CLS HOLDINGS PLC
("CLS", the "Company" or the "Group")
ANNOUNCES ITS ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2021

Location Quality Flexibility

CLS is a leading FTSE250 office space specialist and a supportive, progressive and sustainably focused commercial landlord, with a c.£2.3 billion portfolio in the UK, Germany and France, offering geographical diversification with local presence and knowledge. For the year ended 31 December 2021, the Group has delivered the following results:

	31 December		Change (%)
	2021	**2020**	
EPRA Net Tangible Assets ("NTA") per share (pence) [1]	350.5	345.2	1.5
Statutory NAV per share (pence)[1]	326.6	311.9	4.7
Contracted rents (£'million)	107.6	107.9	(0.3)
Profit before tax (£'million)	91.5	96.5	(5.2)
EPRA Earnings per share ("EPS") (pence) [1]	11.3	12.2	(7.4)
Statutory EPS from continuing operations (pence) [1]	29.3	19.0	54.2
Dividend per share (pence)	7.70	7.55	2.0

[1]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:
"CLS has delivered a healthy and robust set of results for 2021 with net assets up from earnings and valuation gains in all of our three countries. We faced headwinds from the strengthening of sterling and the impact of pandemic restrictions which temporarily reduced occupancy but our operational performance, especially in the second half of the year, was excellent with collection and leasing activities at pre-pandemic levels.

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

FINANCIAL HIGHLIGHTS

- EPRA NTA up 1.5% primarily due to EPRA earnings and portfolio valuation gains, which were offset by foreign exchange losses due to the strengthening of sterling
- Portfolio valuation up 1.6% in local currency with increases in all regions (3.1% in Germany, 0.7% in the UK and 0.3% in France) as a result of strong letting activity and slight yield tightening
- Profit before tax down 5.2% to £91.5 million (2020: £96.5 million) due to lower gains from disposals but statutory EPS up 54.2% because of the derecognition of deferred tax liabilities on UK property revaluation gains following CLS' conversion of its UK operations to a Real Estate Investment Trust ("REIT")
- EPRA EPS was down 7.4% due to the strengthening of sterling which resulted in unfavourable foreign exchange movements, offset by cost rationalisations which have lowered our cost base
- A proposed final dividend of 5.35 pence per share to be paid on 29 April 2022, resulting in a total 2021 dividend of 7.70 pence per share, an increase of 2.0% (2020: 7.55 pence per share) and total accounting return for the year of 3.7% (2020: 8.1%)

OPERATIONAL HIGHLIGHTS

- Rent collection remained strong in 2021 with 99% collected (2020: 99%) and 97% of first quarter 2022 contracted rent due now collected (2020: 98%)
- Net rental income stable at £108.0 million (2020: £109.8 million) due to redevelopment and leasing expiries, foreign exchange reductions and lower dilapidations income offset by contributions from net acquisitions
- Acquired six properties for £164.8 million, three of which had exchanged in 2020. The five properties in Germany and one in the UK were bought for their asset management opportunities at a combined net initial yield of 3.9% and a reversionary yield of 6.1%. Post period end, a further two properties have exchanged in Germany for £75.7 million, with a combined net initial yield of 5.1% and a reversionary yield of 5.6%. Both completions are due in April 2022

- Disposed of eight properties for £37.4 million (4.8% net initial yield) at 3.2% above 2020 book values. Post period end, two further properties exchanged for sale in the UK at £10.1 million (6.0% net initial yield) at book value. Completions are expected in Q1 2022
- Completed 125 lease events securing £12.9 million of annual rent at 0.4% above 31 December 2020 estimated rental values
- Vacancy rate increased to 5.8% (2020: 5.1%) due to the deliberately acquired vacancy in our 2021 German purchases. Whilst vacancy was reduced from 7.7% at the end of June due to considerable letting activity at the end of 2021, there are further opportunities to capture market rents

FINANCING

- Weighted average cost of debt at 31 December 2021 down 6 basis point to 2.22% (2020: 2.28%)
- Loan-to-value at 37.1% (2020: 33.7%) reflecting net acquisitions during the year. Gross debt of £1,031.6 million (2020: £970.7 million) with cash of £167.4 million (2020: £235.7 million) and £50 million (2020: £50 million) of undrawn facilities
- Second long-term, 'green' loan secured for £61.7 million with Scottish Widows at 2.65% fixed interest rate for 12 years, such that over 20% of CLS' loan portfolio is now 'green'. This transaction contributed to maintaining high weighted average debt maturity of 4.4 years (2020: 4.6 years)
- Financed or refinanced £196.7 million of debt in 2021 at an average of 1.62%, including £172.8 million fixed at 1.70%, and repaid £88.2 million of debt
- The loan portfolio as at 31 December 2021 had 85% at fixed rates (31 December 2020: 84%)

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

- GRESB score increased to 85 (2020: 72) and all managed buildings have been independently certified by BREEAM to assess their sustainability rating and highlight areas for improvement
- Launched our Sustainability Strategy to 2030, incorporating our fully funded Net Zero Carbon Pathway, and increased our solar PV capacity by 112% to 933kWp
- 92% of Group electricity is now carbon-free and 83% of managed portfolio is achieving at least a Good BREEAM In-Use rating

DIVIDEND TIMETABLE

Further to this announcement, in which the Board recommended a final dividend of 5.35 pence per ordinary share, the Company confirmed its dividend timetable as follows:

Announcement date	16 March 2022
Ex-Dividend date	24 March 2022
Record date	25 March 2022
Payment date	29 April 2022

– ends –

Results presentation
A presentation for analysts and investors will be held in-person at Liberum Capital, by webcast and by conference call on Wednesday 16 March 2022 at 8:30am followed by Q&A. Questions can be submitted either online via the webcast or to the operator on the conference call.

- Liberum Capital: Ropemaker Place, 25 Ropemaker Street, London EC2Y 9L
- Webcast: The live webcast will be available here: https://secure.emincote.com/client/cls/cls004
- 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/cls004/vip_connect

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Forward-looking statements
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Chairman’s letter

Dear Shareholder,

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

Performance and our property portfolio

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

EPRA NTA per share increased by 1.5% to 350.5 pence per share (2020: 345.2 pence per share) and total accounting return, including the dividends paid in the year, was 3.7% (2020: 8.1%). The value of our property portfolio rose to £2.3 billion (2020: £2.2 billion) as a result of: £142.4 million of acquisitions net of disposals; £36.0 million capital expenditure; £36.7 million from net valuation increases of 1.6% in local currencies with uplifts in all countries; offset by depreciation of £0.5m and a reduction of £66.3 million as a result of the strengthening of sterling by 6.3%. Our property portfolio is split 50% in the UK, 38% in Germany and 12% in France.

Environmental, social and governance

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

Strategic outlook

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

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

Dividends

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

Our staff and our culture

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

Lennart Sten
Non-Executive Chairman
16 March 2022

Chief Executive's review

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

Delivering on our strategy

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

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

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

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

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

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

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

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

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

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

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

Asset and property management

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

In 2021, the overall Group EPRA vacancy rate increased to 5.8% (2020: 5.1%) which remains above our target of 5%. However, a simple number does not tell the story of the drivers and the considerable successes of the asset management team in the year. Simplistically, the vacancy rate increased from 5.1% at the start of the year to 7.7% in June as a result of consciously acquired vacancy in Germany as discussed above. The vacancy rate then rose to over 8% in October from a combination of significant lease expiries and completed refurbishments becoming available to let again. The reduction to 5.8% by the end of December (UK 5.4%, Germany 7.4% and France 3.0%) reflected substantial letting activity conducted throughout Q4, particularly in Germany, due to the team's efforts and a rebound in market activity. We are confident that our active asset management strategy will reduce vacancy levels below 5% in 2022.

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

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

Financial results

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

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

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

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

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

In 2021, we generated £44.2 million net cash from operating activities (2020: £44.3 million) compared with EPRA earnings of £45.9 million (2020: £49.5 million) showing the continued strong cash generation of our business model. Of this cash, £30.8 million (2020: £30.1 million) was paid as a dividend to shareholders. We balance the use of the cash generated between dividends and reinvestment in the business to drive the total accounting return to shareholders, which was 3.7% in 2021 (2020: 8.1%).

Purpose, people and planet

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

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

It is especially gratifying that our progress has been recognised by external assessors with a big increase in our GRESB score from 72 to 85, reflecting the continuous improvements made throughout the business. We met our 2021 target to double PV generation across the portfolio through five installations, increasing total generation to 469,411 kWh per year, representing 2% of energy used in our managed portfolio. We will continue this progress though further ambitious targets during 2022. Finally, we continued to align our sustainability objectives with those of our lenders. We secured our second 'green' loan in 2021 and now have over 20% of our loans linked to ESG targets.

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

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

Looking to the future

To demonstrate more clearly the opportunities within the portfolio to capture higher rents, we have included a waterfall chart in recent investor materials. The updated rent progression figures are:

– contracted rent at the end of 2021 of £107.6 million;

– the current potential Estimated Rental Value ('ERV') of the portfolio of £120.0 million if all vacant space let (£7.0 million increase) and net reversionary potential (£5.4 million increase) were captured. We do though benefit from some vacancy/churn within the portfolio to capture reversion more quickly and to allow the refurbishment of older properties and thus recognise that not all of this vacancy upside should be captured;

– net acquisitions exchanged in 2022 to reporting date (c.£3.5 million);

– the potential increase to ERV over 2022 and 2023 to £134 million from refurbishments (c.£9 million increase), committed developments (£1.5 million from Vauxhall Walk); and

– the potential increase to ERV between 2023 and 2025 to £139 million from the uncommitted developments of LichtHof, St Cloud Gate and the rooftop extension at Adlershofer Tor (c.£5 million increase).

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

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

Fredrik Widlund
Chief Executive Officer
16 March 2022

Chief Financial Officer's review

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

Summary

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

On 1 January 2022, we converted our UK operations to a REIT. As a result of the conversion, CLS will pay no UK corporation tax on its UK property operations (rental income, gains on property sales and sales of companies owning UK property) which fall within the REIT regime from the 2022 financial year onwards. One of the reasons for conversion was so as to shield the UK operations from being subject to the increase in the rate of UK corporation tax from 19% to 25% from 1 April 2023. Conversion has increased EPRA NTA by 4.5 pence and will save between £3 million to £5 million annually in UK corporation tax from 2022 onwards. The low end of the range being the tax saving in EPRA EPS and the high end being the usual tax saving in statutory EPS including the tax on the realisation of valuation gains on property disposals.

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

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 gives a full description and reconciliation of our APMs.

Income statement

Net rental income in 2021 of £108.0 million was £1.8 million lower than in 2020. Acquisitions added £8.3 million but this was more than offset by income lost from disposals (£2.7 million); properties being redeveloped (£2.3 million); net lease expiries as vacancy increased (£2.2 million); the impact of a stronger sterling on German and French rent receipts (£1.6 million); and lower dilapidation income (£1.4 million). Both the hotel and student income rebounded in the second half, as businesses recovered following the easing of Covid-19 restrictions, such that overall hotel revenue increased by £0.8 million to £2.7 million (2020: £1.9 million). Given the timing of the academic year relative to Covid-19 restrictions, student income fell £0.7 million to £4.1 million (2020: £4.8 million) but occupancy rates are back to, or above, normal levels at 99% for the current academic year.

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

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

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

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

The net surplus on revaluation of investment properties of £28.5 million (2020: £31.5 million) resulted from valuation increases from all three countries; in local currencies, Germany again had the strongest year with a 3.1% rise in values, UK by 0.7% and France by 0.3%.

