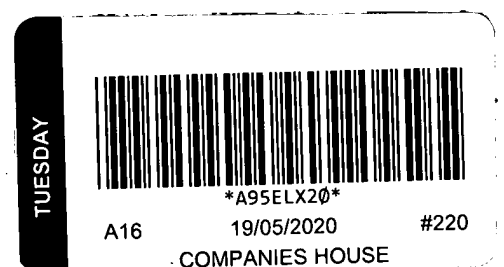


Active portfolio management



Who we are and what we believe

Our vision

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

Our purpose

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

Our values

Our tenants, our focus.

Agility unlocks opportunity.

Openness creates closeness.

Collaboration gets the job done.

Statutory and alternative performance measures

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

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

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

Front cover images:

Spring Mews, London SE11, Prescott Street, London E1 and The Portland Building, Crawley

For more information about us
and our properties see our website
www.clsholdings.com

Our business at a glance

Solid, stable and diversified portfolio

Property use by rent

Rent by sector

Key statistics	Contracted rent £109.3 _m
No. of tenants 779	Property value £2.0 _{bn}
No. of properties 97	Total floor space 6.6 _m sq ft

Property portfolio by value

The below charts show the value of the property portfolio which comprises investment property, properties held for sale and hotel.

Rental data¹

	Rental income for the year £m	Net rental income for the year £m	Lettable space sqm	Contracted rent at year end £m	ERV at year end £m	Contracted rent subject to indexation £m	Vacancy rate at year end
United Kingdom	59.2	58.7	203,255	59.2	64.8	13.9	4.1%
Germany	32.4	30.8	300,687	34.3	38.7	20.7	4.3%
France	16.1	16.2	85,142	15.8	16.6	15.8	3.1%
Total Portfolio	107.7	105.7	589,084	109.3	120.1	50.4	4.0%

Valuation data¹

	Market value of property £m	Valuation movement in the year		EPRA net initial yield	EPRA topped up net initial yield	Reversion		True equivalent yield
		Underlying £m	Foreign exchange £m			Over-rented	Over-rented	
United Kingdom	1,024.3	(3.4)	—	5.1%	5.4%	9.2%	4.1%	5.6%
Germany	663.6	53.6	(40.0)	4.8%	5.0%	12.6%	4.0%	4.9%
France	283.5	10.8	(18.1)	4.7%	5.2%	6.1%	4.5%	5.4%
Total Portfolio	1,971.4	61.0	(58.1)	4.9%	5.2%	9.8%	4.1%	5.3%

Lease data¹

	Average lease length		Contracted rent of leases expiring in:				ERV of leases expiring in:			
	To break years	To expiry years	Year 1 £m	Year 2 £m	Years 3 to 5 £m	After 5 years £m	Year 1 £m	Year 2 £m	Years 3 to 5 £m	After 5 years £m
United Kingdom	3.8	4.8	10.2	4.3	15.8	28.9	5.6	4.8	16.6	29.6
Germany	4.5	4.6	7.3	5.4	11.0	10.6	7.8	6.0	12.2	11.2
France	2.4	4.6	1.1	0.3	5.5	8.9	1.2	0.3	5.4	9.2
Total Portfolio	3.8	4.8	18.6	10.0	32.3	48.4	14.6	11.1	34.2	50.0

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

A year of strong performance

<div>Basic NAV</div> <div>295.1p</div> <div>+7.1%</div> <div>(2018: 275.5p, see note 12)</div>	<div>EPRA NAV¹</div> <div>329.2p</div> <div>+6.3%</div> <div>(2018: 309.8p, see note 5)</div>	<div>Basic eps</div> <div>33.3p</div> <div>+9.2%</div> <div>(2018: 30.5p, see note 11)</div>	<div>EPRA eps</div> <div>12.0p</div> <div>-8.6%</div> <div>(2018: 13.1p, see note 5)</div>	
<div>Valuation uplift²</div> <div>+3.0%</div> <div>(2018: 3.7%)</div>	<div>Full year's dividend 7.4p</div> <div>+7.2%</div> <div>(2018: 6.9p, see note 25)</div>	<div>Profit before tax</div> <div>£159.0m</div> <div>+9.7%</div> <div>(2018: £144.9m)</div>	<div>Cost of debt lowered further to</div> <div>2.42%</div> <div>(2018: 2.43%)</div>	
<div>Active asset management</div> <div>■ 158 asset management deals completed securing £14.7m of annual rent at 3.3% above ERV (2018: 176 deals, £16.2m annual rent at 2.2% above ERV)</div> <div>Rental income enhancement</div> <div>■ Rental income increased by 4.4% to £107.7m (2018: £103.0m)</div> <div>Asset enhancement</div> <div>■ Total capital expenditure £16.7m (2018: £15.8m)</div> <div>High occupancy levels</div> <div>■ Vacancy rate stable at 4.0% (2018: 3.8%)</div>			<div>Refocusing the portfolio</div> <div>■ 13 properties acquired for £257m</div> <div>■ 28 properties disposed of for £189m</div> <div>■ Sales of our stakes in Catena and Fist Camp, and remaining corporate bonds for £177.3m</div> <div>Financing initiatives</div> <div>■ Financed £292.4m at 2.65% pa for 5.2 years</div> <div>Balance Sheet Loan to value</div> <div>■ Fallen to 31.4% (2018: 36.7%)</div>	<div>Reduction in CO₂ emissions</div> <div>3.1%</div> <div>from prior year (see page 48)</div> <div>Renewable energy generation</div> <div>+31%</div> <div>from prior year (see page 48)</div>

1. Key Performance Indicator

2. In local currency – investment properties, properties held for sale, owner occupied and hotel

1. Key Performance Indicator

2. In local currency – investment properties, properties held for sale, owner occupied and hotel

Contents

Prescot Street, London E1

Strategic report

6	Chairman's statement
8	Our investment proposition
10	Chief Executive's review
14	Business model and strategy
20	Key performance indicators
22	Stakeholders
24	Risk management and principal risks and uncertainties
32	Country business reviews
44	Chief Financial Officer's review
48	Corporate, social and environmental responsibility report

Corporate governance

58	Chairman's introduction
60	Board of Directors
62	Board leadership
67	Purpose, values and culture
70	Division of responsibilities
72	Nomination Committee Report
78	Audit Committee Report
82	Remuneration Committee Report
104	Directors' Remuneration Policy
116	Directors' Report

Financial statements

- 122 Independent auditor's report to the members of CLS Holdings plc
- 130 Group income statement and statement of comprehensive income
- 131 Group statement of comprehensive income
- 132 Group balance sheet
- 133 Group statement of changes in equity
- 134 Group statement of cash flows
- 135 Notes to the Group financial statements
- 164 Company balance sheet
- 165 Company statement of changes in equity
- 166 Notes to the Company financial statements

