclassification to owner-occupied property	(7.5)	(1.0)	(1.8)	(10.3)	10.3	–	–
Net revaluation movement	(3.4)	50.7	10.1	57.4	(0.1)	–	57.3
Lease incentive debtor adjustments	–	2.9	0.8	3.7	–	–	3.7
Exchange rate variances	–	(40.0)	(18.2)	(58.2)	(0.3)	–	(58.5)
Depreciation	–	–	–	–	(0.2)	–	(0.2)
Transfer to properties held for sale	(9.6)	–	(0.8)	(10.4)	–	10.4	–
At 31 December 2019	1,014.7	663.6	282.7	1,961.0	40.7	10.4	2,012.1

¹ PPE: Property, plant and equipment (see note 12)

Investment properties included leasehold properties with a carrying amount of £32.8 million (2019: £29.8 million).

The property portfolio which comprises investment properties, properties held for sale and the student accommodation, hotel and landholding detailed in note 12 was revalued at 31 December 2020 to its fair value. Valuations were based on current prices in an active market for all properties. The property valuations were carried out by external independent valuers as follows:

	2020 £m	2019 £m
Cushman and Wakefield	1,435.3	2,009.7
Jones Lang LaSalle	744.6	–
L Fällström AB	3.1	2.4
	2,183.0	2,012.1

The total fees, including the fees for this assignment, earned by each of the valuers from the Group is less than 5% of their total revenues in each jurisdiction.

Valuation process

The Group's property portfolio was valued by external valuers on the basis of fair value using information provided to them by the Group such as current rents, terms and conditions of lease agreements, service charges and capital expenditure. This information is derived from the Group's property management systems and is subject to the Group's overall control environment. The valuation reports are based on assumptions and valuation models used by the external valuers. The assumptions are typically market related, such as yields and discount rates, and are based on professional judgement and market evidence of transactions for similar properties on arm's length terms. The valuations are prepared in accordance with RICS standards.

Each region's Head of Property, who report to the Head of Group Property, verifies all major inputs to the external valuation reports, assesses the individual property valuation changes from the prior year valuation report and holds discussions with the external valuers. When the process is complete, the valuation report is recommended to the Audit Committee and the Board, which considers it as part of its overall responsibilities.

Valuation techniques

The fair value of the property portfolio has been determined using an income capitalisation approach (excluding ongoing developments), whereby contracted and market rental values are capitalised with a market capitalisation rate. The resulting valuations are cross-checked against the equivalent yields and the fair market values per square foot derived from comparable recent market transactions on arm's length terms. Other factors taken into account in the valuations include the tenure of the property, tenancy details and ground and structural conditions.

Ongoing developments are valued under the 'residual method' of valuation, which is the same of the method of valuation described above, with a deduction for all costs necessary to complete the development, including a notional finance cost, together with a further allowance for remaining risk. As the development approaches completion, the valuer may consider the income capitalisation approach to be more appropriate.

These techniques are consistent with the principles in IFRS 13 Fair Value Measurement and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy.

There were no transfers between any of the Levels in the fair value hierarchy during either 2020 or 2019.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to a gain of £31.5 million (2019: £57.4 million) and are presented in the income statement in the line item 'Net movements on revaluation of investment properties'. The revaluation deficit for the property, plant and equipment of £3.6 million (2019: £0.1 million) was included within the revaluation reserve.

All gains and losses recorded in profit or loss in 2020 and 2019 for recurring fair value measurements categorised within Level 3 of the fair value hierarchy are attributable to changes in unrealised gains or losses relating to investment property held at 31 December 2020 and 31 December 2019, respectively.

Quantitative information about fair value measurement using unobservable inputs (Level 3)

	ERV				Equivalent yield			
	Average		Range		Average		Range	
	2020 £ per sq. ft	2019 £ per sq. ft	2020 per sq. ft	2019 per sq. ft	2020 %	2019 %	2020 %	2019 %
UK	35.51	29.53	10.00–66.43	10.00–66.43	5.70	5.58	2.42–8.80	2.36–10.75
Germany	13.52	14.30	9.44–25.09	7.16–22.81	4.42	4.93	3.00–5.50	4.00–5.88
France	19.13	22.34	9.97–33.22	12.59–43.57	4.60	5.43	3.58–6.26	4.50–6.75

Sensitivity of measurement to variations in the significant unobservable inputs

All other factors remaining constant, an increase in ERV would increase valuations, whilst an increase in the equivalent yield would result in a fall in value, and vice versa. There are inter-relationships between these inputs as they are partially determined by market conditions. An increase in the reversionary yield may accompany an increase in ERV and would mitigate its impact on the fair value measurement.