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

Finance income of £5.9 million (2020: £1.1 million) included unrealised gains on derivative financial instruments of £5.2 million (2020: £1.6 million loss). Excluding the derivative financial instruments, finance income fell by £0.4 million as interest received fell to £0.5 million (2020: £1.0 million) and dividends receivable increased to £0.2 million (2020: £0.1 million).

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

Approximately 53% of the Group's sales are conducted in the reporting currency of sterling and 47% in euros. Compared to last year, relative movements of sterling against the euro had a notable negative impact on the Group's results for the year both in terms of the translation of our balance sheet and the monetary assets recognised in the income statement. At 31 December 2021 sterling was 6.3% stronger against the euro than 12 months previously and sterling's average rate strengthened against the euro by 3.4%. This strengthening resulted in a foreign exchange loss of £2.3 million in the income statement (2020: £2.1 million gain).

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

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

Overall, EPRA earnings were lower than last year at £45.9 million (2020: £49.5 million) and generated EPRA earnings per share of 11.3 pence (2020: 12.2 pence). The decrease of 0.9 pence in EPRA EPS was primarily due to the 3.4% strengthening of the average rate of sterling (1.1 pence comparative movement), without which EPRA EPS would have slightly increased. We were able to achieve operational cost savings of 1.0 pence mostly offset by reduced net rental income of 0.4 pence, as commented on above, and increased finance costs and tax of 0.4 pence.

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

EPRA net tangible assets and gearing

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

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

Cash flow and net debt

As at 31 December 2021, the Group's cash balance had fallen to £167.4 million (2020: £235.7 million). Net cash flow from operating activities generated £44.2 million, a reduction of £0.1 million from 2021. £30.8 million was distributed as dividends and £33.4 million paid out for financing costs, tax and other costs, with the remainder reinvested in the business to grow net tangible assets. Acquisitions of £164.6 million and capital expenditure of £36.4 million were partly funded by proceeds after tax from property disposals of £35.7 million and the net drawdown of loans of £88.1 million. The net result of property and financing transactions being the investment of £68.3 million in our property portfolio.

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

The weighted average cost of debt at 31 December 2021 was 2.22%, 6 basis points ('bps') lower than 12 months earlier and a new all-time low for CLS. The movement was as a result of new lower cost debt drawn for German acquisitions (8 bps reduction) and from refinancing debt at a lower all-in-rate (4 bps reduction) partly offset by an increased proportion of more expensive UK financing due to stronger sterling (3 bps increase), an increase in the UK base rate (2 bps increase) and cheaper euro-denominated debt being repaid following disposals (1 bps increase). In 2021, interest cover remained at a healthy level of 3.2 times (2020: 3.3 times).

Financing strategy and covenants

The Group's financing strategy remains to utilise non-recourse bank debt in the currency used to purchase the asset. In this way credit and liquidity risk can be managed easily, around 49% of the Group's exposure to foreign currency is naturally hedged and an efficient use can be made of the Group's assets.

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

In 2020, we executed our first 'green' loan, a £154.0 million 11-year loan with Aviva Investors and during 2021, we signed our second with Scottish Widows. The £61.7 million loan was secured on a portfolio of five properties for 12 years. The sustainability objectives on both our 'green' loans are aligned with the targets set out in our sustainability strategy. The year one targets to achieve the margin reduction have been met and subsequent objectives are on target and will be tested on an annual basis.

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

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

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

In 2021, the Group financed, refinanced or extended ten loans to a value of £196.7 million for a weighted average duration of 6.9 years and at a weighted average all-in rate of 1.62%, and of these £172.8 million were fixed at a weighted average all-in rate of 1.70%. Consequently, at 31 December 2021, 85.0% of the Group's borrowings were at fixed rates or subject to interest rate swaps, 4.5% were subject to caps and 10.5% of loans were floating and unhedged. The fixed rate debt had a weighted average maturity of 5.1 years and the floating rate 3.3 years.

The Group's financial derivatives, predominantly interest rate swaps, are marked to market at each balance sheet date. At 31 December 2021 they represented a net liability of £0.4 million (2020: £5.6 million).

At 31 December 2021, the Group had 47 loans (36 SPVs, nine portfolios and two facilities) from 25 lenders. The loans vary in terms of the number of covenants with the three main covenants being ratios relating to loan-to-value, interest cover and debt service cover. However, some loans only have one or two of these covenants, some have other covenants and some have none. The loans also vary in terms of the level of these covenants and the headroom to these covenants.

On average across the 47 loans, CLS has between 29% and 48% headroom for these three main covenants. In the event of an actual or forecast covenant breach, all of the loans have equity cure mechanisms to repair the breach which allow CLS to either repay part of the loan, substitute property or deposit cash for the period the loan is in breach, after which the cash can be released.

Distributions to shareholders and total accounting return

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

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

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

Andrew Kirkman
Chief Financial Officer
16 March 2022

Business review
United Kingdom

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

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

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

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

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

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

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

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

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

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

It is intended that this programme of disposing of smaller assets of less than £10 million will continue into 2022. In January 2022, we completed on the sale of Kings House in Bromley for £5.4 million which was 6.4% over the 2020 year end value of £5.1 million. In February 2022, we exchanged on the disposal of Crosspoint House in Wallington for £4.7 million, which was at book value. The disposal will complete in the first half of 2022.

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

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

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

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

Market overview and outlook

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

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

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

Germany

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

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

Portfolio movement and valuation summary

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

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

Acquisitions

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

The acquisition of three of these properties is discussed in more detail in the Annual Report.

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

Developments and refurbishments

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

Disposals

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

Asset management

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

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

Market overview and outlook

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

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

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

France

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

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

Portfolio movement and valuation summary

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

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

Developments and refurbishments

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

Disposals

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

Asset management

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

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

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

Market overview and outlook

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

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

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

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

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

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

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

Key performance indicators

EPRA EARNINGS PER SHARE

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

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

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

Progress
EPRA earnings per share for 2021 was 11.3 pence.

More detail is provided in the Chief Financial Officer's review and in note 5.

TOTAL ACCOUNTING RETURN

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

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

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

Progress
In 2021, the total accounting return was 3.7%.

More detail is provided in the Chief Financial Officer's review and in note 5.

VACANCY RATE

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

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

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

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

More detail is provided in the Country business reviews and in note 5.

TOTAL SHAREHOLDER RETURN – RELATIVE

Definition
The annual growth in capital in purchasing a share in CLS, assuming dividends are reinvested in the shares when paid, compared to the TSR of the 24 companies in the FTSE 350 Real Estate Super Sector Index.

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

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

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

OTHER PERFORMANCE INDICATORS

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

NET INITIAL YIELD VS 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 2021, the cost of debt of 2.22% was 205 bps below the net initial yield of 4.27%.

More detail is provided in the Chief Financial Officer's review and in note 5.

ADMINISTRATION COST RATIOS

These measure the administration cost of running the core property business by reference to the net rental income that it generates, and provides a direct comparative to most of our peer group. We aim to maintain the CLS ratio between 15% and 17%. The administration cost ratio was for 2021 was 14.1%.

More detail is provided in the Chief Financial Officer's review and in note 5.

GRESB (ESG) SCORE/100

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

Our principal risks

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

RISK MANAGEMENT FRAMEWORK

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

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

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

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

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

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

OUR KEY ACTIVITIES FOR THE YEAR

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

OUR PRIORITIES FOR 2022

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

OUR RISK MANAGEMENT STRUCTURE IS SET OUT BELOW:

The 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 business-wide 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 and internal controls

Executive Committee

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

Senior Leadership Team

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

Underpinned by:

Policies

- Multi-level review of annual budget quarterly forecasts and four-year strategic plans
- Tenant covenant testing and leasing objectives
- Occupancy targets
- Acquisition and development appraisal criteria
- Gearing and liquidity benchmarks
- Security covenant compliance

Controls

- High level risk assessment
- Policy and procedure framework
- Strict authorisation structures
- Extensive back-up documentation for all decision-making
- External review of key controls
- Recommendations from external Auditor

People

- Extensive market expertise
- Highly qualified staff with defined roles and responsibilities
- Open and transparent internal and external communication
- Integrity and diligence
- Alignment of interests with investors

Management of risks throughout the business

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

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

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

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

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

Risk appetite

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

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

Very low: Avoid risk and uncertainty

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

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

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

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

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

	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, sustainability, business interruption, and political and economic principal risks. The Board accepts there are factors in relation to these principal risks that are outside the Group's control and are likely to change over time. Mitigating actions have been put in place to ensure these risks are adequately managed and monitored to reduce the potential impact on the Group. The Board also recognises that not all risk can be fully mitigated and that they need to be balanced alongside commercial considerations. If a difference between the Board's risk appetite and the risk assessment persists for an extended period, this variance is debated as to whether and how the gap should be closed.

Risk environment

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

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

Throughout the year, the Board monitored the continually changing situation and considered its effect on the business and will continue to do so going forward. Some of the potential longer-term effects that may result from the pandemic are discussed in the CEO review and the individual country property reviews.

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

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

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

Principal risks

Our principal risks are set out in the diagram below and are discussed in the following pages along with the change in their risk profile since the last year end and the current direction of travel as well as our risk mitigation actions and plans. Whilst we do not consider there has been any material change to the nature of the Group's principal risks over the last 12 months, several risks remain elevated as a result of the challenging external environment and significant ongoing uncertainty.

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

1. PROPERTY RISK

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

Risk assessment:

High

Change in risk profile in year:	**Current direction of travel:**
Unchanged	No change

Key risks:

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

KPI/OPI link:

EPS
TSR(R)
TAR
VR
ACR

Business Model Link:

We acquire the right properties

We secure the right finance

We deliver value through active management and cost control

More detail is provided in the Country business reviews.

Risk mitigation in action

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

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

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

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

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

Risk mitigation priorities for 2022

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

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

Commentary

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

The CLS in-house management model allows us to build close links with our tenants in order to understand their needs and to provide timely insights into potential occupier/property issues and facilitate resolution. These ties have allowed us to react quickly and work collaboratively to respond dynamically to tenants' changing requirements. Our Asset Management Committees meet once a month to discuss each of our properties with regard to new leases, lease events and tenant issues.

2. SUSTAINABILITY RISK

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

Risk assessment:

Medium

Change in risk profile in year:	**Current direction of travel:**
Increased	Increasing

Key risks:

Transition risks:

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

Physical risks:

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

KPI/OPI link:

EPS

TSR(R)

TAR

VR

ACR

Business Model Link:

We acquire the right properties

We deliver value through active management and cost control

More detail is provided in the environmental, social and governance review in the Annual Report.

Risk mitigation in action

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

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

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

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

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

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

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

Risk mitigation priorities for 2022

Our focuses for 2022 are set out in the environmental, social and governance section of the Annual Report. These include starting to implement our sustainability strategy and Net Zero Carbon pathway. More detail can be found in the Annual Report.

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

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

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

Commentary

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

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

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

3. BUSINESS INTERRUPTION RISK

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

Risk assessment:

Medium

Change in risk profile in year:	**Current direction of travel:**
Unchanged	No change

Key risks:

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

KPI/OPI link:

EPS

TSR(R)

TAR

VR

ACR

Business Model Link:

We acquire the right properties

We secure the right finance

We deliver value through active management and cost control

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 continued to be the norm for a large part of the year, we ensured that there was the necessary system infrastructure to cope with the increase in the volume of remote access. In addition, we ensured the ability to carry out key operational procedures such as payment authorisations safely and effectively.