Lloyds Avenue, London EC3

Westminster Tower, London SE11

Office Connect, Cologne

Additional information

- 170 Five year financial summary
- 171 Glossary of terms
- 172 Directors, officers and advisers

Prescot Street, London E1

Strategic report

- 6 Chairman's statement
- 8 Our investment proposition
- 10 Chief Executive's review
- 14 Business model and strategy
- 20 Key performance indicators
- 22 Stakeholders
- 24 Risk management and principal risks and uncertainties
- 32 Country business reviews
- 44 Chief Financial Officer's review
- 48 Corporate, social and environmental responsibility report

Strategic report

Corporate governance

Financial statements

Additional information

Delivering value for our stakeholders

Reflections on becoming Chairman

This is my first statement as Chairman of CLS and it is with gratitude and respect I take on this new challenge and opportunity. As an independent non-executive director, I have been part of the company for the last five years and I am proud of what we as a Board and a Group have achieved. I look forward, together with my colleagues, to continuing to drive the business forward over the coming years. Our team focus will be on maximising long-term shareholder value, whilst recognising our wider responsibilities and commitments to our stakeholders.

During the last five years, CLS has grown significantly and whilst the Company of today is larger it is also in a stronger position from a financial standpoint, the composition of the portfolio and with an experienced and proven management team.

With this background, CLS can use its unique position to take advantage of any opportunities that arise from current economic and political uncertainty.

I have been fortunate to have gained skills and experience from carrying out leading roles in real estate across most of Europe in different companies and across different asset classes. I look forward to being able to continue to contribute this experience to the success of CLS.

CLS has a distinguished heritage as a property company with a long-term approach to our investments. Our strategy remains clear, with a focus on ownership of non-prime offices in the three largest economies of Europe; the UK, Germany and France. We will also stay focused on cash flow and active asset management.

Performance and our property portfolio 2019 saw another strong year of financial and operational performance. EPRA NAV per share increased by 6.3% to 329.2 pence per share (2018: 309.8 pence) and total accounting return, including the dividends paid in the year, was 8.6% (2018: 10.8%). The value of our property portfolio rose as a result of £69.8 million of acquisitions net

of disposals but more importantly from the increase in value of 3.0% in local currencies with Germany again delivering an outstanding performance with an uplift of 8.4%. This performance demonstrates the benefits of our diversified property portfolio, which is now worth over £2.0 billion, of which 53% is in the UK, 33% in Germany and 14% in France.

Sustainability

In the last year, the importance of sustainability across business, and especially in real estate, has gained real traction. Sustained and high-profile lobbying has led to governments, cities and industries revisiting their impacts on climate change. This has stimulated discussion across the real estate sector regarding more ambitious targets, protection against climate risk and our impact on the communities in which we invest.

For over a decade, CLS has had a long-term focus on sustainability as a key part of our strategy and through the active management of our assets. We have already made significant progress and at the beginning of the year, we launched our enhanced sustainability strategy. The key enhancements were: a widening of the scope we monitor and target; and the simplification of our approach towards a more embedded sustainable culture based on true values, knowledge and real results.

Our in-house sustainability team monitors changes in the external landscape and associated risks, evolving our strategy and its execution accordingly to continue to drive the long-term profitability of the business. Details of our work on sustainability are set out in the corporate, social and environmental responsibility section on pages 48-55 and more detail will be given in our sustainability report which will be published in spring 2020.

People and culture

We recognise that our people are fundamental to our success. We take seriously our responsibilities (which are now stated in the new UK Corporate Governance Code) to assess and monitor our culture to ensure that it aligns with our purpose, values and strategy. From our property visits with

operational teams and Board meetings where we meet employees at all levels, to our social events that I and members of the Board have attended, I believe that we have a motivated and happy workforce that promotes a strong, open, entrepreneurial culture which is a key contributing factor to our success.

As part of our employee engagement, we have established a Workforce Advisory Panel which is chaired by Elizabeth Edwards, one of our experienced non-executive directors. I was pleased to see so many employees wanting to contribute to the Panel, which comprises employees from across the business and countries. Feedback from the Panel has been overwhelmingly positive but, as with any business, it has highlighted some areas where we could improve, and we will take these forward.

The other significant change in the year was the execution of a workstream around the purpose, vision and values of CLS. Essentially this work was codifying how we already operate as a business. Through the process, which involved consulting with all employees, a greater level of support from the workforce was achieved. I believe this shows how passionate our employees are about making CLS into one of the leading office space specialists and a supportive, progressive and sustainability focussed landlord.

Governance and stakeholder engagement
As I have highlighted in the Corporate Governance section of this report, CLS believes that good governance is essential to deliver strong performance. CLS takes its responsibilities very seriously and has always been cognisant of promoting the long-term success of the Company for all our stakeholders. This year, to ensure that we are clearly documenting these processes, we have more formally recorded these considerations in approving Board decisions.

As highlighted within the Remuneration section of this report, we have consulted with shareholders regarding the implementation of a proposed new incentive plan.

In response to previous feedback from some shareholders, we are proposing to introduce a revised long-term incentive plan as well as align, where necessary, the policy with the new Code and shareholder body guidelines. The new remuneration policy will be put to a vote at this year's AGM.

Board changes

John Whiteley retired as Chief Financial Officer on 30 June 2019 and was succeeded by Andrew Kirkman from 1 July. John left with CLS on a firm financial footing and we all wish him well in his retirement. We are equally delighted to welcome Andrew to CLS and the Board is pleased with the strong start he has made.

As highlighted in Henry Klotz's statement last year, the Board was mindful that some non-executives had served over nine years and that the composition of the Board should be refreshed. We initiated an independent search and, reflecting the strength and reputation of CLS, we were able to recruit strong candidates. I am delighted to have welcomed Denise Jagger and Bill Holland to the Board as independent non-executive directors.

Denise is a member of both the Remuneration and Audit Committees and will replace Chris Jarvis as Remuneration Committee Chairman immediately after the AGM in April. Chris will also step down as Audit Committee member 5 March 2020. Given his current experience and knowledge of the German real estate market, which we consider will continue to be beneficial in executing our strategy, he will remain a non-executive director but will no longer be considered to be independent by the Board.

Malcolm Cooper steps down Audit Committee Chairman on 5 March 2020 and will be succeeded from 6 March 2020 as Audit Committee Chair by Bill. Malcolm, who will not be standing for re-election at the forthcoming AGM in April, has provided excellent advice and support during his term and I would like to thank him for all his hard work and contribution to the Group.

Finally, I want to thank Henry for his many years of service to the Group. Henry is an outstanding real estate professional and colleague. It is to his credit that, alongside management, he leaves CLS in such a favourable position.