A decrease in the equivalent yield by 25 basis points would result in an increase in the fair value of the Group's investment property by £115.2 million (2019: £114.4 million) whilst a 25 basis point increase would reduce the fair value by £103.7 million (2019: £96.5 million). A decrease in the ERV by 5% would result in a decrease in the fair value of the Group's investment property by £75.8 million (2019: £71.4 million) whilst an increase in the ERV by 5% would result in an increase in the fair value of the Group's investment property by £75.6 million (2019: £79.9 million).

Where the Group leases out its investment property under operating leases the duration is typically three years or more. No contingent rents have been recognised and no interest has been capitalised within capital expenditure in either the current or comparative year.

12. Property, plant and equipment

	Student accommodation £m	Hotel £m	Land and buildings £m	Owner- occupied property £m	Fixtures and fittings £m	Total £m
Cost or valuation						
At 1 January 2019	–	28.2	3.5	–	5.7	37.4
Additions	–	0.1	–	–	0.4	0.5
Disposals	–	–	–	–	(0.1)	(0.1)
Reclassification from investment property	–	–	–	10.3	–	10.3
Revaluation	–	0.7	(0.8)	–	–	(0.1)
Exchange rate variances	–	–	(0.3)	–	–	(0.3)
At 31 December 2019	–	29.0	2.4	10.3	6.0	47.7
Additions	–	0.1	–	–	0.3	0.4
Reclassification from investment property¹	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	135.7
Comprising:						
At cost	–	–	–	–	6.3	6.3
At valuation	90.8	25.0	3.1	10.6	–	129.5
	90.8	25.0	3.1	10.6	6.3	135.8
Accumulated depreciation and impairment						
At 1 January 2019	–	(0.8)	–	–	(2.9)	(3.7)
Depreciation charge	–	(0.2)	–	–	(0.7)	(0.9)
At 31 December 2019	–	(1.0)	–	–	(3.6)	(4.6)
Depreciation charge	–	(0.2)	–	–	(0.5)	(0.7)
At 31 December 2020	–	(1.2)	–	–	(4.1)	(5.3)
Net book value						
At 31 December 2020	90.8	23.8	3.1	10.6	2.2	130.5
At 31 December 2019	–	28.0	2.4	10.3	2.4	43.1

¹ As a result of the ending of an agreement with a third party the Group will be managing the student accommodation internally and the services it provides will no longer be ancillary. Therefore, the Group has decided that, in accordance with IAS16 Plant, Property and Equipment, this property should be reclassified from investment property to plant, property and equipment.

13. Trade and other receivables

	Notes	2020 £m	2019 £m
Current			
Trade receivables		7.3	5.6
Other receivables		4.3	15.5
Prepayments		8.5	2.5
Accrued income		1.9	1.7
		22.0	25.3
Non-Current			
Other receivables	21	8.2	–
		30.2	25.3

Trade receivables are shown after deducting a provision for bad and doubtful debts of £2.8 million (2019: £1.1 million). The provision for bad and doubtful debts is calculated as an expected credit loss on trade and other receivables in accordance with IFRS 9 (see note 2). The charge to the income statement in relation to write-offs and provisions made against doubtful debts was £1.8 million (2019: £0.3 million) (see note 6).

The expected credit loss is recognised on initial recognition of a receivable and is reassessed at each reporting period. In order to calculate the expected credit loss, the Group uses historic default rates and applies a forward-looking outlook. In the current reporting period, the forward-looking outlook has considered the actual and potential impacts of Covid-19. The historic default rates used are specific to how many days past due a receivable is. Specific provisions are also made in excess of the expected credit loss where information is available to suggest that a higher provision than the expected credit loss is required. In the current reporting period, an additional review of tenant debtors was undertaken to assess recoverability in light of the Covid-19 pandemic.