We have continued a programme of employee cyber training which evolves as the threat landscape changes.

During the year, we have regularly tested the Group's capability to recover business critical IT systems to secondary hosting environments and restored data from back-ups.

Risk mitigation priorities for 2022

Independent reviews of our cyber defences are performed periodically. The Group's "Cyber Essentials Plus" certification was achieved in 2020 and we aim to exceed this benchmark following the 2022 review.

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

The Group's insurance coverage is regularly reviewed, particularly to assess the relevance of cyber cover, and revised where relevant.

Commentary

Whilst the risks associated with the pandemic have mostly continued during the year, the business interruption risk to long-term shareholder value is deemed to remain unchanged due to our mitigation of this risk through robust IT infrastructure.

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 continue to implement a new shared property and finance system across the Group to mitigate against data, cyber, system integration and control issues. This platform is operational in the UK region, with the French and German implementations due to complete within the next 12 months.

4. FINANCING RISK

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

Risk assessment:
Medium

Change in risk profile in year:	**Current direction of travel:**
Unchanged	No change

Key risks:

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

KPI/OPI link:
EPS
TSR(R)
TAR

Business Model Link:
We secure the right finance

We continually assess whether to hold or sell properties

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

Risk mitigation in action

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

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

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

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

On average across the Group's 49 loans, we have between 29% and 48% headroom across the three main covenants. In the event of an actual or forecast covenant breach, all of the loans have equity cure mechanisms to repair the breach which allow us to either repay part of the loan or deposit cash for the period the loan is in breach, after which the cash can be released.

Risk mitigation priorities in 2022

The Group has facilities with 25 lenders and will seek to continue to maintain its existing relationships and develop new ones, whilst also exploring the feasibility of other funding sources in 2022 to diversify funding sources further and achieve longer debt maturities. The Group will continue to focus on its core financing risk mitigation strategies including:

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

Further 'green' loans will also be targeted.

Commentary

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

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

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

5. POLITICAL AND ECONOMIC RISK

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

Risk assessment:
High

Change in risk profile in year:	**Current direction of travel:**
Unchanged	Increasing

Key risks:

- Ongoing transition of the UK from the EU
- Global geopolitical and trade environments

KPI/OPI link:
EPS
TSR(R)
TAR
VR
ACR

Business Model Link:

We acquire the right properties

We secure the right finance

We deliver value through active management and cost control

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 2022

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

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

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

Commentary

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

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

6. PEOPLE RISK

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

Risk assessment:

Medium

Change in risk profile in year:	**Current direction of travel:**
Increased	Increasing

Key risks:

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

KPI/OPI link:

EPS
TSR(R)
TAR
VR
ACR

Business Model Link:

We deliver value through active management and cost control

Risk mitigation in action

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

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

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

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

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

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

Risk mitigation priorities for 2022

We will continue:

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

Commentary

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

Covid-19 presents a continuing health and safety challenge for our people and has made day-to-day operations more difficult and complex. The safety of our people is paramount and we were swift in restructuring our offices and encouraging our office-based staff to work from home. As conditions return to greater normality, we continue to monitor our staff wellbeing.

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

Emerging risks

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

Emerging risks may also be superseded by other risks or cease to be relevant as the internal and external environment in which we operate evolves. The Senior Leadership Team, which has representatives from each area of the business, is tasked with identifying emerging risks for the business and discussing what impact these risks may have on the business and what steps we should be taking to mitigate these risks. The Board reviews these assessments on an annual basis. In 2021, both the Board and the Senior Leadership Team were surveyed about their views on emerging risks. A list, which given it relates to emerging risks is likely to be non-exhaustive, and the time when these ongoing risks may have a material effect on the business are set out below:

			Time Horizon		
Risk	Potential Impact	Mitigation	Short < 2yrs	Medium 2-5 yrs	Long > 5 yrs
Regulation/ compliance	Increased capital cost of maintaining our property portfolio.	Continued ongoing assessment of all properties against emerging regulatory changes and benchmarking of fit-out and refurbishment projects against third-party schemes.		X	X
Increasing energy and construction costs	Increased cost of operating properties will reduce attractiveness of tenancies to existing and potential customers. Increased costs of refurbishments and developments leading to reduced investment returns.	Ongoing consideration of, and investment in, energy efficient plant and building-mounted renewable energy systems. Continued monitoring of materials, investment in key skills for staff and viability assessments of buildings.	X	X	X
Changes in technology	The attractiveness of our properties may decline if the challenges to adapt office facilities, to changing work practices/environment expectations of customers and advances in technology and digitisation, are not met.	Each region updates the Senior Leadership Team on trends, including technology, throughout the business. The in-house management model also gives valuable insights into tenants' ongoing needs and potential trend changes that can be incorporated into the future fit-out of properties.	X	X	X
Changes in office occupation trends	Changes in social attitudes to agile and flexible working practices may reduce demand for space compared to historic trends.	In-house asset management model provides the means for the property team to: proactively manage customers; and gain real-time insight and transparency on changes in needs and trends.	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
	Inability to obtain sufficient carbon credits at suitable price to offset residual carbon emissions in order to achieve net zero carbon.	We are investigating various solutions to achieve sufficient offsets by 2030.			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 continuing to have a profound impact on the global economy and it is currently the single biggest direct and indirect negative influence on the Group leading to both current and forecast impacts as well as far greater levels of uncertainty. e.g. The future of the Office. In addition, ongoing events in Ukraine and the potential impacts on commodity prices and overall inflation, and supply chains have been considered and are being monitored. CLS continues to weather these impacts well with high rent collection, low bad debts and an ongoing ability to meet its financing and refinancing needs. CLS has no direct exposure to Russian and Ukrainian interests.

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

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

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

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

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

The modelling has focused on the cash position of the Group and potential covenant breaches. On average across its 47 loans, CLS has between 27% and 48% headroom for the three main covenant ratios of loan-to-value, interest cover and debt service cover. In addition, our loan agreements have equity cure mechanisms and in the downside scenarios it is assumed that sufficient, available cash is used to avoid covenant breaches. It has also been assumed that acquisitions, capital expenditure and dividends are either reduced or cancelled. Finally, property sales at the reduced modelled values are assumed.

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

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

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

Going concern

The current macro-economic conditions have created a number of uncertainties as set out on this and the previous pages. The Group's business activities, and the factors likely to affect its future development and performance, are set out in this strategic report. The financial position of the Group, its liquidity position and borrowing facilities are described in this strategic report and in notes 19 to 22 of the Group financial statements. The Directors regularly stress-test the business model to ensure that the Group has adequate working capital and have reviewed the current and projected financial positions of the Group, taking into account the repayment profile and covenants of the Group's loan portfolio, and making reasonable assumptions about future trading performance. The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, being a period of at least twelve months to March 2023 and further details of this analysis are set out in the viability statement on this page. Therefore, the Directors continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Directors’ responsibility statement

Directors’ responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with the Companies Act 2006 and United Kingdom adopted International Accounting Standards and International Financial Reporting Standards (IFRSs) and have elected to prepare the parent company financial statements in accordance with FRS101 of United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

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

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

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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

This statement of responsibilities was approved by the Board on 15 March 2022.

Approved and authorised on behalf of the Board

David Fuller BA FCG
Company Secretary

16 March 2022

Group income statement
for the year ended 31 December 2021

		2021			2020		
	Notes	**Recurring items £m**	**Non-recurring items £m Note 10**	**Total £m**	Recurring items £m	Non-recurring items £m	Total £m
Revenue	4	**139.8**	**–**	**139.8**	139.4	–	139.4
Net rental income	4	**108.0**	**–**	**108.0**	109.8	–	109.8
Administration expenses		**(15.0)**	**(1.2)**	**(16.2)**	(18.5)	–	(18.5)
Other expenses		**(14.4)**	**–**	**(14.4)**	(15.1)	–	(15.1)
Revenue less costs		**78.6**	**(1.2)**	**77.4**	76.2	–	76.2
Net revaluation movements on investment property	13	**28.5**	**–**	**28.5**	31.5	–	31.5
Net revaluation movements on equity investments		**1.0**	**–**	**1.0**	–	–	–
(Loss)/profit on sale of investment property		**(0.1)**	**–**	**(0.1)**	11.6	–	11.6
Operating profit		**108.0**	**(1.2)**	**106.8**	119.3	–	119.3
Finance income	8	**5.9**	**–**	**5.9**	1.1	–	1.1
Finance costs	9	**(25.4)**	**–**	**(25.4)**	(26.0)	–	(26.0)
Foreign exchange (loss)/gain		**(2.3)**	**–**	**(2.3)**	2.1	–	2.1
Share of profit of associates after tax	31	**5.1**	**1.4**	**6.5**	–	–	–
Profit before tax		**91.3**	**0.2**	**91.5**	96.5	–	96.5
Taxation	11	**(14.0)**	**42.0**	**28.0**	(19.1)	–	(19.1)
Profit for the year attributable to equity shareholders	6	**77.3**	**42.2**	**119.5**	77.4	–	77.4
Basic and diluted earnings per share	5			**29.3p**			19.0p

Group statement of comprehensive income
for the year ended 31 December 2021

	Notes	**2021 £m**	2020 £m
Profit for the year		**119.5**	77.4
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Foreign exchange differences	25	**(32.8)**	24.2
Items that may be reclassified to profit or loss			
Revaluation of property, plant and equipment	14	**5.5**	(3.6)
Deferred tax on fair value movements	18	**(1.0)**	0.5
Total items that may be reclassified to profit or loss		**4.5**	(3.1)
Total other comprehensive (expense)/income		**(28.3)**	21.1
Total comprehensive income for the year attributable to equity shareholders		**91.2**	98.5

Group balance sheet
at 31 December 2021

	Notes	2021 £m	2020 £m
Non-current assets			
Investment properties	13	**2,153.0**	2,032.8
Property, plant and equipment	14	**135.4**	130.5
Goodwill and intangible assets		**3.1**	2.2
Investment in associate	31	**4.9**	–
Other financial investments		**1.7**	–
Deferred tax	18	**2.6**	7.7
Derivative financial instruments	20	**0.4**	–
Other receivables	15	**7.7**	8.2
		2,308.8	2,181.4
Current assets			
Trade and other receivables	15	**18.1**	22.0
Assets held for sale		**44.2**	21.9
Cash and cash equivalents	16	**167.4**	235.7
		229.7	279.6
Total assets		**2,538.5**	2,461.0
Current liabilities			
Trade and other payables	17	**(57.6)**	(54.3)
Current tax		**(4.5)**	(0.3)
Borrowings	19	**(169.1)**	(103.6)
Derivative financial instruments	20	**(0.7)**	–
		(231.9)	(158.2)
Non-current liabilities			
Deferred tax	18	**(109.9)**	(159.5)
Borrowings	19	**(862.5)**	(867.1)
Leasehold liabilities		**(3.4)**	–
Derivative financial instruments	20	**(0.1)**	(5.6)
		(975.9)	(1,032.2)
Total liabilities		**(1,207.8)**	(1,190.4)
Net assets		**1,330.7**	1,270.6
Equity			
Share capital	23	**11.0**	11.0
Share premium		**83.1**	83.1
Other reserves	25	**88.7**	117.3
Retained earnings		**1,147.9**	1,059.2
Total equity		**1,330.7**	1,270.6

The financial statements of CLS Holdings plc (registered number: 02714781) were approved by the Board of Directors and authorised for issue on 16 March 2021 and were signed on its behalf by:

Mr F Widlund
Chief Executive Officer

Mr A Kirkman
Chief Financial Officer

Group statement of changes in equity
for the year ended 31 December 2021

	Share capital £m	**Share premium £m**	**Other reserves £m**	**Retained earnings £m**	**Total equity £m**
	Note 23		Note 25		
Arising in 2021:					
Total comprehensive income for the year	**–**	**–**	**(28.3)**	**119.5**	**91.2**
Share-based payment charge	**–**	**–**	**(0.3)**	**–**	**(0.3)**
Dividends to shareholders	**–**	**–**	**–**	**(30.8)**	**(30.8)**
Total changes arising in 2021	**–**	**–**	**(28.6)**	**88.7**	**60.1**
At 1 January 2021	**11.0**	**83.1**	**117.3**	**1,059.2**	**1,270.6**
At 31 December 2021	**11.0**	**83.1**	**88.7**	**1,147.9**	**1,330.7**

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
	Note 23		Note 25		
Arising in 2020:					
Total comprehensive income for the year	–	–	21.1	77.4	98.5
Share-based payment charge	–	–	(0.2)	–	(0.2)
Dividends to shareholders	–	–	–	(30.1)	(30.1)
Total changes arising in 2020	–	–	20.9	47.3	68.2
At 1 January 2020	11.0	83.1	96.4	1,011.9	1,202.4
At 31 December 2020	11.0	83.1	117.3	1,059.2	1,270.6

Group statement of cash flows
for the year ended 31 December 2021

	Notes	**2021 £m**	2020 £m
Cash flows from operating activities			
Cash generated from operations	26	**73.1**	76.9
Interest received		**0.5**	1.0
Interest paid		**(24.3)**	(22.1)
Income tax paid on operating activities		**(5.1)**	(11.5)
Net cash inflow from operating activities		**44.2**	44.3
Cash flows from investing activities			
Purchase of investment properties		**(164.6)**	(124.6)
Capital expenditure on investment properties		**(35.8)**	(18.9)
Proceeds from sale of properties		**37.0**	62.2
Income tax paid on sale of properties		**(1.3)**	(9.0)
Purchases of property, plant and equipment		**(0.6)**	(0.3)
Net cash flow from sale of subsidiaries		**–**	(1.4)
Purchase of intangibles		**(0.9)**	(0.8)
Distributions received from associate and investment undertakings		**0.2**	0.1
Disposal of associate undertakings		**0.5**	–
Net cash flow on foreign currency transactions		**–**	0.3
Net cash outflow from investing activities		**(165.5)**	(92.4)
Cash flows from financing activities			
Dividends paid	24	**(30.8)**	(30.1)
New loans		**196.7**	182.5
Issue costs of new loans		**(1.4)**	(2.5)
Repayment of loans		**(107.2)**	(128.3)
Net cash inflow from financing activities		**57.3**	21.6
Cash flow element of net decrease in cash and cash equivalents		**(64.0)**	(26.5)
Foreign exchange (loss)/gain		**(4.3)**	2.8
Net decrease in cash and cash equivalents		**(68.3)**	(23.7)
Cash and cash equivalents at the beginning of the year		**235.7**	259.4
Cash and cash equivalents at the end of the year	16	**167.4**	235.7

Notes to the Group financial statements
for the year ended 31 December 2021

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

The Company is registered and incorporated in the UK, registration number 02714781, with its registered address at 16 Tinworth Street, London SE11 5AL. The Company is listed on the London Stock Exchange.

2. 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 2021 Annual Report and Accounts will be posted to shareholders on 28 March 2022 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 2021. This financial information has been prepared in accordance with the Companies Act 2006 and United Kingdom adopted International Accounting Standards and International Financial Reporting Standards (IFRSs). Whilst the financial information included in this announcement has been computed in accordance International Financial Reporting Standards adopted by the United Kingdom, 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 2021 or 31 December 2020 as defined by Section 434 of the Companies Act 2006. Statutory accounts for 2020 have been delivered to the Registrar of Companies and those for 2021 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 2021 and 2020 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 19 to 22. 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 above. 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 and student accommodation at Spring Mews and other small corporate investments. The Group manages the investment properties division on a geographical basis due to its size and geographical diversity. Consequently, the Group's principal operating segments are:

Investment properties:	United Kingdom
	Germany
	France

Other investments

	Investment properties						
Year ended 31 December 2021	**United Kingdom[1] £m**	**Germany £m**	**France £m**	**Other investments[1] £m**	**Central administration £m**	**Non-recurring items £m Note 10**	**Total £m**
Rental income	**53.3**	**33.8**	**14.1**	**–**	**–**	**–**	**101.2**
Other property-related income	**1.9**	**0.3**	**0.5**	**6.8**	**–**	**–**	**9.5**
Service charge income	**12.3**	**11.2**	**5.6**	**–**	**–**	**–**	**29.1**
Revenue	**67.5**	**45.3**	**20.2**	**6.8**	**–**	**–**	**139.8**
Service charges and similar expenses	**(13.8)**	**(12.0)**	**(6.0)**	**–**	**–**	**–**	**(31.8)**
Net rental income	**53.7**	**33.3**	**14.2**	**6.8**	**–**	**–**	**108.0**
Administration expenses	**(6.9)**	**(2.9)**	**(1.7)**	**0.2**	**(3.7)**	**(1.2)**	**(16.2)**
Other expenses	**(5.9)**	**(3.3)**	**(1.1)**	**(4.6)**	**0.5**	**–**	**(14.4)**
Revenue less costs	**40.9**	**27.1**	**11.4**	**2.4**	**(3.2)**	**(1.2)**	**77.4**
Net revaluation movements on investment property	**3.7**	**24.2**	**0.6**	**–**	**–**	**–**	**28.5**
Net revaluation movements on equity investments	**–**	**–**	**–**	**1.0**	**–**	**–**	**1.0**
Profit/(loss) on sale of investment property	**0.7**	**(1.1)**	**0.3**	**–**	**–**	**–**	**(0.1)**
Segment operating profit/(loss)	**45.3**	**50.2**	**12.3**	**3.4**	**(3.2)**	**(1.2)**	**106.8**
Finance income	**3.8**	**0.2**	**–**	**1.9**	**–**	**–**	**5.9**
Finance costs	**(15.7)**	**(5.4)**	**(2.7)**	**(1.3)**	**(0.3)**	**–**	**(25.4)**
Foreign exchange loss	**–**	**–**	**–**	**(2.3)**	**–**	**–**	**(2.3)**
Share of profit of associate after tax	**–**	**–**	**–**	**5.1**	**–**	**1.4**	**6.5**
Segment profit/(loss) before tax	**33.4**	**45.0**	**9.6**	**6.8**	**(3.5)**	**0.2**	**91.5**

	Investment properties						
Year ended 31 December 2020	United Kingdom[1] £m	Germany £m	France £m	Other investments[1] £m	Central administration £m	Non-recurring items £m Note 10	Total £m
Rental income	58.2	33.3	15.0	–	–	–	106.5
Other property-related income	3.8	–	0.2	1.9	–	–	5.9
Service charge income	11.2	10.3	5.5	–	–	–	27.0
Revenue	73.2	43.6	20.7	1.9	–	–	139.4
Service charges and similar expenses	(12.8)	(10.9)	(5.9)	–	–	–	(29.6)
Net rental income	60.4	32.7	14.8	1.9	–	–	109.8
Administration expenses	(7.5)	(2.9)	(1.8)	(0.2)	(6.1)	–	(18.5)
Other expenses	(8.9)	(2.8)	(1.4)	(2.0)	–	–	(15.1)
Revenue less costs	44.0	27.0	11.6	(0.3)	(6.1)	–	76.2
Net revaluation movements on investment property	(29.1)	60.1	0.5	–	–	–	31.5
(Loss)/profit on sale of investment property	(0.1)	11.7	–	–	–	–	11.6
Segment operating profit/(loss)	14.8	98.8	12.1	(0.3)	(6.1)	–	119.3
Finance income	–	–	–	1.1	–	–	1.1
Finance costs	(17.3)	(5.1)	(2.7)	(0.9)	–	–	(26.0)
Foreign exchange gain	–	–	–	2.1	–	–	2.1
Segment (loss)/profit before tax	(2.5)	93.7	9.4	2.0	(6.1)	–	96.5

1 On 1 January 2021 the student accommodation was transferred from the United Kingdom investment property segment to the 'Other investments' segment due to the property's reclassification to property, plant and equipment at 31 December 2020.

Other segment information

	Assets		Liabilities		Capital expenditure	
	2021 £m	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m
Investment properties						
United Kingdom	**1,065.6**	1,044.8	**555.0**	605.2	**20.6**	7.3
Germany	**900.2**	767.2	**462.4**	373.3	**9.4**	6.3
France	**293.8**	314.9	**183.8**	207.2	**6.0**	4.2
Other investments	**278.9**	334.1	**6.6**	4.7	**0.5**	0.1
	2,538.5	2,461.0	**1,207.8**	1,190.4	**36.5**	17.9

5. Alternative performance measures

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

Introduction

The Group has applied the October 2015 European Securities and Markets Authority ('ESMA') guidelines on APMs and the October 2021 Financial Reporting Council ('FRC') thematic review of APMs in these results, whilst noting the International Organization of Securities Commissions (IOSCO) 2016 guidance and ESMA's December 2019 report on the use of APMs. An APM is a financial measure of historical or future financial performance, position or cash flows of the Group which is not a measure defined or specified in IFRS.

Overview of our use of APMs

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

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

EPRA APMs and similar CLS APMs

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

– EPRA earnings, which gives relevant information to investors on the long-term performance of the Group's underlying property investment business and an indication of the extent to which current dividend payments are supported by earnings; and

– EPRA net asset value (NAV), which excludes certain items not expected to crystallise in a long-term investment property business model, such as CLS'.

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

– EPRA net tangible assets (NTA);

– EPRA net realisable value (NRV); and

– EPRA net development value (NDV).

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

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

– EPRA net initial yield;

– EPRA 'topped-up' net initial yield;

– EPRA vacancy;

– EPRA capital expenditure; and

– CLS administration cost ratio and EPRA cost ratio.

Other APMs

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

– Total accounting return;

– Net borrowings and gearing;

– Loan-to-value;

– Dividend cover; and

– Interest cover.