Dividend

Reflecting our progressive dividend strategy, the Board is pleased to propose a final dividend of 5.05 pence per share resulting in a total dividend for the year of 7.4 pence per share. The 2019 dividend is an increase of 7.2% from last year which compares to the 2019 increase in EPRA NAV of 6.3%. The dividend is 1.6 times covered by EPRA earnings.

Looking to the future

There remains considerable uncertainty across global markets with continued low interest rates and, closer to home, the full extent of Brexit has yet to be clarified and implemented. However, real estate as an asset class remains attractive and we expect that capital allocation weightings from institutional investors will continue to increase. CLS is in a strong financial position with a clear strategy and a long-term perspective which I believe will allow us to withstand any challenges but also allow us to take advantage of the opportunities this may present.

Thank you

CLS places great emphasis on our collaborative team approach, our focus on tenants and our positive, supportive culture which all contribute to our success. On behalf of the Board, I want to thank everyone who has contributed to making 2019 another successful year.

Lennart Sten

Non-Executive Chairman
5 March 2020

Strong and consistent long-term shareholder returns

Clear strategy

Key investment tenets

Diversified approach

This approach is across: Countries (we invest in Europe's three largest economies); Tenants (over 750 tenants spread across most sectors); and Financing (27 different lenders)

Sole focus on non-prime offices

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

Selected development schemes

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

Delivered outcomes

Active management

Key investment tenets

Experienced in-house capabilities

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

Secure rents and high occupancy

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

Interest rate management

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

Delivered outcomes

To find out more:

Website: clsholdings.com

Sustainability report: 2020 report published in Spring, 2019 report on the website

Analyst coverage: See website for the details of CLS' equity research analysts

Investor engagement: 2020 details are on the website under investors->financial calendar, 2019 programme is set out on page 66

Leading track record

Key investment tenets

Disciplined approach to investment

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

Cash-backed progressive dividend

CLS is a total return share using cash flow generated to pay a progressive dividend and also to reinvest in the business to generate further net asset growth. Around half of annual ERPA earnings are paid to shareholders as a dividend, which grows in-line with the business

Financing headroom

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

Delivered outcomes

Focus on sustainability

Key investment tenets

Responsible profit

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

Strong ESG performance

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

Climate risk mitigation

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

Delivered outcomes

A refocused portfolio from which to drive long-term earnings growth

Overview

This year was one of the busiest in CLS' history with a record level of property transactions and a heightened focus on our core activities. This active portfolio management resulted in £257.2 million of property acquisitions and £187.2 million of disposals as well as the disposal of our stakes in Catena and First Camp, and the remainder of our corporate bond portfolio. This active approach delivered a 6.3% increase in EPRA net asset value, a total accounting return of 8.6% and EPRA earnings of 12.0p, resulting in the Board proposing a 7.2% increase in our dividend.

An active year

2019 marked the completion of a two-year programme of refocusing the Group by selling non-core activities and those properties which no longer met our return criteria. We also continued to invest in all three of our geographic markets and see good opportunities in these countries for further growth going forward.

Our refocusing of the Group included the sales: in September of our 10.5% shareholding in Catena for £113.1 million after costs; and in November of our remaining corporate bond portfolio for £34.5 million, having reduced this holding over recent years. And, in March, we completed the sale of our 58% shareholding in First Camp for £28.7 million. All of these transactions helped achieve our objective of refocusing the Group to concentrate on our core property activities.

We committed more capital to acquisitions than in any other year, successfully finding opportunities in all of our countries. In total, we spent £257.2 million on 13 acquisitions (two of which completed at the start of 2020 for £32.8 million and one of which completed in 2019 for £9.8 million but had exchanged in 2018) with a weighted average net initial yield of 5.8%. Almost all the acquisitions shared similar characteristics with the potential for rental growth from lease re-gears to ERV, filling vacancy or refurbishment to increase rental levels. Whilst we are pleased with all our acquisitions, I thought it worth highlighting one in each country as a demonstration of our successful acquisition approach.

In the UK, we have started to see more acquisition opportunities offering good value particularly as institutional buyers have been less active. We exchanged on two buildings in a single transaction in October, acquiring Clockwork in Hammersmith and 6 Loyds Avenue in the City of London for £66.7 million. The net initial yield of 6.2% was attractive and the buildings provide long-term asset management opportunities. We believe that the German market is attractive but, given increased competition, we have had to be resolute with our pricing discipline. In April, we exchanged on the acquisition of Puro in Ismaning, Munich for £32.0 million. The property is about 20% under-rented and we have plans for a €3 million refurbishment to upgrade and expand the building. The French market has presented fewer acquisition opportunities for us in recent years, but we remain positive on the markets in Paris, Lyon and Lille. In December, we completed the acquisition of two additional floors at Park Avenue in Lyon for €3.5 million, taking our ownership of the building to 86%. Whilst a relatively small transaction, it remains a strategic goal to own buildings fully where the economics stack up.

In 2019, we agreed the disposal of 28 properties across all three countries for £187.2 million, four of which completed at the start of 2020 for £9.2 million. Our disposal criteria remained unchanged: assets which were low yielding with limited asset management potential; investments for which the risk/reward ratio was unfavourably balanced, or the alternative use value is higher; and properties which were too small to have a meaningful impact. The most significant disposal was the sale of our UK regional portfolio of 19 assets for £65.0 million in December; executing on our strategy to focus on London and the South East. A case study on the total return from this investment is included later in this report. Excluding this disposal, the remaining properties were sold for a profit of £15.3 million, being 18% above book value, and a weighted average net initial yield of 3.6%.

We are currently progressing several significant developments and refurbishments, two of which have been submitted for planning permission. The submitted developments are a 10-floor office of 29,000 sq. ft (2,694 sqm) next to our Spring Mews property in Vauxhall, UK and in Germany we are looking to replace an existing office building in Fasanenhof, Stuttgart, with a new 141,000 sq. ft (13,099 sqm) office building over 6 floors. The developments are working their way through the planning system and we expect decisions in the first half of 2020 but recognise the possibility for delays outside of our control. We will also submit an application later in 2020 for a 6-floor office of c.43,000 sq. ft (3,995 sqm) in Maidenhead, UK. In addition, as part of our portfolio management, we have identified opportunities to expand the office capacity at two properties in Germany, as well as an ongoing refurbishment programme across the portfolio to drive further rental growth.

Active asset management

The value that our in-house teams create, and the closeness and interaction with our tenants, are some of the most important foundations for our long-term success. We have seen investors come and go in our markets, often motivated by short term trends or the type of properties that are in vogue at present. We do not believe in that approach. Our clear focus on offices, our tenants and the environment in our buildings builds long-term relationships that encourage retention and keep vacancy low. To that end, in 2019 we strengthened our property management teams in Germany and the UK with several new hires to continue to give the right level of service to our tenants.