The Directors consider that the carrying amount of trade and other receivables is approximate to their fair value. There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers who are paying their rent in advance. Further details about the Group's credit risk management practices are disclosed in note 19.

14. Cash and cash equivalents

	2020 £m	2019 £m
Cash at bank and in hand	235.7	259.4

At 31 December 2020, cash at bank and in hand included £14.5 million (2019: £12.9 million) which was restricted by a third-party charge.

15. Trade and other payables

	2020 £m	2019 £m
Trade payables	1.7	2.5
Social security and other taxes	5.8	2.3
Other payables	12.1	13.9
Deferred income	18.2	17.6
Accruals	16.5	18.4
	54.3	54.7

16. Deferred tax

	Liabilities				Assets				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 2019	11.0	126.6	1.7	139.3	(0.1)	(2.5)	(0.9)	(3.5)	135.8
Charged/(credited)									
to income statement	0.2	7.3	(0.2)	7.3	(0.1)	(1.2)	(0.3)	(1.6)	5.7
to OCI1	–	(0.1)	–	(0.1)	–	–	0.4	0.4	0.3
Exchange rate variances	–	(5.6)	(0.1)	(5.7)	–	–	–	–	(5.7)
At 31 December 2019	11.2	128.2	1.4	140.8	(0.2)	(3.7)	(0.8)	(4.7)	136.1
Charged/(credited)									
to income statement	1.1	12.2	0.4	13.7	(0.1)	(2.3)	(0.6)	(3.0)	10.7
to OCI1	–	(0.5)	–	(0.5)	–	–	–	–	(0.5)
Exchange rate variances	–	5.4	0.1	5.5	–	–	–	–	5.5
At 31 December 2020	12.3	145.3	1.9	159.5	(0.3)	(6.0)	(1.4)	(7.7)	151.8

¹ Other Comprehensive Income.

Deferred tax has been calculated at a weighted average across the Group of 17.5% (2019: 16.5%), and has been based on the rates applicable under legislation substantively enacted at the balance sheet date.

Deferred tax assets are recognised in respect of tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 December 2020 the Group did not recognise deferred tax assets of £5.7 million (2019: £1.4 million) in respect of losses amounting to £35.3 million (2019: £8.3 million) which can be carried forward against future taxable income or gains.

In the March 2021 Budget it was announced that the headline UK corporation tax rate would increase from 19% to 25% from April 2023. A 1% increase in the UK rate equates to approximately £2.5m of additional deferred tax based on 31 December 2020

17. Borrowings

	At 31 December 2020			At 31 December 2019		
	Current £m	Non- current £m	Total borrowings £m	Current £m	Non- current £m	Total borrowings £m
Secured bank loans	99.5	820.7	920.2	128.2	708.9	837.1
Secured notes	4.1	46.4	50.5	4.1	50.5	54.6
	103.6	867.1	970.7	132.3	759.4	891.7

Issue costs of £6.3 million (2019: £5.5 million) have been offset in arriving at the balances in the above tables.

Secured bank loans

Interest on bank loans is charged at fixed rates ranging between 0.8% and 5.5% including margin (2019: 0.8% and 5.5%) and at floating rates of typically LIBOR or EURIBOR plus a margin. Floating rate margins range between 1.1% and 2.4% (2019: 1.0% and 2.5%). The bank loans are secured by legal charges over £1,904.3 million (2019: £1,726.5 million) of the Group's properties, and in most cases a floating charge over the remainder of the assets held in the company which owns the property. In addition, the share capital of some of the subsidiaries within the Group has been charged.

Secured notes

On 3 December 2013, the Group issued £80.0 million secured, partially-amortising notes. The notes attract a fixed-rate coupon of 4.17% on the unamortised principal amount, the balance of which is repayable in December 2022 and are secured by legal charges over £139.9 million (2019: £142.0 million) of the Group's properties. The fair value was determined by the higher of the carrying principal amount and the discounted future cash flows (adjusted by excluding the margin component of the fixed interest 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.