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

1. EPRA APMs and similar CLS APMs

For use in earnings per share calculations	2021 Number	2020 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	2021 £m	2020 £m
Profit for the year		**119.5**	77.4
Non-recurring items after tax	10	**1.5**	–
Recurring profit for the year		**121.0**	77.4
Net revaluation movement on investment property	13	**(28.5)**	(31.5)
Deferred tax on revaluations		**(38.6)**	10.9
Net revaluation movement on equities		**(1.0)**	
Loss/(profit) on sale of investment property		**0.1**	(11.6)
Current tax thereon		**3.2**	2.7
Movement in fair value of derivative financial instruments	8/9	**(5.2)**	1.6
Uplift in value of associates		**(5.1)**	–
EPRA earnings		**45.9**	49.5
Basic and diluted earnings per share		**29.3p**	19.0p
EPRA earnings per share		**11.3p**	12.2p

ii) Net asset value measures

	2021				2020			
2021	IFRS NAV £m	EPRA NTA £m	EPRA NRV £m	EPRA NDV £m	IFRS NAV £m	EPRA NTA £m	EPRA NRV £m	EPRA NDV £m
Net assets	**1,330.7**	**1,330.7**	**1,330.7**	**1,330.7**	1,270.6	1,270.6	1,270.6	1,270.6
Goodwill as a result of deferred tax on acquisitions	**–**	**(1.1)**	**(1.1)**	**(1.1)**	–	(1.1)	(1.1)	(1.1)
Other intangibles	**–**	**(2.0)**	**–**	**–**	–	(1.1)	–	–
Fair value of fixed interest debt	**–**	**–**	**–**	**(4.2)**	–	–	–	(13.2)
Tax thereon	**–**	**–**	**–**	**0.8**	–	–	–	2.5
Deferred tax on revaluation surplus	**–**	**108.1**	**108.1**	**–**	–	151.3	151.3	–
Capital allowances	**–**	**(0.3)**	**(0.3)**	**–**	–	(12.0)	(12.0)	–
Adjustment for short-term disposals	**–**	**(7.8)**	**–**	**–**	–	(6.9)	–	–
Fair value of financial instruments	**–**	**0.4**	**0.4**	**–**	–	5.6	5.6	–
Purchasers' costs[1]	**–**	**–**	**149.3**	**–**	–	–	140.9	–
	1,330.7	**1,428.0**	**1,587.1**	**1,326.2**	1,270.6	1,406.4	1,555.3	1,258.8
Per share	**326.6p**	**350.5p**	**389.6p**	**325.5p**	311.9p	345.2p	381.8p	309.0p

[1] EPRA NTA and EPRA NDV reflect IFRS values which are net of purchasers' costs. Purchasers' costs are added back when calculating EPRA NRV.

iii) Yield

EPRA net initial yield (NIY)

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

	2021				2020			
	United Kingdom £m	**Germany £m**	**France £m**	**Total £m**	United Kingdom £m	Germany £m	France £m	Total £m
Rent passing	**52.8**	**34.9**	**11.7**	**99.4**	54.4	33.2	13.7	101.3
Adjusted for development stock	**(2.6)**	**(0.5)**	**–**	**(3.1)**	(1.1)	–	–	(1.1)
Forecast non-recoverable service charge	**(2.0)**	**(0.6)**	**(0.3)**	**(2.9)**	(2.5)	(0.8)	(0.5)	(3.8)
Annualised net rents (A)	**48.2**	**33.8**	**11.4**	**93.4**	50.8	32.4	13.2	96.4
Property portfolio[1]	**1,034.5**	**883.0**	**280.1**	**2,197.6**	1,003.8	743.3	307.6	2,054.7
Adjusted for development stock	**(103.7)**	**(46.2)**	**–**	**(149.9)**	(49.5)	(7.5)	–	(57.0)
Purchasers' costs at 6.8%	**63.3**	**56.9**	**19.0**	**139.2**	64.6	50.0	20.9	135.5
Property portfolio valuation including purchasers' costs (B)	**994.1**	**893.7**	**299.1**	**2,186.9**	1,018.9	785.8	328.5	2,133.2
EPRA NIY (A/B)	**4.8%**	**3.8%**	**3.8%**	**4.3%**	5.0%	4.1%	4.0%	4.5%

EPRA 'topped-up' NIY

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

	2021				2020			
	United Kingdom £m	**Germany £m**	**France £m**	**Total £m**	United Kingdom £m	Germany £m	France £m	Total £m
Contracted rent	**55.0**	**38.8**	**13.8**	**107.6**	57.2	34.7	16.0	107.9
Adjusted for development stock	**(2.6)**	**(0.6)**	**–**	**(3.2)**	(1.2)	–	–	(1.2)
Forecast non-recoverable service charge	**(2.0)**	**(0.6)**	**(0.3)**	**(2.9)**	(2.5)	(0.8)	(0.5)	(3.8)
'Topped-up' annualised net rents (A)	**50.4**	**37.6**	**13.5**	**101.5**	53.5	33.9	15.5	102.9
Property portfolio[1]	**1,034.5**	**883.0**	**280.1**	**2,197.6**	1,003.8	743.3	307.6	2,054.7
Adjusted for development stock	**(103.7)**	**(46.2)**	**–**	**(149.9)**	(49.5)	(7.5)	–	(57.0)
Purchasers' costs (6.8%)	**63.3**	**56.9**	**19.0**	**139.2**	64.6	50.0	20.9	135.5
Property portfolio valuation including purchasers' costs (B)	**994.1**	**893.7**	**299.1**	**2,186.9**	1,018.9	785.8	328.5	2,133.2
EPRA 'topped-up' NIY (A/B)	**5.1%**	**4.2%**	**4.5%**	**4.6%**	5.2%	4.3%	4.7%	4.8%

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

iv) Vacancy

The EPRA vacancy rate calculates vacancy as a proportion of the ERV of the total portfolio and, from 2021, is the only measure used by the Group.

EPRA vacancy

	2021 £m	2020 £m
ERV of vacant space (A)	**7.0**	6.1
ERV of let space	**113.0**	113.9
ERV of total portfolio (B)	**120.0**	120.0
EPRA vacancy rate (A/B)	**5.8%**	5.1%

v) Capital expenditure

1. EPRA capital expenditure

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

	Notes	**2021 £m**	2020 £m
Acquisitions	13	**179.5**	119.1
Amounts spent on the completed investment property portfolio	13		
Creation of incremental space		**8.6**	1.9
Creation of no incremental space		**27.4**	15.9
EPRA capital expenditure		**215.5**	136.9
Conversion from accrual to cash basis		**(15.1)**	6.6
EPRA capital expenditure on a cash basis	CF[1]	**200.4**	143.5

1 Group statement of cash flows

vi) Cost ratios

CLS administration cost ratio

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

	Notes	**2021 £m**	2020 £m
Recurring administration expenses		**15.0**	18.5
Less: Other investment segment	4	**0.2**	(0.2)
Underlying administration expenses (A)		**15.2**	18.3
Net rental income (B)	4	**108.0**	109.8
Administration cost ratio (A/B)		**14.1%**	16.7%

EPRA cost ratio

	Notes	**2021 £m**	2020 £m
Recurring administration expenses		**15.0**	18.5
Other expenses	4	**14.4**	15.1
Less: Other investment segment	4	**(4.4)**	(2.2)
		25.0	31.4
Net service charge costs	4	**2.7**	2.6
Service charge costs recovered through rents but not separately invoiced		**(0.3)**	(0.3)
Dilapidations receipts		**(1.2)**	(2.6)
EPRA costs (including direct vacancy costs) (A)		**26.2**	31.1
Direct vacancy costs		**(3.4)**	(2.9)
EPRA costs (excluding direct vacancy costs) (B)		**22.8**	28.2
Gross rental income	4	**101.2**	106.5
Service charge components of gross rental income		**(0.3)**	(0.3)
EPRA gross rental income (C)		**100.9**	106.2
EPRA cost ratio (including direct vacancy costs) (A/C)		**26.0%**	29.3%
EPRA cost ratio (excluding direct vacancy costs) (B/C)		**22.6%**	26.6%

2. Other APMs

i) Total accounting return

	Notes	**2021 £m**	2020 £m
EPRA NTA at 31 December	5	**1,428.0**	1,406.4
Distribution – prior year final	24	**21.2**	20.5
Distribution – current year interim	24	**9.6**	9.6
Less: EPRA NTA at 1 January (A)	5	**(1,406.4)**	(1,329.3)
Return before dividends (B)		**52.4**	107.2
Total accounting return (NTA) (B/A)		**3.7%**	8.1%

ii) Net borrowings and gearing

	Notes	**2021 £m**	2020 £m
Borrowings short-term	19	**169.1**	103.6
Borrowings long-term	19	**862.5**	867.1
Add back: unamortised issue costs	19	**5.9**	6.3
Gross debt	19	**1,037.5**	977.0
Cash	16	**(167.4)**	(235.7)
Net borrowings (A)		**870.1**	741.3
Net assets (B)		**1,330.7**	1,270.6
Net gearing (A/B)		**65.4%**	58.3%

iii) Balance sheet loan-to-value

	Notes	**2021 £m**	2020 £m
Borrowings short-term	19	**169.1**	103.6
Borrowings long-term	19	**862.5**	867.1
Less: cash	16	**(167.4)**	(235.7)
Net debt (A)		**864.2**	735.0
Investment properties	13	**2,153.0**	2,032.8
Properties in plant, property and equipment	14	**133.3**	128.3
Properties and land held for sale	12	**45.0**	21.9
Total property portfolio (B)		**2,331.3**	2,183.0
Balance sheet loan-to-value (A/B)		**37.1%**	33.7%

iv) Dividend cover

	Notes	**2021 £m**	2020 £m
Interim dividend	24	**9.6**	9.6
Final dividend	24	**21.8**	21.2
Total dividend (A)		**31.4**	30.8
EPRA earnings (B)	5	**45.9**	49.5
Dividend cover (B/A)		**1.46**	1.61

v) Interest cover

	Notes	2021 £m	2020 £m
Net rental income	4	**108.0**	109.8
Recurring administration expenses		**(15.0)**	(18.5)
Other expenses	4	**(14.4)**	(15.1)
Group revenue less costs (A)		**78.6**	76.2
Finance income (excluding derivatives and dividend income)	8	**0.5**	1.0
Finance costs (excluding derivatives)	9	**(25.4)**	(24.4)
Net interest (B)		**(24.9)**	(23.4)
Interest cover (-A/B)		**3.16**	3.26

6. Profit for the year

Profit for the year has been arrived at after charging/(crediting):

	Notes	2021 £m	2020 £m
Auditor's remuneration: Fees payable to the Company's Auditor for:			
Audit of the Parent Company and Group accounts		**0.5**	0.4
Audit of the Company's subsidiaries pursuant to legislation		**0.1**	0.1
Depreciation of property, plant and equipment	14	**1.0**	0.7
Employee benefits expense	7	**11.3**	13.5
Foreign exchange loss/(gain)		**2.3**	(2.1)
Provision against trade receivables	15	**(0.3)**	1.8

Other services provided to the Group by the Company's Auditor consisted of the 2021 interim review of £40k (2020: £40k).

7. Employee benefits expense

	2021 £m	2020 £m
Wages and salaries	**8.6**	9.1
Social security costs	**1.1**	1.1
Pension costs – defined contribution plans	**0.4**	0.4
Performance incentive plan	**1.0**	1.1
Other employee-related expenses	**0.2**	1.8
	11.3	13.5

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

Information on Directors' emoluments, share options and interests in the Company's shares is given in the Remuneration Committee Report in the Annual Report.

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

	2021			2020		
	Property Number	Hotel Number	Total Number	Property Number	Hotel Number	Total Number
Male	**46**	**9**	**55**	47	7	54
Female	**48**	**9**	**57**	53	9	62
	94	**18**	**112**	100	16	116

8. Finance income

	2021 £m	2020 £m
Interest income		
Financial instruments carried at amortised cost	**0.5**	1.0
Movement in fair value of derivative financial instruments	**5.2**	–
Dividend income	**0.2**	0.1
	5.9	1.1

9. Finance costs

	2021 £m	2020 £m
Interest expense		
Secured bank loans	**21.4**	20.0
Secured notes	**2.1**	2.3
Amortisation of loan issue costs	**1.9**	2.1
Total interest costs	**25.4**	24.4
Movement in fair value of derivative financial instruments	**–**	1.6
	25.4	26.0

10. Non-recurring items

		Notes	2021 £m	2020 £m
Administration costs – UK restructuring costs*	A		**(1.2)**	–
Share of associates – profit on sale of associate*	B		**1.4**	–
			0.2	
Taxation – tax credit on UK restructuring costs*	A	11	**0.2**	
Taxation – deferred tax liability release due to REIT conversion	C	11	**43.7**	–
Taxation – deferred tax asset release due to REIT conversion*	C	11	**(1.9)**	
Non-recurring tax			**42.0**	–
Total non-recurring			**42.2**	

A – UK restructuring costs

The Group incurred costs of £1.2m associated with redundancies made in the UK. These costs are tax deductible and so the associated tax credit of £0.2m has also been treated as non recurring.