At 31 December 2019, the value of the portfolio had increased by 3.0% in local currencies as a result of revaluation uplifts. The performance in Germany was again particularly strong with an increase of 8.4% driven by rental growth with ERVs growing 5.1% and hardening of capital rates. In the UK, like for like values increased by 0.3% driven by rental growth with ERVs growing 1.3%. However, when acquisition costs of c.6.8% on the £155.3 million acquisitions completed in the year are taken into account, overall UK values fell by 0.3%. France increased by 3.8% due to ERV growth of 2.5% while capital rates stayed relatively flat. In aggregate, the fair value uplifts of the portfolio added 14.1 pence per share to EPRA NAV (£57.4 million).

The overall Group vacancy rate in 2019 increased marginally to 4.0% (2018: 3.8%) but remains below our target of 5%. We believe this 5% target gives an appropriate balance between capturing income and cash flow, as well as giving sufficient opportunity to capture rental growth through new lettings.

In Germany, the net initial yield fell to 5.0% (31 December 2018: 5.4%) and the vacancy rate increased to 4.3% (31 December 2018: 4.2%). In the UK, the net initial yield fell to 5.4% (31 December 2018: 5.6%) following the sale of the regional portfolio and the vacancy rate increased to 4.1% (31 December 2018: 4.0%). In France, the net initial yield fell to 5.2% (31 December 2018: 5.3%) while vacancies rose to 3.1% (31 December 2018: 2.3%) due to the sale of the fully let Atelier Victoires.

Financial results

Profit before tax from continuing operations of £159.0 million exceeded last year (2018: £144.9 million) with similar revaluation gains and profit on disposal of properties at £66.0 million (2018: £65.1 million). However, the profit on the disposal of our stake in Catena and the sale of the bond portfolio of £40.4 million was higher than the gain last year (2018: £23.9 million).

EPRA earnings fell in 2019 to 12.0 pence per share (2018: 13.1 pence) through a combination of several factors including: strengthening of sterling; and lower finance income from a comparatively smaller bond portfolio.

At EPRA NAV level, the higher profit before tax was offset by higher exchange variances of £31.4 million (2018: £4.3 million gain) as Sterling appreciated 6.3% against the Euro.

At the year-end, we had liquid resources of £259.4 million (2018: £130.6 million) in addition to £50.0 million of undrawn credit facilities to deploy into acquisition opportunities.

Section 172 (1) Statement

A description of how the directors have had regard to the matters set out in section 172(1)(a) to (f) when performing their duty under section 172 can be found on pages 64-69 and are incorporated into this statement by reference.

Key statistics

Property value

£2.0bn

Contracted rent

£109.3m

No. of properties

97

No. of tenants

779

Total floor space

6.6m sq ft

In 2019, we generated £48.9 million net cash from operating activities (2018: £48.0 million) with EPRA earnings of £48.9 million (2018: £53.5 million). Of this cash, £28.7 million (2018: £26.5 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.

Sustainability

During 2019, one of the key areas for our sustainability activities was focused on embedding our approach to sustainability and social engagement across all our activities. This has resulted in a further reduction in carbon emissions at a property level which can be seen in the corporate, social and environmental responsibility section on pages 48-55.

At the corporate level, we have focused on our stakeholder engagement, data transparency and knowledge sharing to enhance everyone's understanding of the impact they have and how they can make a difference. This approach was carried out through internal workshops on key subjects, such as fit-out standards and embodied carbon. We also conducted workshop days with our contractors and supply chain looking at what they can do to ensure they match our ambition.

Other improvements in the last year saw us expand the environmental clauses in our generic leases to foster better collaboration and data sharing with our occupiers. We also improved our sustainability due diligence checks on all new acquisitions and are continuing our rollout of smart metering across our existing assets to give us greater visibility of our impact on the environment. We are very pleased to have continued to increase our sustainability scoring in 2019 under both the CDP and GRESB metrics.

Overall, 2019 has been a year of good progress but we are even more excited for 2020 as we are implementing some significant projects to increase our sustainability performance including targeting to achieve BREEAM certifications on all managed assets. We will be setting out more detail about our results and plans with the publication of our 5th Sustainability Report in spring 2020.

Vision and values

CLS takes pride in our workforce, our culture, and our overall way of engaging with our employees and our other stakeholders. Our employee surveys have shown consistently high scores and we will be carrying out another survey this year to ensure that we remain close to our employees. The introduction of the Workforce Advisory Panel is another welcome forum to ensure a greater level of engagement.

As highlighted throughout this report, we carried out a significant piece of work to codify and clarify our Purpose, Vision and Values. Whilst much of what we have described has been inherent in the way we have conducted business, the engagement with all the employees throughout this work has been valuable to increase everyone's alignment with CLS' ambitions.

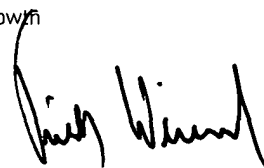
Outlook

This year was the end of a period of repositioning the property portfolio and increasing the focus of the business. This transactional activity has built the foundations for long-term sustainable earnings growth and reflects our ethos as a long-term responsible investor with a successful and consistent track-record. We finished the year in a strong financial position with significant liquid resources albeit we expect lower earnings growth in the short term as we now invest these funds into new, high yielding property acquisitions. Overall, we have a much stronger platform for long-term future growth.

We remain committed to the three countries in which we are invested and see good potential for further opportunities and growth. The UK portfolio is now concentrated on London and the surrounding commuter towns in the South East. This area remains a strong, liquid and long-term property market. The German market continues to present opportunities with its resilient economy, positive property fundamentals and a greater diversification of major cities. In France, we believe that the limited supply of offices particularly in Paris and Lyon will drive falling vacancy and rental growth.

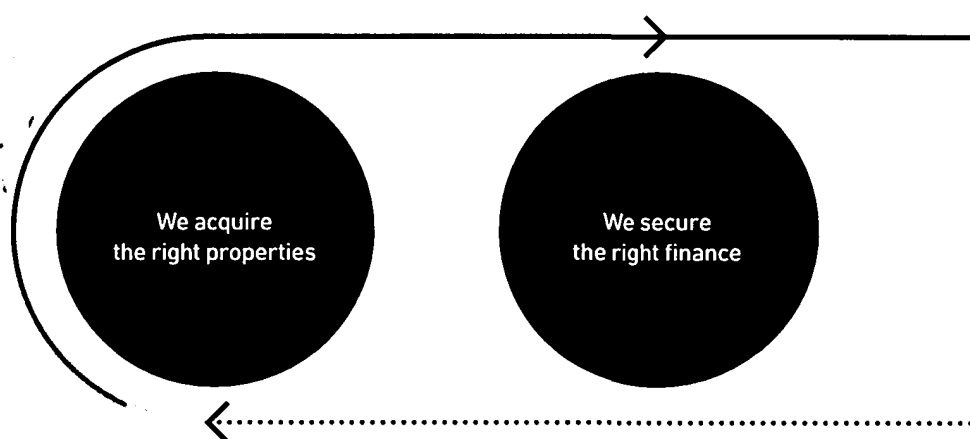
The Group is well positioned and we are seeing attractive acquisition opportunities, particularly as the UK political situation has somewhat stabilised. I look forward to 2020 with confidence and to continuing our focus on delivering long-term, responsible growth and value for all our stakeholders.