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

At 31 December 2020	Secured bank loans £m	Secured notes £m	Total £m
Maturing in:			
Within one year or on demand	101.2	4.2	105.4
One to two years	116.1	46.5	162.6
Two to five years	432.0	–	432.0
More than five years	277.0	–	277.0
	926.3	50.7	977.0
Unamortised issue costs	(6.1)	(0.2)	(6.3)
Borrowings	920.2	50.5	970.7
Due within one year	(99.5)	(4.1)	(103.6)
Due after one year	820.7	46.4	867.1

At 31 December 2019	Secured bank loans £m	Secured notes £m	Total £m
Maturing in:			
Within one year or on demand	129.8	4.2	134.0
One to two years	88.5	4.2	92.7
Two to five years	492.8	46.5	539.3
More than five years	131.2	–	131.2
	842.3	54.9	897.2
Unamortised issue costs	(5.2)	(0.3)	(5.5)
Borrowings	837.1	54.6	891.7
Due within one year	(128.2)	(4.1)	(132.3)
Due after one year	708.9	50.5	759.4

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

	At 31 December 2020		At 31 December 2019	
	Weighted average interest rate %	Weighted average life Years	Weighted average interest rate %	Weighted average life Years
Sterling	3.0	7.4	3.6	2.7
Euro	1.4	2.9	1.6	4.2

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

	At 31 December 2020			At 31 December 2019		
	% of net floating rate loans capped	Average capped interest rate %	Weighted average life Years	% of net floating rate loans capped	Average capped interest rate %	Weighted average life Years
Sterling	–	–	–	–	–	–
Euro	62	0.77	4.6	25	0.75	1.8

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

	At 31 December 2020			At 31 December 2019		
	Sterling £m	Euro £m	Total £m	Sterling £m	Euro £m	Total £m
Fixed rate financial liabilities	255.2	399.8	655.0	168.7	382.1	550.8
Floating rate financial liabilities – hedged	143.0	18.7	161.7	123.8	18.1	141.9
	398.2	418.5	816.7	292.5	400.2	692.7
Floating rate financial liabilities – capped	–	25.6	25.6	–	11.4	11.4
Floating rate financial liabilities – unhedged	119.1	15.6	134.7	154.5	38.6	193.1
	119.1	41.2	160.3	154.5	50.0	204.5
	517.3	459.7	977.0	447.0	450.2	897.2
Unamortised issue costs	(4.0)	(2.3)	(6.3)	(3.0)	(2.5)	(5.5)
Borrowings	513.3	457.4	970.7	444.0	447.7	891.7

Of the Group's total borrowings, 84% (2019: 77%) are considered fixed rate borrowings.

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

	Carrying amounts		Fair values	
	2020 £m	2019 £m	2020 £m	2019 £m
Current borrowings	103.6	132.3	103.6	132.3
Non-current borrowings	867.1	759.4	880.3	769.3
	970.7	891.7	983.9	901.6

The valuation methods used to measure the fair values of the Group's fixed rate borrowings were derived from inputs which were either observable as prices or derived from prices (Level 2).

The fair value of non-current borrowings represents the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, discounted at the prevailing market rate, and excludes accrued interest.

The Group had the following undrawn committed facilities available at 31 December:

	2020 £m	2019 £m
Floating rate:		
– expiring within one year	30.0	30.0
– expiring after one year	–	–
	30.0	30.0

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 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 borrowings¹	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

	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 2019							
Secured bank loans	129.8	88.5	168.9	67.3	256.6	131.2	842.3
Secured notes	4.2	4.2	46.5	–	–	–	54.9
Total on maturity	134.0	92.7	215.4	67.3	256.6	131.2	897.2
Interest payments on borrowings¹	16.8	12.4	10.4	8.4	6.2	8.5	62.7
Effect of interest rate swaps	1.7	2.4	2.1	1.0	0.5	–	7.7
Gross loan commitments	152.5	107.5	227.9	76.7	263.3	139.7	967.6

¹ Interest payments on borrowings are calculated without taking into account future events. Floating rate interest is estimated using a future interest rate curve as at 31 December.