B – Profit on sale of associate

This relates to the sale of our 21.8% share in Fragbite AB to Funrock (now renamed Fragbite Group AB). The consideration for the sale was a combination of cash and shares in the purchaser. Subsequent to our sale, the purchaser listed on the Nasdaq Nordic stock exchange and the shares are held as an 'other financial investment' on the Group Balance Sheet and were revalued at the year end. The revaluation of £1.0m has been treated as a recurring item.

C – Deferred tax arising on conversion to REIT

The UK property business became a REIT on 1 January 2022. As a result, the majority of the UK deferred tax liabilities and assets were released. The majority of the deferred tax liability released relates to the revaluation of the UK properties. The deferred tax assets disclosed as non-recurring relate to the non property business in the UK and were released as it is no longer probable that sufficient taxable profits will be generated in the future for the recognition criteria to be met.

* These items are included as non-recurring items in the ERPA earnings reconciliation presented in note 5

11. Taxation

	2021 £m	2020 £m
Corporation tax		
Current year charge	**11.7**	8.1
Non-recurring tax on restructuring costs	**(0.2)**	
Adjustments in respect of prior years	**(0.7)**	0.3
	10.8	8.4
Deferred tax (see note 18)		
Origination and reversal of temporary differences	**3.0**	5.7
Effect of change in UK tax rate	**–**	5.0
Non-recurring deferred tax liability release due to REIT conversion	**(43.7)**	–
Non-recurring deferred tax asset release due to REIT conversion	**1.9**	–
	(38.8)	10.7
Tax charge for the year	**(28.0)**	19.1

A deferred tax charge of £1.0 million (2020: credit of £0.5 million) was recognised directly in equity (note 18). The charge for the year differs from the theoretical amount which would arise using the weighted average tax rate applicable to profits of Group companies as follows:

	2021 £m	2020 £m
Profit before tax	**91.5**	96.5
Expected tax charge at the weighted average applicable tax rate	**17.0**	16.3
Expenses not deductible for tax purposes	**2.6**	1.1
Change in tax basis of UK properties, including indexation uplift	**–**	0.7
Change in UK tax rate	**–**	5.0
Non-taxable income	**(3.8)**	(1.6)
Deferred tax on losses not recognised/(recognised)	**0.7**	(2.8)
Adjustments in respect of prior years	**(0.7)**	0.3
Release of deferred tax on election into UK REIT regime	**(43.7)**	–
Other	**(0.1)**	0.1
Tax charge for the year	**(28.0)**	19.1

The weighted average applicable tax rate of 18.6% (2020: 16.9%) was derived by applying to their relevant profits and losses the rates in the jurisdictions in which the Group operated. The standard UK rate of corporation tax applied to profits is 19.0% (2020: 19.0%).

12. Property portfolio

	Notes	**United Kingdom £m**	**Germany £m**	**France £m**	**Total £m**
Investment property	**13**	**996.4**	**883.0**	**273.6**	**2,153.0**
Property held as property, plant and equipment	**14**	**126.4**	**5.0**	**1.9**	**133.3**
Properties held for sale		**38.1**	**–**	**6.5**	**44.6**
Land held for sale		**–**	**–**	**0.4**	**0.4**
Property portfolio at 31 December 2021		**1,160.9**	**888.0**	**282.4**	**2,331.3**

	Notes	United Kingdom £m	Germany £m	France £m	Total £m
Investment property	13	997.9	733.2	301.7	2,032.8
Property held as property, plant and equipment	14	121.9	4.3	2.1	128.3
Properties held for sale		5.9	10.2	5.8	21.9
Property portfolio at 31 December 2020		1,125.7	747.7	309.6	2,183.0

13. Investment property

	United Kingdom £m	Germany £m	France £m	Total investment properties £m
At 1 January 2021	**997.9**	**733.2**	**301.7**	**2,032.8**
Acquisitions	**17.9**	**161.6**	**–**	**179.5**
Capital expenditure	**20.6**	**9.4**	**6.0**	**36.0**
Disposals	**(5.0)**	**–**	**(10.7)**	**(15.7)**
Net revaluation movement	**3.7**	**24.2**	**0.6**	**28.5**
Lease incentive debtor adjustments	**(0.6)**	**3.0**	**0.3**	**2.7**
Exchange rate variances	**–**	**(48.0)**	**(17.9)**	**(65.8)**
Transfer to plant, property and equipment	**–**	**(0.4)**	**–**	**(0.4)**
Transfer to properties held for sale	**(38.1)**	**–**	**(6.5)**	**(44.6)**
At 31 December 2021	**996.4**	**883.0**	**273.6**	**2,153.0**

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

Investment properties included leasehold properties with a carrying amount of £48.6 million (2020: £32.8 million).

The property portfolio which comprises investment properties, properties held for sale and the student accommodation, hotel and landholding, detailed in note 12, was revalued at 31 December 2021 to its fair value. Valuations were based on current prices in an active market for all properties. The property valuations were carried out by external independent valuers as follows:

	Investment property 2021 £m	Other property 2021 £m	Property portfolio 2021 £m	Investment property 2020 £m	Other property 2020 £m	Property portfolio 2020 £m
Cushman and Wakefield	**1,270.0**	**173.3**	**1,443.3**	1,299.6	135.7	1,435.3
Jones Lang LaSalle	**883.0**	**1.8**	**884.8**	733.2	11.4	744.6
L Fällström AB	**–**	**3.2**	**3.2**	–	3.1	3.1
	2,153.0	**178.3**	**2,331.3**	2,032.8	150.2	2,183.0

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

Valuation process

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

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

Valuation techniques

The fair value of the property portfolio (excluding ongoing developments, see below) has been determined using the following approaches in accordance with International Valuation Standards:

United Kingdom	an income capitalisation approach whereby contracted and market rental values are capitalised with a market capitalisation rate
Germany	a 10 year discounted cash flow model with an assumed exit thereafter
France	both the market capitalisation approach and a 10 year discounted cash flow approach

The resulting valuations are cross-checked against the equivalent yields and the fair market values per square foot derived from comparable recent market transactions on arm's length terms. Other factors taken into account in the valuations include the tenure of the property, tenancy details, and ground and structural conditions.

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

All valuations have considered the environmental, social and governance credentials of the properties and the potential cost of improving them to local regulatory standards along with the broader potential impact of climate change.

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

There were no transfers between any of the Levels in the fair value hierarchy during either 2021 or 2020.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to a gain of £28.5 million (2020: £31.5 million) and are presented in the income statement in the line item 'Net movements on revaluation of investment properties'. The revaluation gain for the property, plant and equipment of £5.5 million (2020: deficit of £3.6 million) was included within the revaluation reserve via other comprehensive income.

All gains and losses recorded in profit or loss in 2021 and 2020 for recurring fair value measurements categorised within Level 3 of the fair value hierarchy are attributable to changes in unrealised gains or losses relating to investment property held at 31 December 2021 and 31 December 2020, respectively.

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

	ERV				Equivalent yield			
	Average		Range		Average		Range	
	2021 £ per sq. ft	2020 £ per sq. ft	**2021 per sq. ft**	2020 per sq. ft	**2021 %**	2020 %	**2021 %**	2020 %
UK	**36.91**	35.51	**10.00-66.19**	10.00-66.43	**5.51**	5.70	**2.54-10.30**	2.42-8.80
Germany	**13.21**	13.52	**8.88-24.05**	9.44-25.09	**4.39**	4.42	**3.00-5.40**	3.00-5.50
France	**19.49**	20.48	**11.96-37.36**	11.25-38.95	**5.04**	5.24	**4.38-6.00**	4.13-6.50

Sensitivity of measurement to variations in the significant unobservable inputs

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

A decrease in the equivalent yield by 25 basis points would result in an increase in the fair value of the Group's investment property by £126.3 million (2020: £115.2 million) whilst a 25 basis point increase would reduce the fair value by £125.4 million (2020: £103.7 million). A decrease in the ERV by 5% would result in a decrease in the fair value of the Group's investment property by £88.8 million (2020: £75.8 million) whilst an increase in the ERV by 5% would result in an increase in the fair value of the Group's investment property by £74.7 million (2020: £75.6 million).

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

Sustainability and climate change

The Group published its new sustainability strategy including a pathway to net zero carbon in August 2021 and has set 2030 as its date to achieve this (see Annual Report). During the year the Group employed technical experts to carry out individual property energy audits to identify energy and carbon saving opportunities. A total of 76 properties were visited from January to April 2021 across the UK, France and Germany, with new developments, properties under refurbishment, and properties earmarked for sale all excluded from the programme. The investment needed to deliver the audit findings amounts to an estimated £58 million over nine years. We have integrated these energy audits into each Asset Management Plan to enable strategic decisions about the refurbishment, sale or full redevelopment of assets to be made.

14. Property, plant and equipment

	Student accommodation £m	Hotel £m	Land and buildings £m	Owner-occupied property £m	Fixtures and fittings £m	Total £m
Cost or valuation						
At 1 January 2020	–	29.0	2.4	10.3	6.0	47.7
Additions	–	0.1	–	–	0.3	0.4
Reclassification from investment property[1]	90.8	–	–	–	–	90.8
Revaluation	–	(4.1)	0.4	0.1	–	(3.6)
Exchange rate variances	–	–	0.3	0.2	–	0.5
At 31 December 2020	**90.8**	**25.0**	**3.1**	**10.6**	**6.3**	**135.8**
Additions	**–**	**–**	**–**	**–**	**0.5**	**0.5**
Disposals					**(0.9)**	**(0.9)**
Reclassification from investment property[2]	**–**	**–**	**–**	**0.4**	**–**	**0.4**
Reclassification to accumulated depreciation	**–**	**(1.2)**	**–**	**–**	**(2.7)**	**(3.9)**
Revaluation	**3.3**	**1.2**	**0.4**	**0.1**	**–**	**5.0**
Exchange rate variances	**–**	**–**	**(0.3)**	**(0.1)**	**–**	**(0.4)**
At 31 December 2021	**94.1**	**25.0**	**3.2**	**11.0**	**3.2**	**136.5**
Comprising:						
At cost	**–**	**–**	**–**	**–**	**3.2**	**3.2**
At valuation	**94.1**	**25.0**	**3.2**	**11.0**	**–**	**133.3**
	94.1	**25.0**	**3.2**	**11.0**	**3.2**	**136.5**
Accumulated depreciation and impairment						
At 1 January 2020	–	(1.0)	–	–	(3.6)	(4.6)
Depreciation charge	–	(0.2)	–	–	(0.5)	(0.7)
At 31 December 2020	**–**	**(1.2)**	**–**	**–**	**(4.1)**	**(5.3)**
Depreciation charge	**(0.3)**	**(0.1)**	**–**	**(0.1)**	**(0.5)**	**(1.0)**
Reclassification from cost	**–**	**1.2**	**–**	**–**	**2.7**	**3.9**
Disposals	**–**	**–**	**–**	**–**	**0.8**	**0.8**
Revaluation	**0.3**	**0.1**	**–**	**0.1**	**–**	**0.5**
At 31 December 2021	**–**	**–**	**–**	**–**	**(1.1)**	**(1.1)**
Net book value						
At 31 December 2021	**94.1**	**25.0**	**3.2**	**11.0**	**2.1**	**135.4**
At 31 December 2020	90.8	23.8	3.1	10.6	2.2	130.5

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

2 During 2021, the CLS Group opened an office in the City of Dusseldorf within a property classified as investment property. This is the transfer of the value of the part of this investment property that is now owner occupied by CLS.