Fredrik Widlund
Chief Executive Officer
5 March 2020



Realising value and reinvesting for the future

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

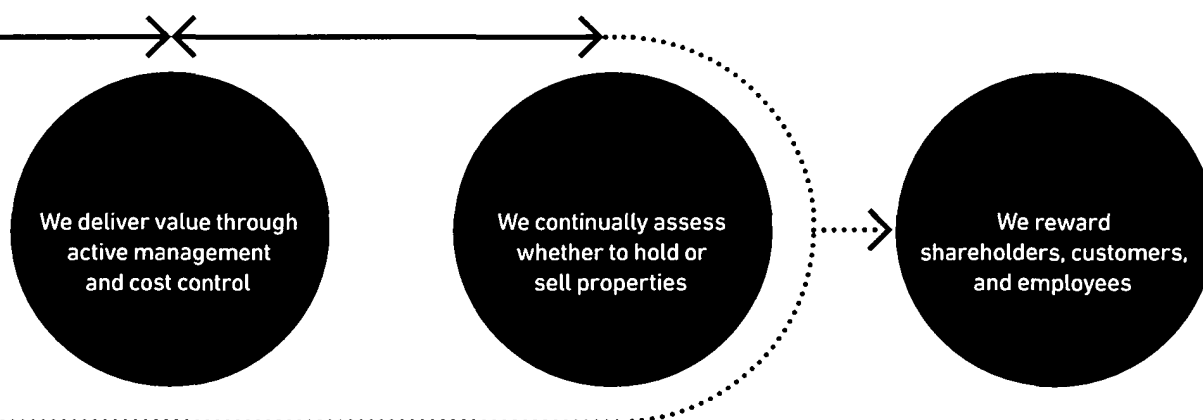


We acquire the right properties

- We invest in commercial real estate in the UK, Germany and France. 89% of our properties are offices (by contracted rent).
- We look to acquire properties in high quality, non-prime locations with good transport links and located in key European cities.
- Most of our properties are multi-let to a wide variety of occupiers, giving us the opportunity to add value whilst spreading our risk.
- The cost of buying investment properties is met partly from the Group's liquid resources and partly from external financing. Liquid resources are supplemented by disposal proceeds from selling assets which present limited further opportunities to add value.
- We have the ability to move quickly due to our strong balance sheet.
- Our in-house sustainability programme is focused on mitigating our impact on climate change and continually improving our properties.

We secure the right finance

- Most of our properties are held in their own SPVs, and are financed with bank loans borrowed by the SPV on a non-recourse basis to the rest of the Group.
- We have the flexibility to borrow at fixed or floating rates of interest and by borrowing against each asset, we are able to use a level of gearing suitable to the specific property.
- Where properties are more suited to being financed together, such as on the acquisition of a larger portfolio, we finance them under one loan, often with the flexibility to withdraw properties from charge and to substitute others.
- Our bank borrowing is typically for five or seven years, and as most of our debt is obtained from local banks, we have active relationships with 27 lenders around Europe, which spreads our risk.
- In everything we do to secure the right finance, we always generate responsible profit through creating sustainable long-term decisions with the environment in mind.



We deliver value through active management and cost control

- The key to active management is to perform it in-house, because, by using our own employees, we harness greater motivation, response times and attention to detail than if tasks were to be outsourced.
- In-house management includes asset management (leasing), property management (refurbishments), facilities management (day-to-day maintenance), development management, tenant billing and debt collection, and purchase ledger and service charge management.
- By performing all of these functions in-house we control costs through efficient working, and we maintain our revenue stream through providing a first-rate service to our customers.
- This approach allows us to develop and embed environmental behaviours across our managed landscape. This supports our impact on climate change and gives our shareholders confidence in our day-to-day management.

We continually assess whether to hold or sell properties

- Our active management is also applied at a portfolio level, continually assessing whether properties meet return criteria and/or we can continue to add value.
- We have an asset management plan for each asset which we flex depending upon tenant requirements and leasing activity. Refurbishments are undertaken to maintain the portfolio and capture rental growth.
- Our portfolio approach also includes assessing whether greater value can be captured through a change of use, for example, a residential conversion. In such cases, after planning permission has been obtained, the property will usually be sold to a developer.
- At the appropriate time, we will also dispose of properties which are too small or too low yielding or for which the risk/reward balance is unfavourable.
- One of our decision criteria is the sustainability rating of the property and the cost to make enhancements.

Rewarding shareholders, customers, and employees

- Approximately half of our EPRA earnings are distributed to shareholders. This represents £30.1 million of the £48.9 million of EPRA earnings in 2019. The balance is reinvested in the business, increasing the size of the Group. In this way shareholders can be rewarded partly in cash and partly in the capital appreciation of their shares. As we are not a REIT, we are not restricted in the amount we are required to distribute to shareholders, which benefits the business in the longer term.
- Our tenants are our customers. They benefit from a landlord who understands their needs and who provides cost-effective accommodation through investing its profits back into its business.
- We reward employees for their work and their loyalty, through bonus schemes which reflect the success of the business, which aligns their interests with our shareholders and our customers.