18. Derivative financial instruments

	2020 Assets £m	2020 Liabilities £m	2019 Assets £m	2019 Liabilities £m
Non-current				
Interest rate caps and swaps	–	(5.6)	–	(4.1)
Current				
Forward foreign exchange contracts	–	–	0.3	–
	–	(5.6)	0.3	(4.1)

The valuation methods used to measure the fair value of all derivative financial instruments were derived from inputs which were either observable as prices or derived from prices (Level 2). There were no derivative financial instruments accounted for as hedging instruments.

Interest rate swaps

The aggregate notional principal of interest rate swap contracts at 31 December 2020 was £161.9 million (2019: £163.4 million). The average period to maturity of these interest rate swaps was 2.2 years (2019: 3.2 years).

Forward foreign exchange contracts

The Group uses forward foreign exchange contracts from time to time to add certainty to, and to minimise the impact of foreign exchange movements on, committed cash flows. At 31 December 2020 the Group had no outstanding net foreign exchange contracts (2019: £26.4 million).

Derivative financial instruments cash flows

The following table provides an analysis of the anticipated contractual cash flows for the derivative financial instruments using undiscounted cash flows. These amounts represent the gross cash flows of the derivative financial instruments and are settled as either a net payment or receipt.

	2020 Assets £m	2020 Liabilities £m	2019 Assets £m	2019 Liabilities £m
Maturing in:				
Less than 1 year	–	(2.4)	0.3	(1.7)
1 to 2 years	–	(2.1)	–	(2.4)
2 to 3 years	–	(1.0)	–	(2.1)
3 to 4 years	–	(0.5)	–	(1.0)
4 to 5 years	–	–	–	(0.5)
Over 5 years	–	–	–	–
	–	(6.0)	0.3	(7.7)

19. Financial instruments

Categories of financial instruments

Financial assets of the Group comprise: interest rate caps; foreign currency forward contracts; financial assets at fair value through other comprehensive income or fair value through profit and loss; investments in associates; trade and other receivables; and cash and cash equivalents.

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

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

- 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 2020 and 2019.

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

The gearing ratio at the year end was as follows:

	Notes	2020 £m	2019 £m
Debt	17	977.0	897.2
Liquid resources	14	(235.7)	(259.4)
Net debt (A)		741.3	637.8
Equity (B)		1,270.6	1,202.4
Net debt to equity ratio (A/B)		58%	53%

Debt is defined as long-term and short-term borrowings before unamortised issue costs as detailed in note 17. Liquid resources are cash and short-term deposits. Equity includes all capital and reserves of the Group attributable to the owners of the Company.

Externally imposed capital requirement

The Group was subject to externally imposed capital requirements to the extent that debt covenants may require Group companies to maintain ratios such as debt to equity (or similar) below certain levels.

Risk management objectives

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

- market risk;
- credit risk; and
- liquidity risk.

The Group's overall risk management approach seeks to minimise potential adverse effects on the Group's financial performance whilst maintaining flexibility.

Risk management is carried out by the Group's treasury department in close co-operation with the Group's operating units and with guidance from the Board of Directors. The Board regularly assesses and reviews the financial risks and exposures of the Group.

(a) Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates, and to a lesser extent other price risk. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk and also uses natural hedging strategies such as matching the duration, interest payments and currency of assets and liabilities. There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

(I) Interest rate risk

The Group's most significant interest rate risk arises from its long-term variable rate borrowings. Interest rate risk is regularly monitored by the treasury department and by the Board on both a country and a Group basis. The Board's policy is to mitigate variable interest rate exposure whilst maintaining the flexibility to borrow at the best rates and with consideration to potential penalties on termination of fixed rate loans. To manage its exposure the Group uses interest rate swaps, interest rate caps and natural hedging from cash held on deposit.

In assessing risk, a range of scenarios is taken into consideration such as refinancing, renewal of existing positions and alternative financing and hedging. Under these scenarios, the Group calculates the impact on the income statement for a defined movement in the underlying interest rate. The impact of a reasonably likely movement in interest rates, based on historic trends, is set out below:

Scenario	2020 Income statement £m	2019 Income statement £m
Cash +50 basis points	1.2	1.3
Variable borrowings (including caps) +50 basis points	(1.0)	(1.9)
Cash -50 basis points	(1.2)	(1.3)
Variable borrowings (including caps) -50 basis points	0.6	1.4

(II) Foreign exchange risk

The Group does not have any regular transactional foreign exchange exposure. However, it has operations in Europe which transact business denominated in Euros and, to a minimal extent, in Swedish krona. Consequently, there is currency exposure caused by translating into sterling the local trading performance and net assets for each financial period and balance sheet, respectively.