15. Trade and other receivables

	2021 £m	2020 £m
Current		
Trade receivables	**8.8**	7.3
Other receivables	**3.9**	4.3
Prepayments	**2.4**	8.5
Accrued income	**3.0**	1.9
	18.1	22.0
Non-current		
Other receivables[1]	**7.7**	8.2
	25.8	30.2

1 This is the vendor loan granted on completion of the sale of First Camp Sverige Holdings AB in March 2019. The loan is due for repayment no later than June 2023 and can be repaid by the borrower at any time without penalty. Given current economic uncertainty the Group has assessed the likely repayment date to be more than 12 months from the year end.

Trade receivables are shown after deducting a provision of £2.4 million (2020: £2.8 million) which is calculated as an expected credit loss on trade receivables in accordance with IFRS 9 (see note 2). The movements in this provision were as follows;

	2021 £m	2020 £m
At 1 January	**2.8**	1.1
Debt write-offs	**(0.1)**	(0.1)
(Credit)/charge to the income statement	**(0.3)**	1.8
At 31 December	**2.4**	2.8

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

The Directors consider that the carrying amount of trade and other receivables is approximate to their fair value. There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers who are paying their rent in advance. Further details about the Group's credit risk management practices are disclosed in note 21.

16. Cash and cash equivalents

	2021 £m	2020 £m
Cash at bank and in hand	**167.4**	235.7

At 31 December 2021, cash at bank and in hand included £13.2 million (2020: £14.5 million) which was restricted by a third-party charge.

17. Trade and other payables

	2021 £m	2020 £m
Current		
Trade payables	**3.0**	1.7
Social security and other taxes	**1.9**	5.8
Other payables	**12.1**	12.1
Deferred income	**19.8**	18.2
Accruals	**20.8**	16.5
	57.6	54.3

18. Deferred tax

	Liabilities				Assets				
	UK capital allowances £m	Fair value adjustments to properties £m	Other £m	Total £m	UK capital allowances £m	Fair value adjustments to properties £m	Other £m	Total £m	Total deferred tax £m
At 1 January 2020	11.2	128.2	1.4	140.8	(0.2)	(3.7)	(0.8)	(4.7)	136.1
Charged/(credited)									
to income statement	1.1	12.2	0.4	13.7	(0.1)	(2.3)	(0.6)	(3.0)	10.7
to OCI[1]	–	(0.5)	–	(0.5)	–	–	–	–	(0.5)
Exchange rate variances	–	5.4	0.1	5.5	–	–	–	–	5.5
At 31 December 2020	**12.3**	**145.3**	**1.9**	**159.5**	**(0.3)**	**(6.0)**	**(1.4)**	**(7.7)**	**151.8**
Charged/(credited)									
to income statement	**(12.0)**	**(32.0)**	**0.1**	**(43.9)**	**0.3**	**3.6**	**1.2**	**5.1**	**(38.8)**
to OCI[1]	**–**	**1.0**	**–**	**1.0**	**–**	**–**	**–**	**–**	**1.0**
Exchange rate variances	**–**	**(6.5)**	**(0.2)**	**(6.7)**	**–**	**–**	**–**	**–**	**(6.7)**
At 31 December 2021	**0.3**	**107.8**	**1.8**	**109.9**	**–**	**(2.4)**	**(0.2)**	**(2.6)**	**107.3**

1 Other Comprehensive Income.

Deferred tax has been calculated at a weighted average across the Group of 23.3% (2020: 17.5%), and has been based on the rates applicable under legislation substantively enacted at the balance sheet date.

Deferred tax assets are recognised in respect of tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 December 2021 the Group did not recognise deferred tax assets of £7.5 million (2020: £5.7 million) in respect of losses amounting to £43.3 million (2020: £35.3 million) which may be carried forward and utilised against future taxable income or gains.

19. Borrowings

	At 31 December 2021			At 31 December 2020		
	Current £m	**Non-current £m**	**Total borrowings £m**	Current £m	Non-current £m	Total borrowings £m
Secured bank loans	**122.7**	**862.5**	**985.2**	99.5	820.7	920.2
Secured notes	**46.4**	**–**	**46.4**	4.1	46.4	50.5
	169.1	**862.5**	**1,031.6**	103.6	867.1	970.7

Issue costs of £5.9 million (2020: £6.3 million) have been offset in arriving at the balances in the above tables.

Secured bank loans

Interest on bank loans is charged at fixed rates ranging between 0.8% and 5.5% including margin (2020: 0.8% and 5.5%) and at floating rates of typically LIBOR or EURIBOR plus a margin. Floating rate margins range between 1.1% and 2.3% (2020: 1.1% and 2.4%). The bank loans are secured by legal charges over £2,194.3 million (2020: £1,904.3 million) of the Group's properties, and in most cases a floating charge over the remainder of the assets held in the company which owns the property. In addition, the share capital of some of the subsidiaries within the Group has been charged.

Secured notes

On 3 December 2013, the Group issued £80.0 million secured, partially-amortising notes. The notes attract a fixed-rate coupon of 4.17% on the unamortised principal amount, the balance of which is repayable in December 2022 and are secured by legal charges over £137.1 million (2020: £139.9 million) of the Group's properties. The fair value was determined by the higher of the carrying principal amount and the discounted future cash flows (adjusted by excluding the margin component of the fixed interest rate[1]) at a discount rate derived from the market interest rate yield curve at the date of the valuation.

1 The fixed interest rate is made up of a market interest rate (typically a swap rate) plus a margin.

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

At 31 December 2021	**Secured bank loans £m**	**Secured notes £m**	**Total £m**
Maturing in:			
Within one year or on demand	**124.3**	**46.5**	**170.8**
One to two years	**111.3**	**–**	**111.3**
Two to five years	**432.7**	**–**	**432.7**
More than five years	**322.7**	**–**	**322.7**
	991.0	**46.5**	**1,037.5**
Unamortised issue costs	**(5.8)**	**(0.1)**	**(5.9)**
Borrowings	**985.2**	**46.4**	**1,031.6**
Due within one year	**(122.7)**	**(46.4)**	**(169.1)**
Due after one year	**862.5**	**–**	**862.5**

At 31 December 2020	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

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

	At 31 December 2021			At 31 December 2020		
	Sterling £m	**Euro £m**	**Total £m**	Sterling £m	Euro £m	Total £m
Fixed rate financial liabilities	**290.0**	**450.8**	**740.8**	255.2	399.8	655.0
Floating rate financial liabilities – hedged	**140.9**	**–**	**140.9**	143.0	18.7	161.7
Total fixed rate	**430.9**	**450.8**	**881.7**	398.2	418.5	816.7
Floating rate financial liabilities – capped	**–**	**47.3**	**47.3**	–	25.6	25.6
Floating rate financial liabilities – unhedged	**94.3**	**14.2**	**108.5**	119.1	15.6	134.7
Total floating rate	**94.3**	**61.5**	**155.8**	119.1	41.2	160.3
	525.2	**512.3**	**1,037.5**	517.3	459.7	977.0
Unamortised issue costs	**(3.9)**	**(2.0)**	**(5.9)**	(4.0)	(2.3)	(6.3)
Borrowings	**521.3**	**510.3**	**1,031.6**	513.3	457.4	970.7

Of the Group's total borrowings, 85% (2020: 84%) are considered fixed rate borrowings.

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

	Weighted average interest rate[1]			Weighted average life		
At 31 December 2021	**Sterling %**	**Euro %**	**Total %**	**Sterling Years**	**Euro Years**	**Total Years**
Fixed rate financial liabilities	**2.9**	**1.4**	**2.0**	**8.0**	**3.2**	**5.1**
Floating rate financial liabilities – hedged	**3.4**	**–**	**3.4**	**2.2**	**–**	**2.2**
	3.1	**1.4**	**2.2**	**6.1**	**3.2**	**4.6**
Floating rate financial liabilities – capped	**–**	**1.3**	**1.3**	**–**	**5.1**	**5.1**
Floating rate financial liabilities – unhedged	**2.9**	**1.2**	**2.7**	**2.5**	**2.0**	**2.4**
	2.9	**1.3**	**2.2**	**2.5**	**4.4**	**3.3**
Gross borrowings	**3.1**	**1.4**	**2.2**	**5.5**	**3.3**	**4.4**

	Weighted average interest rate[1]			Weighted average life		
At 31 December 2020	Sterling %	Euro %	Total %	Sterling Years	Euro Years	Total Years
Fixed rate financial liabilities	3.0	1.4	2.1	7.4	3.9	5.3
Floating rate financial liabilities – hedged	3.3	1.9	3.1	3.2	1.0	2.9
	3.2	1.5	2.3	5.9	3.7	4.8
Floating rate financial liabilities – capped	–	1.5	1.5	–	4.6	4.6
Floating rate financial liabilities – unhedged	2.5	1.2	2.4	3.1	2.3	3.0
	2.5	1.4	2.3	3.1	3.7	3.3
Gross borrowings	3.0	1.5	2.3	5.3	3.7	4.5

1 The weighted average interest rate are based on the nominal value of the debt facilities.

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

	Carrying amounts		Fair values	
	2021 £m	2020 £m	**2021 £m**	2020 £m
Current borrowings	**169.1**	103.6	**169.1**	103.6
Non-current borrowings	**862.5**	867.1	**866.7**	880.3
	1,031.6	970.7	**1,035.8**	983.9

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

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

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

	2021 £m	2020 £m
Floating rate:		
– expiring within one year	**–**	30.0
– expiring after one year	**30.0**	–
	30.0	30.0

Contractual undiscounted cash outflows

The tables below show the contractual undiscounted cash outflows arising from the Group's gross debt.

At 31 December 2021	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	Over 5 years £m	Total £m
Secured bank loans	**124.3**	**111.3**	**265.9**	**116.2**	**50.6**	**322.7**	**991.0**
Secured notes	**46.5**	**–**	**–**	**–**	**–**	**–**	**46.5**
Total on maturity	**170.8**	**111.3**	**265.9**	**116.2**	**50.6**	**322.7**	**1,037.5**
Interest payments on borrowings[1]	**21.1**	**18.4**	**14.6**	**9.7**	**7.6**	**30.0**	**101.4**
Effect of interest rate swaps	**1.1**	**–**	**0.1**	**–**	**–**	**–**	**1.2**
Gross loan commitments	**193.0**	**129.7**	**280.6**	**125.9**	**58.2**	**352.7**	**1,140.1**

At 31 December 2020	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	Over 5 years £m	Total £m
Secured bank loans	101.2	116.1	73.8	258.6	99.6	277.0	926.3
Secured notes	4.2	46.5	–	–	–	–	50.7
Total on maturity	105.4	162.6	73.8	258.6	99.6	277.0	977.0
Interest payments on borrowings[1]	19.9	17.3	14.1	11.8	7.1	24.7	94.9
Effect of interest rate swaps	2.4	2.1	1.0	0.5	–	–	6.0
Gross loan commitments	127.7	182.0	88.9	270.9	106.7	301.7	1,077.9

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

20. Derivative financial instruments

	2021 Assets £m	2021 Liabilities £m	2020 Assets £m	2020 Liabilities £m
Non-current				
Interest rate caps and swaps	**0.4**	**(0.1)**	–	(5.6)
Current				
Forward foreign exchange contracts	**–**	**(0.7)**	–	–
	0.4	**(0.8)**	–	(5.6)

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

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

Interest rate caps

The aggregate notional principal of interest rate caps at 31 December 2021 was £nil (2020: £nil). The average period to maturity of these interest rate caps was 4.2 years (2020: 4.6 years).