Creating sustainable, long-term value

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

Our performance in 2019	Priorities for 2020	Link to principal risks
<ul style="list-style-type: none"> ■ Our TSR in 2019 was 47.1%; we came 10th out of 27 in the FTSE 350 Real Estate Super Sector Index. ■ Return on equity was 9.7%. ■ Total Accounting Return was 8.6%. ■ 13 properties acquired for £257.2m at 5.8% NIY. ■ 28 properties sold for £187.2m at 5.4% NIY (NIY of 3.6% excluding UK regional portfolio). 	<ul style="list-style-type: none"> ■ We shall continue to reinvest disposal proceeds and other liquid resources in better prospects. ■ We expect those opportunities will include properties with an element of vacancies for us to address and add value. ■ We expect better investment opportunities will arise in the UK and Germany. 	<p>Property risk</p> <p>For more information see pages 26</p>
<ul style="list-style-type: none"> ■ Weighted average cost of debt slightly reduced to 2.42% (2018: 2.43%), the lowest level it has been. ■ During the year we took out 8 loans for £292.4m at an average interest rate of 2.65%, of which £177.0m was at fixed rates which averaged 2.50%. ■ We have 49 loans from 27 lenders. ■ No bank provides more than 12.6% of our borrowings. ■ 80 of our 97 properties are owned by special purpose vehicles. Principal amounts of debt are non-recourse to the rest of the Group and all are in the currency used to purchase the asset. ■ At 31 December 2019, we had liquid resources of £259.4m and undrawn bank facilities of £50.0m. 	<ul style="list-style-type: none"> ■ With 77% of the Group's debt already at fixed rates, we have the versatility to chose whether to take out new loans at fixed or floating rates. ■ The £134.0m of loans expiring in 2020 will be refinanced on a case-by-case basis. ■ We intend to maintain at least £100m of liquid resources to provide the Group with financing flexibility. 	<p>Financing risk</p> <p>For more information see pages 28</p>
<ul style="list-style-type: none"> ■ At 31 December 2019 our occupancy rate was 96.0% (2018: 96.2%). ■ We have 779 tenants. ■ 23% of our income is derived from government occupiers, and a further 25% from major corporations. ■ The weighted unexpired lease term is 4.7 years. ■ Our administration cost ratio for 2019 was 17.7%. 	<ul style="list-style-type: none"> ■ We will prioritise letting the vacancies generated by refurbishments. ■ We also expect to buy more vacancies in the year which will receive immediate attention. ■ We will maintain close and regular contact with customers, particularly those in the UK during the transition out of the EU. ■ We will maintain strict financial control on the cost of running the business as it continues to expand. 	<p>Sustainability risk</p> <p>Political and economic risk</p> <p>For more information see pages 27 & 29</p>
<ul style="list-style-type: none"> ■ Our TSR in 2019 was 47.1%; we came 10th out of 27 in the FTSE 350 Real Estate Super Sector Index. ■ Return on equity was 9.7%. ■ Total Accounting Return was 8.6%. 	<ul style="list-style-type: none"> ■ We will continue to leverage the CLS in-house management model to maintain customer relationships and underlying value ■ We will continue to provide affordable rents and flexible lease terms to meet tenant demand and so create opportunities to capture above market rental growth. ■ We shall continue to dispose of properties with limited potential. 	<p>Business interruption risk</p> <p>People risk</p> <p>For more information see pages 27 & 29</p>

UK regional portfolio sale: Executing our complete strategy



This transaction is a significant step in implementing our strategy of focusing our UK portfolio on London and the South East”

We acquire the right properties

In 2013, we acquired a portfolio of 34 UK properties for £118.6m plus costs. Of this portfolio, one was located in London and 31 properties were regional UK assets valued at £103.3m and a net initial yield of 12.2%.

We secure the right finance

An £80m, 9 year portfolio financing was secured with property substitution rights. This arrangement has provided us with flexibility to dispose of properties throughout the ownership period whilst meeting loan covenants.

We deliver value through active management and cost control

During 2017, our in-house asset management team completed lease renewals with the Secretary of State for Communities and Local Government on 14 properties extending the weighted average unexpired lease term to first break to 6.8 years. This re-gear added c.£10m in valuation gains across the regional portfolio.

We continually assess whether to hold or sell properties

By 2019, 11 assets had been sold and following the lease renewals, there was limited asset management potential for the remaining assets. The sale of 19 assets for £65.0 million in December 2019 facilitated the refocusing of the UK portfolio on London and the South East.

We reward shareholders

Throughout the period of ownership the regional assets have generated £66m in rental income and £50m in net cash inflows. The portfolio held its initial value whilst giving a strong running yield. Overall the transaction has delivered an internal rate of return of over 20% after tax which has contributed to rising dividends and further investment across the portfolio.

<p>32 properties acquired</p> <p>£103.3m</p> <p>(£36.2m Equity) (31 regional, 1 London)</p>	<p>Gross proceeds received</p> <p>£113.2m</p> <p>(£67.3m Net of debt) (27 regional & 1 London sold, 4 assets in process of disposal)</p>
<p>Net Cash Flow Received</p> <p>£50.5m</p>	<p>Post Tax Internal Rate of Return</p> <p>Over 20%</p>

Lord Cullen House, Aberdeen

Great Oaks House, Basildon

Sidlaw House, Dundee

Measuring the tangible performance of our strategy

Total Shareholder Return – Absolute (%)

Definition

The annual growth in capital in purchasing a share in CLS, assuming dividends are reinvested in the shares when paid.¹

Why this is important to CLS

This KPI measures the increase in the wealth of a CLS shareholder over the year.

Our target for 2019

In 2019, our target Total Shareholder Return (absolute) was between 12% and 16%.

Progress

In 2019, the Total Shareholder Return of 47.1% reflected the rise in the share price in the year, which was an outperformance compared with the median of the sector which recorded a TSR of 38.5%.

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 other 26 companies in the FTSE 350 Real Estate Super Sector Index.

Why this is important to CLS

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

Our target for 2019

In 2019, our target Total Shareholder Return (relative) was between the median and upper quartile.

Progress

In 2019, the TSR was 47.1%, making CLS the 10th ranked share of the FTSE 350 Real Estate Super Sector Index of 27 companies.

Total accounting return (%)

Definition

The aggregate of the change in EPRA NAV plus dividends paid, as a percentage of the opening EPRA NAV, which is also known as Total Accounting Return.

Why this is important to CLS

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

Our target for 2019

In 2019, our target Total Accounting Return was between 6% and 9%.

Progress

In 2019, the Total Accounting Return was 8.6%.

Business Model and Strategy

We acquire the right properties

We secure the right finance

We deliver value through active management and cost control

We continually assess whether to hold or sell properties

For more information on our Business Model and Strategy see pages 14-17

Vacancy Rate (%)

Definition
The ERV of vacant lettable space, divided by the aggregate of the contracted rent of let space and the ERV of vacant lettable space.
Why this is important to CLS
This KPI measures the potential rental income of unlet space and, therefore, the cash flow which the Company would seek to capture.
Our target for 2019
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 2019, the vacancy rate was 4.0%.

Administration Cost Ratio (%)

Definition
The administration costs of the Group, excluding those of the Other Investments segment, divided by the net rental income of the Group.
Why this is important to CLS
This KPI measures the administration cost of running the core property business by reference to the net rental income that it generates, and provides a direct comparative to most of our peer group.
Our target for 2019
In 2019, our target administration cost ratio was between 15% and 17%.
Progress
In 2019, the administration cost ratio was 17.7% (see note 5).