The policy of the Group is to match the currency of investments with the related borrowing, which reduces foreign exchange risk on property investments. A portion of the remaining operations, equating to the net assets of the foreign property operations, is not hedged except in exceptional circumstances. Where foreign exchange risk arises from future commercial transactions, the Group will hedge the future committed commercial transaction using foreign exchange swaps or forward foreign exchange contracts.

The Group's principal currency exposure is in respect of the Euro. If the value of sterling were to increase or decrease in strength the Group's net assets and profit for the year would be affected. The impact of a reasonably likely movement in exchange rates, is set out below:

Scenario	2020 Net assets £m	2020 Profit before tax £m	2019 Net assets £m	2019 Profit before tax £m
1% increase in value of sterling against the Euro	(6.1)	(1.1)	(5.0)	(0.8)
1% fall in value of sterling against the Euro	6.2	1.2	5.1	0.8

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from the ability of customers to meet outstanding receivables and future lease commitments, and from financial institutions with which the Group places cash and cash equivalents, and enters into derivative financial instruments. The maximum exposure to credit risk is partly represented by the carrying amounts of the financial assets which are carried in the balance sheet, including derivatives with positive fair values.

For credit exposure other than to occupiers, the Directors believe that counterparty risk is minimised to the fullest extent possible as the Group has policies which limit the amount of credit exposure to any individual financial institution.

The Group has policies in place to ensure that rental contracts are made with customers with an appropriate credit history. Credit risk to customers is assessed by a process of internal and external credit review, and is reduced by obtaining bank guarantees from the customer or its parent, and rental deposits. The overall credit risk in relation to customers is monitored on an ongoing basis. Moreover, a significant proportion of the Group portfolio is let to Government occupiers which can be considered financially secure.

At 31 December 2020 the Group held no financial assets at fair value through other comprehensive income or fair value through profit and loss (2019: £0.3 million). Management considers the credit risk associated with individual transactions and monitors the risk on a continuing basis. Information is gathered from external credit rating agencies and other market sources to allow management to react to any perceived change in the underlying credit risk of the instruments in which the Group invests. This allows the Group to minimise its credit exposure to such items and at the same time to maximise returns for shareholders.

(c) Liquidity risk

Liquidity risk management requires maintaining sufficient cash, other liquid assets and the availability of funding to meet short, medium and long-term requirements. The Group maintains adequate levels of liquid assets to fund operations and to allow the Group to react quickly to potential risks and opportunities. Management monitors rolling forecasts of the Group's liquidity on the basis of expected cash flows so that future requirements can be managed effectively.

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

Loan covenant compliance is closely monitored by the treasury department. Potential covenant breaches can ordinarily be avoided by placing additional security or a cash deposit with the lender, or by partial repayment to cure an event of default.

20. Financial assets and liabilities

	Fair value through profit and loss £m	Amortised cost £m	Total carrying value £m
Financial assets			
Cash and cash equivalents	–	235.7	235.7
Other assets – non-current ¹	–	8.2	8.2
Other assets – current ¹	–	13.5	13.5
	–	257.4	257.4
Financial liabilities			
Secured bank loans	–	(920.2)	(920.2)
Secured notes	–	(50.5)	(50.5)
Derivative financial liabilities	(5.6)	–	(5.6)
Other liabilities – current ²	–	(30.3)	(30.3)
	(5.6)	(1,001.0)	(1,006.6)
At 31 December 2020	(5.6)	(743.6)	(749.2)

	Fair value through profit and loss £m	Amortised cost £m	Total carrying value £m
Financial assets			
Derivative financial instruments	0.3	–	0.3
Cash and cash equivalents	–	259.4	259.4
Other assets – current ¹	–	22.8	22.8
	0.3	282.2	282.5
Financial liabilities			
Secured bank loans	–	(837.1)	(837.1)
Secured notes	–	(54.6)	(54.6)
Derivative financial liabilities	(4.1)	–	(4.1)
Other liabilities – current ²	–	(34.8)	(34.8)
	(4.1)	(926.5)	(930.6)
At 31 December 2019	(3.8)	(644.3)	(648.1)

¹ Other assets included all amounts shown as trade and other receivables in note 13 except prepayments of £8.5 million (2019: £2.5 million). All current amounts are non-interest bearing and receivable within one year.