Interest rate swaps

The aggregate notional principal of interest rate swap contracts at 31 December 2021 was £159.4 million (2020: £161.9 million). The average period to maturity of these interest rate swaps was 1.9 years (2020: 2.2 years).

Forward foreign exchange contracts

The Group uses forward foreign exchange contracts from time to time to add certainty to, and to minimise the impact of foreign exchange movements on, committed cash flows. At 31 December 2021 and 31 December 2020 the Group had no outstanding net foreign exchange contracts.

Derivative financial instruments cash flows

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

	2021 Assets £m	**2021 Liabilities £m**	2020 Assets £m	2020 Liabilities £m
Maturing in:				
Less than 1 year	**–**	**(1.1)**	–	(2.4)
1 to 2 years	**–**	**(0.1)**	–	(2.1)
2 to 3 years	**0.1**	**(0.1)**	–	(1.0)
3 to 4 years	**–**	**–**	–	(0.5)
4 to 5 years	**–**	**–**	–	–
Over 5 years	**–**	**–**	–	–
	0.1	**(1.3)**	–	(6.0)

21. Financial instruments

Categories of financial instruments

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

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

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

(a) Interest rate swaps and caps are measured at the present value of future cash flows based on applicable yield curves derived from quoted interest rates;

(b) Foreign currency options and forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts;

(c) The fair values of non-derivative financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. Financial assets in this category include financial assets at fair value through other comprehensive income or fair value through profit and loss such as listed corporate bonds and equity investments;

(d) In more illiquid conditions, non-derivative financial assets are valued using multiple quotes obtained from market makers and from pricing specialists. Where the spread of prices is tightly clustered the consensus price is deemed to be fair value. Where prices become more dispersed or there is a lack of available quoted data, further procedures are undertaken such as evidence from the last non-forced trade; and

(e) The fair values of other non-derivative financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices from observable current market transactions and dealer quotes for similar instruments.

Except for investments in associates and fixed rate loans, the carrying amounts of financial assets and liabilities recorded at amortised cost approximate to their fair value.

Capital risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity balances. The capital structure of the Group consists of debt, cash and cash equivalents, other investments and equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings. Management perform “stress tests” of the Group’s business model to ensure that the Group’s objectives can be met and these objectives were met during 2021 and 2020.

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

The gearing ratio at the year end was as follows:

	Notes	**2021 £m**	2020 £m
Debt	19	**1,037.5**	977.0
Liquid resources	16	**(167.4)**	(235.7)
Net debt (A)		**870.1**	741.3
Equity (B)		**1,330.7**	1,270.6
Net debt to equity ratio (A/B)		**65%**	58%

Debt is defined as long-term and short-term borrowings before unamortised issue costs as detailed in note 18. Liquid resources are cash and short-term deposits. Equity includes all capital and reserves of the Group attributable to the owners of the Company.

Externally imposed capital requirement

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

Risk management objectives

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

– market risk;

– credit risk; and

– liquidity risk.

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

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

(a) Market risk

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

(I) Interest rate risk

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

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

Scenario	**2021 Income statement £m**	2020 Income statement £m
Cash +50 basis points	**0.8**	1.2
Variable borrowings (including swaps and caps) +50 basis points	**(1.0)**	(1.0)
Cash -50 basis points	**(0.8)**	(1.2)
Variable borrowings (including swaps and caps) -50 basis points	**0.5**	0.6

(II) Foreign exchange risk

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

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

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

Scenario	**2021 Net assets £m**	**2021 Profit before tax £m**	2020 Net assets £m	2020 Profit before tax £m
1% increase in value of sterling against the Euro	**(6.2)**	**(0.4)**	(6.1)	(1.1)
1% fall in value of sterling against the Euro	**6.3**	**0.4**	6.2	1.2

(b) Credit risk

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

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

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

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of investment grade are accepted.

At 31 December 2021 the Group held £0.4 million (2020: £nil) of financial assets at fair value through other comprehensive income or fair value through profit and loss. Management considers the credit risk associated with individual transactions and monitors the risk on a continuing basis. Information is gathered from external credit rating agencies and other market sources to allow management to react to any perceived change in the underlying credit risk of the instruments in which the Group invests. This allows the Group to minimise its credit exposure to such items and at the same time to maximise returns for shareholders.

(c) Liquidity risk

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

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

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

22. Financial assets and liabilities

	Fair value through profit and loss £m	**Amortised cost £m**	**Total carrying value £m**
Financial assets			
Cash and cash equivalents	**–**	**167.4**	**167.4**
Derivative financial assets	**0.4**	**–**	**0.4**
Other assets – non-current[1]	**–**	**7.7**	**7.7**
Other assets – current[1]	**–**	**15.7**	**15.7**
	0.4	**190.8**	**191.2**
Financial liabilities			
Secured bank loans	**–**	**(985.5)**	**(985.5)**
Secured notes	**–**	**(46.4)**	**(46.4)**
Derivative financial liabilities	**(0.8)**	**–**	**(0.8)**
Other liabilities – current[2]	**–**	**(35.9)**	**(35.9)**
	(0.8)	**(1,067.8)**	**(1,068.6)**
At 31 December 2021	**(0.4)**	**(877.0)**	**(877.4)**

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

1 Other assets included all amounts shown as trade and other receivables in note 14 except prepayments of £2.4 million (2020: £8.5 million). All current amounts are non-interest bearing and receivable within one year.

2 Other liabilities included all amounts shown as trade and other payables in note 16 except deferred income and sales and social security taxes of £21.7 million (2020: £24.0 million). All amounts are non-interest bearing and are due within one year.

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

	2021 £m	2020 £m
Net financial assets and liabilities	**877.4**	749.2
Other assets – non-current	**7.7**	8.2
Other assets – current	**15.7**	13.5
Other liabilities – current	**(35.9)**	(30.3)
Cash and cash equivalents	**167.4**	235.7
Borrowings and derivative financial instruments	**1,032.3**	976.3

23. Share capital

	Number of shares authorised, issued and fully paid					
	Ordinary shares in circulation	Treasury shares	Total ordinary shares	Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
At 1 January 2020, 31 December 2020 and 31 December 2021	**407,395,760**	**31,382,020**	**438,777,780**	**10.2**	**0.8**	**11.0**

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

24. Dividend

	Payment date	Dividend per share p	2021 £m	2020 £m
Current year				
2021 final dividend[1]	29 April 2022	5.35	**–**	–
2021 interim dividend	24 September 2021	2.35	**9.6**	–
Distribution of current year profit		7.70	**9.6**	–
Prior year				
2020 final dividend	29 April 2021	5.20	**21.2**	–
2020 interim dividend	25 September 2020	2.35	**–**	9.6
Distribution of prior year profit		7.55	**21.2**	9.6
2019 final dividend	29 April 2020	5.05	**–**	20.5
Dividends as reported in the Group statement of changes in equity			**30.8**	30.1

1 Subject to shareholder approval at the AGM on 28 April 2021.

25. Other reserves

	Notes	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Share-based payment reserve £m	Other reserves £m	Total £m
At 1 January 2021		**22.7**	**64.0**	**0.5**	**2.0**	**28.1**	**117.3**
Exchange rate variances		**–**	**(32.8)**	**–**	**–**	**–**	**(32.8)**
Property, plant and equipment							
– net fair value gains in the year	14	**–**	**–**	**5.5**	**–**	**–**	**5.5**
– deferred tax thereon	18	**–**	**–**	**(1.0)**	**–**	**–**	**(1.0)**
Share-based payment charge		**–**	**–**	**–**	**(0.3)**	**–**	**(0.3)**
At 31 December 2021		**22.7**	**31.2**	**5.0**	**1.7**	**28.1**	**88.7**

	Notes	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Share-based payment reserve £m	Other reserves £m	Total £m
At 1 January 2020		22.7	39.8	3.6	2.2	28.1	96.4
Exchange rate variances		–	24.2	–	–	–	24.2
Property, plant and equipment							
– net fair value deficits in the year	14	–	–	(3.6)	–	–	(3.6)
– deferred tax thereon	18	–	–	0.5	–	–	0.5
Share-based payment charge		–	–	–	(0.2)	–	(0.2)
At 31 December 2020		22.7	64.0	0.5	2.0	28.1	117.3

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

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

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

26. Notes to the cash flow

Cash generated from operations	2021 £m	2020 £m
Operating profit	**106.8**	119.3
Adjustments for:		
Net movements on revaluation of investment properties	**(28.5)**	(31.5)
Net movements on revaluation of equity investments	**(1.0)**	–
Depreciation and amortisation	**1.1**	0.7
Profit on sale of investment property	**0.1**	(11.6)
Lease incentive debtor adjustments	**(2.7)**	(1.9)
Share-based payment charge	**(0.3)**	(0.2)
Changes in working capital:		
Increase in receivables	**(3.7)**	(0.8)
Increase in payables	**1.3**	2.9
Cash generated from operations	**73.1**	76.9

				Non-cash movements			
Changes in liabilities arising from financing activities	**Notes**	**1 January 2021 £m**	**Financing cash flows £m**	**Amortisation of loan issue costs £m**	**Fair value adjustments £m**	**Foreign exchange £m**	**31 December 2021 £m**
Borrowings	19	**970.7**	**88.1**	**2.0**	**–**	**(29.2)**	**1,031.6**
Interest rate swaps	20	**5.6**	**–**	**–**	**(5.2)**	**–**	**0.4**
Forward foreign exchange contracts	20	**–**	**–**	**–**	**–**	**–**	**–**
		976.3	**88.1**	**2.0**	**(5.2)**	**(29.2)**	**1,032.0**

				Non-cash movements			
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	19	891.7	51.7	2.1	–	25.2	970.7
Interest rate swaps	20	4.1	–	–	1.6	(0.1)	5.6
Forward foreign exchange contracts	20	(0.3)	0.3	–	–	–	–
		895.5	52.0	2.1	1.6	25.1	976.3

27. Contingencies

At 31 December 2021 and 31 December 2020 CLS Holdings plc had guaranteed certain liabilities of Group companies. These were primarily in relation to Group borrowings and covered interest and amortisation payments. Principal amounts of loans secured from external lenders by two Group companies totalling £30.2 million at 31 December 2021 are also covered by guarantees provided by CLS Holdings plc (£30.6 million at 31 December 2020).

28. Commitments

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

Operating lease commitments – where the Group is lessor	**2021 £m**	2020 £m
Within one year	**99.9**	100.5
Between one and two years	**88.7**	91,0
Between two and three years	**73.3**	77.3
Between three and four years	**59.2**	62.6
Between four and five years	**38.9**	48.6
More than five years	**133.4**	90.7
	493.4	470.7

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

Other commitments

At 31 December 2021 the Group had contracted capital expenditure of £25.1 million (2020: £16.5 million). At the balance sheet date, the Group had not exchanged contracts to acquire any investment properties (2020: £89.9 million). There were no authorised financial commitments which were yet to be contracted with third parties (2020: nil).

29. Post balance sheet events

In February and March 2022, the Group exchanged on the acquisition of properties for £20.8 million and £54.9 million, before costs.

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