Other Performance Indicators

In addition to the key performance indicators of the Group, which are all tied to executive remuneration, the Group also has other performance indicators by which it measures its progress, and these include:

- **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 2019, the cost of debt (2.42%) was 251 bps below the net initial yield (4.93%).
- **Sustainability** – we seek to minimise our impact on the environment by targeting a reduction in carbon emissions of 25% in the managed portfolio by 2025 (baseline 31 December 2018). In 2019, we achieved a 3.1% reduction (2018: 15.9%).
- **Customer retention** – through our active asset management we seek to retain more than 50% of our tenants by value. In 2019, 57.2% of our leasing transactions were lease renewals (2018: 52%).
- **Health & Safety** – we work hard to ensure that the health and safety of our employees, customers, advisors, contractors and the general public is not compromised and pride ourselves on remaining below the UK National Accident Frequency rate. For 2019, the national rate was 930 per 100,000 people; CLS' was 105. This rate is calculated by dividing the number of accidents reported in the year by the number of people occupying our buildings.

Link to remuneration

All of the Group's Key Performance Indicators are linked to executive remuneration, see pages 92-103

1. For the purposes of calculating this KPI for executive remuneration, the market price is calculated as the average closing share price in December, not the closing share price at the end of December, to avoid bonuses being paid based on distorting fluctuations around the year end.

Engaging our stakeholders

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

Our Stakeholders

Why are they important?

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

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

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

Our vision and values, which can be found on page 68, reflect how our stakeholders perceive us and, in turn, how we conduct ourselves in our interactions with them.

Tenants

How we listened to our stakeholders

- Tenant surveys
- Tenant meetings

What key topics were raised?

- Improvements to communal areas
- Input into tenants' refurbishments
- Involvement in sustainability initiatives
- Appreciation of in-house teams and fast response to issues

How did we respond?

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



Employees

How we listened to our stakeholders

- Employee surveys
- Open door policy for raising issues
- Our Workforce Advisory Panel

What key topics were raised?

- Improvements to workplace policies and practices
- Levels of staffing to match growth in portfolio
- Increased workforce interaction from Non-Executive Directors

How did we respond?

- Reviewed workplace policies, practices and benefits
- Increase number of operational employees
- Programme for Non-Executive Director involvement

Financial institutions

How we listened to our stakeholders

- Frequent meetings with all lenders
- Presentations from institutions

What key topics were raised?

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

How did we respond?

- Communication of Group strategy at individual meetings
- Regular updates on portfolio changes
- Ensuring best practice in compliance reporting

Investors

How we listened to our stakeholders

- Q&A session at analyst presentations
- Regular meetings with investors
- Feedback through our key advisors

What key topics were raised?

- Impact of Brexit
- Long-term growth strategy
- Importance of Group wide sustainability initiatives

How did we respond?

- Brexit impact risk assessment
- Presentation on long-term growth strategy to investors and analysts
- Refinement of sustainability strategy

The Board

Communities

How we listened to our stakeholders

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

What key topics were raised?

- Improvements to public realms
- Financial and in-kind support for local charities and other organisations

How did we respond?

- Increase in funding for local charities and organisations
- Increase in the number of volunteering days
- Adapted refurbishments/redevelopments in light of feedback

Suppliers

How we listened to our stakeholders

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

What key topics were raised?

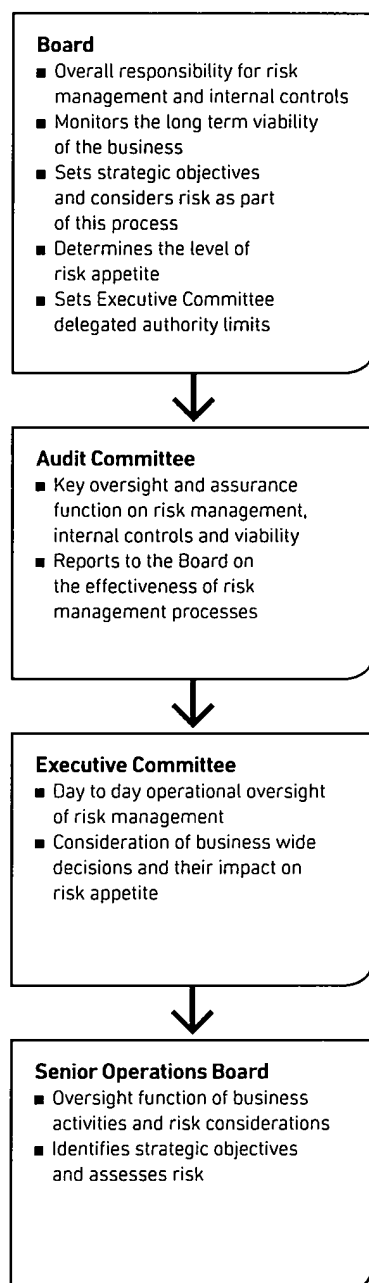
- Recognition of the Group's prompt payment of invoices
- Working towards sustainable practices
- Support for continual feedback

How did we respond?

- Commitment to ensure new contracts pay the London Living Wage/Living Wage
- Ensure communication of Group objectives to enable collaborative approach

Our approach to risk

Our risk management structure is illustrated below:



Overview

For CLS, effective risk management is key to creating sustainable, long term value in a responsible manner. Whilst the ultimate responsibility for risk management sits with the Board, the effective day-to-day operational management of risk lies with the Executive Committee.

This operational risk management is essential to: enable the business to exploit profitable business opportunities in a disciplined way; avoid or mitigate risks that can cause loss, reputational damage or business failure; and enhance resilience to external events.

The Board acknowledges that the Directors are responsible for the Group's systems of internal control and risk management, and has established procedures which are designed to provide reasonable assurance against material misstatement or loss.

Risk Management Framework

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

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

Risk management processes, which also 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. Each business area operates a process to ensure that key risks are identified, evaluated, managed and reviewed appropriately. For example:

- a monthly asset management portfolio review 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.

An update on risks and the control environment is presented at each Audit Committee meeting, including the results of internal control review procedures undertaken in the period.

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

Risk appetite

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

Our risk appetite is reviewed at least annually and assessed with reference to changes both that have occurred, or trends that are beginning in the external environment, and changes in the Principal risks and their mitigation. These will guide the actions we take in executing our strategy. Whilst our appetite to 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:

	Property	Sustainability	Business Interruption	Financing	Political & Economic	People
Board Risk Appetite	Medium	Medium	Low	Low	Medium	Medium
Principal Risk Status	Medium	Medium	Medium	Low	High	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 business interruption and political and economic principal risks. The Board accepts there are factors in relation to these principal risks that are outside of 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.