² Other liabilities included all amounts shown as trade and other payables in note 15 except deferred income and sales and social security taxes of £24.0 million (2019: £19.9 million). All amounts are non-interest bearing and are due within one year.

Reconciliation of net financial assets and liabilities to borrowings and derivative financial instruments

	2020 £m	2019 £m
Net financial assets and liabilities	749.2	648.1
Other assets – non-current	8.2	–
Other assets – current	13.5	22.8
Other liabilities – current	(30.3)	(34.8)
Cash and cash equivalents	235.7	259.4
Borrowings and derivative financial instruments	976.3	895.5

21. Discontinued operations

On 12 November 2018, the Board resolved to dispose of First Camp Sverige Holdings AB. As at 31 December 2018, the First Camp sub-group was therefore classified as a disposal group held for sale in accordance with IFRS 5, Non Current Assets Held for Sale and Discontinued Operations, and presented separately on the Group balance sheet as discontinued operations. Completion occurred on 7 March 2019. Details of this transaction are as follows:

	£m
Headline consideration	28.7
Adjustments from completion balance sheet	(17.0)
Net consideration at completion	11.7
Settled by:	
Cash	4.5
Vendor loan ¹	7.2
	11.7
Repayment after finalisation of completion balance sheet ²	(1.4)
Final net consideration	10.3

¹ The loan is due for repayment at the latest by June 2023 and attracts interest of 6.0% p.a., 2.0% of which is rolled up into the principal of the loan. The loan can be repaid by the borrower at any time without penalty. At 31 December 2019, the loan balance of £7.3 million was included within the other receivables balance of £15.5 million (see note 13). As a result of the current economic uncertainty resulting from the Covid-19 pandemic the Group has reassessed the likely repayment date of this loan and at 31 December 2020, the loan balance of £8.2 million is included as a non-current asset.

² See cash flow statement

The results of discontinued operations, which have been included in the Group income statement, were as follows:

	2020 £m	2019 £m
Revenue	-	0.6
Expenses	-	(2.4)
Loss before tax	-	(1.8)
Measurement to fair value less costs to sell	-	1.3
Loss from discontinued operations	-	(0.5)
Attributable to:		
Owners of the Company	-	0.3
Non-controlling interests	-	(0.8)
	-	(0.5)

22. Share capital

	Number of shares authorised, issued and fully paid			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
At 1 January 2019, 31 December 2019 and 31 December 2020	407,395,760	31,382,020	438,777,780	10.2	0.8	11.0

The Board is authorised, by shareholder resolution, to allot shares or grant such subscription rights (as are contemplated by sections 551(1) (a) and (b) respectively of the Companies Act 2006) up to a maximum aggregate nominal value of £3,394,964 representing one-third of the issued share capital of the Company excluding treasury shares.

23. Dividend

	Payment date	Dividend per share p	2020 £m	2019 £m
Current year				
2020 final dividend ¹	29 April 2021	5.20	–	–
	25 September 2020	2.35	9.6	–
2020 interim dividend			9.6	–
Distribution of current year profit		7.55	9.6	–
Prior year				
2019 final dividend	29 April 2020	5.05	20.5	–
	27 September 2019	2.35	–	9.6
2019 interim dividend			–	9.6
Distribution of prior year profit		7.40	20.5	9.6
2018 final dividend	29 April 2019	4.70	–	19.1
Dividends as reported in the Group statement of changes in equity			30.1	28.7

¹ Subject to shareholder approval at the AGM on 22 April 2021.

24. Other reserves

	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Share-based payment reserve £m	Other reserves £m	Total £m
At 1 January 2020	22.7	39.8	3.6	2.2	28.1	96.4
Exchange rate variances	–	24.2	–	–	–	24.2
Property, plant and equipment						
– net fair value deficits in the year	–	–	(3.6)	–	–	(3.6)
– deferred tax thereon	–	–	0.5	–	–	0.5
Share-based payment credit	–	–	–	(0.2)	–	(0.2)
At 31 December 2020	22.7	64.0	0.5	2.0	28.1	117.3

	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Share-based payment reserve £m	Other reserves £m	Total £m
At 1 January 2019	22.7	68.6	2.4	1.2	28.1	123.0
Exchange rate variances	–	(28.8)	–	–	–	(28.8)
Property, plant and equipment						
– net fair value deficits in the year	–	–	(0.1)	–	–	(0.1)
– deferred tax thereon	–	–	0.1	–	–	0.1
Other financial investments:						
– realised fair value gains	–	–	2.5	–	–	2.5
– deferred tax thereon	–	–	(0.4)	–	–	(0.4)
Discontinued operations	–	–	(0.9)	–	–	(0.9)
Share-based payment charge	–	–	–	1.0	–	1.0
At 31 December 2019	22.7	39.8	3.6	2.2	28.1	96.4

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

The fair value reserve comprises the aggregate movement in the value of financial assets classified as fair value through comprehensive income and owner-occupied property since acquisition, net of deferred tax.

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

25. Notes to the cash flow

	2020 £m	2019 £m
Cash generated from operations		
Operating profit	119.3	183.4
Adjustments for:		
Net movements on revaluation of investment properties	(31.5)	(57.4)
Depreciation and amortisation	0.7	1.0
Profit on sale of investment property	(11.6)	(8.6)
Gain on sale of other financial investments	–	(40.4)
Lease incentive debtor adjustments	(1.9)	(3.7)
Share-based payment (credit)/charge	(0.2)	1.0
Changes in working capital:		
Increase in receivables	(0.8)	(3.4)
Increase in payables	2.9	3.4
Cash generated from operations	76.9	75.3

Changes in liabilities arising from financing activities	Notes	1 January 2020 £m	Financing cash flows £m	Amortisation of loan issue costs £m	Fair value adjustments £m	Foreign exchange £m	31 December 2020 £m
Borrowings	17	891.7	51.7	2.1	–	25.2	970.7
Interest rate swaps	18	4.1	–	–	1.6	(0.1)	5.6
Forward foreign exchange contracts	18	(0.3)	0.3	–	–	–	–
		895.5	52.0	2.1	1.6	25.1	976.3

Changes in liabilities arising from financing activities	Notes	1 January 2019 £m	Financing cash flows £m	Amortisation of loan issue costs £m	Fair value adjustments £m	Foreign exchange £m	31 December 2019 £m
Borrowings	17	836.9	80.3	2.3	–	(27.8)	891.7
Interest rate swaps	18	4.6	(1.0)	–	0.5	–	4.1
Forward foreign exchange contracts	18	0.5	(1.2)	–	–	0.4	(0.3)
		842.0	78.1	2.3	0.5	(27.4)	895.5

26. Contingencies

At 31 December 2020 and 31 December 2019 CLS Holdings plc had guaranteed certain liabilities of Group companies. These were primarily in relation to Group borrowings and covered interest and amortisation payments. No cross-guarantees had been given by the Group in relation to the principal amounts of these borrowings.

27. Commitments

At the balance sheet date the Group had contracted with customers under non-cancellable operating leases for the following minimum lease payments:

	2020 £m	2019 £m
Operating lease commitments – where the Group is lessor		
Within one year	100.5	100.2
More than one but not more than five years	279.5	274.8
More than five years	90.7	115.0
	470.7	490.0

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

Other commitments

At 31 December 2020 the Group had contracted capital expenditure of £16.5 million (2019: £5.3 million). At the balance sheet date, the Group had exchanged contracts to acquire investment properties for £89.9 million (2019: £32.8 million). There were no authorised financial commitments which were yet to be contracted with third parties (2019: nil).

28. Post balance sheet events

In January 2021, the Group exchanged on the acquisition of three properties for £79.2 million, before costs. In February 2021, the Group completed the acquisition of one property for £16.9 million, before costs and exchanged on the disposal of one property for £6.1 million, before costs.