Our risk assessment

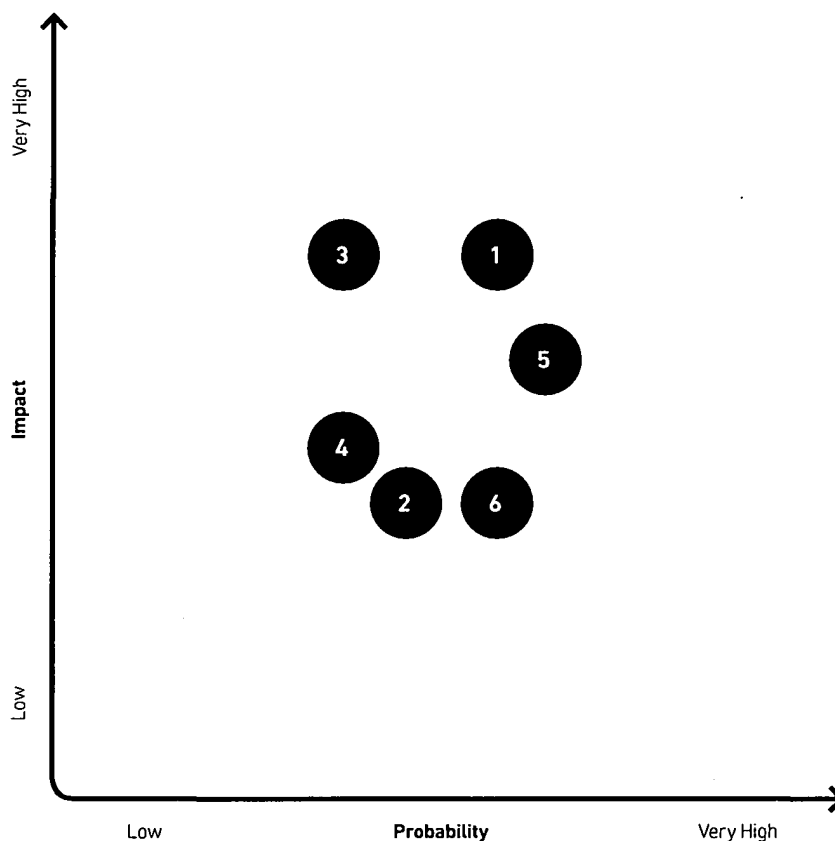
Risk heatmap

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

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

Key

- 1 Property
- 2 Sustainability
- 3 Business Interruption
- 4 Financing
- 5 Political & Economic
- 6 People



Principal risks and uncertainties

Principal risks

We do not consider there has been any material change to the nature of the Group's Principal Risks over the last 12 months however several risks have had a change in risk profile as a result of internal or external forces, or a combination of both. The principal risks, the Board's appetite for risk in these areas in the context of executing our strategy and the focus of our risk mitigation actions are set out below.

Property risk				Risk assessment: Medium
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.				Change in risk profile in year: No change
Key Risk Indicators	KPI Link	Business Model Link	Risk Mitigation in Action	Risk Mitigation Priorities for 2020
<ul style="list-style-type: none"> ■ Cyclical downturn in property market which may be indicated by an increase in yields ■ Changes in supply of space and/or occupier demand ■ Poor property/ facilities management ■ Inadequate due diligence and/or poor commercial assessment of acquisitions 	<ul style="list-style-type: none"> ■ TSR(A) ■ TSR(R) ■ TAR ■ VR ■ ACR 		<p>In the UK, 20 regional properties were disposed of as a portfolio during the year which has increased the focus of the UK portfolio to London and the South East which we believe has stronger long-term fundamentals.</p> <p>Disposals of a further eight properties across the business were agreed in 2019; being assets which were low yielding with limited asset management potential or where the risk/reward ratio was unfavourably balanced.</p> <p>As part of our diversified approach, acquisitions continue to be made in the UK, Germany and France in line with the strategic objective to grow both rental income and capital returns through filling vacancies and refurbishment. However, given some increased competition, we have continued to be resolute with our pricing discipline in assessing opportunities.</p> <p>Focused review of the strength of the tenant covenant when assessing new lease opportunities.</p>	<p>Continue to target properties with asset management opportunities in good non-prime locations.</p> <p>Continue to leverage the CLS in-house management model to maintain close links with our customers in order to understand their needs and to provide timely insights into potential occupier/property issues and facilitate resolution, thereby maintaining relationships and underlying value.</p> <p>Continue to focus on disposing of properties with limited potential and reinvest the proceeds in locations and properties with the opportunity to add value through active asset management.</p>

Business Model and Strategy

We acquire the right properties

We secure the right finance

We deliver value through active management and cost control

We continually assess whether to hold or sell properties

For more information on our Business Model and Strategy see pages 14-17

Key Performance Indicators (KPIs)

TSR(A)	Total Shareholder Return (Absolute)
TSR(R)	Total Shareholder Return (Relative)
TAR	Total Accounting Return
VR	Vacancy Rate
ACR	Administration Cost Ratio

For more information on our key performance indicators see pages 20-21

Sustainability risk

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

Risk assessment:

Medium

Change in risk profile in year:

No change

Key Risk Indicators	KPI Link	Business Model Link	Risk Mitigation in Action	Risk Mitigation Priorities for 2020
<p>Transition risks:</p> <ul style="list-style-type: none"> These include regulatory changes, economic shifts, obsolescence and the changing availability and price of resources. <p>Physical risks:</p> <ul style="list-style-type: none"> These are climate-related events that affect the buildings' physical nature; they include extreme weather events, pollution and changing weather patterns. 	<ul style="list-style-type: none"> TSR(A) TSR(R) TAR VR ACR 		<p>All transition risks for new acquisitions were reviewed through an improved Group risk register.</p> <p>Ongoing risk review of environmental legislation for upcoming changes.</p> <p>CLS is working with our supply chain to encourage the signing of our Sustainable Partnership pledge</p> <p>CLS reviews all physical climate-related risks through operational risk management procedures; each building is reviewed annually</p> <p>Asset-level environmental due diligence reviews were conducted on all new acquisitions</p>	<p>Increased monitoring of all carbon-related activities, both directly and indirectly, is a priority for 2020 given an increase in government policies around reporting the carbon impact on supply chain and direct use.</p> <p>Continue to maintain our active energy reduction programme on existing assets while also identifying potential climate-related physical risks on new acquisitions.</p> <p>Sustainability assessment will continue to be a key focus of asset management decision-making across the business in each region.</p>

Business interruption risk

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

Risk assessment:

Medium

Change in risk profile in year:

No change

Key Risk Indicators	KPI Link	Business Model Link	Risk Mitigation in Action	Risk Mitigation Priorities for 2020
<ul style="list-style-type: none"> Cyber threat Large scale terrorist attack Environmental disaster, power shortage or pandemic 	<ul style="list-style-type: none"> TSR(A) TSR(R) TAR VR ACR 		<p>A periodic independent review of the Group's cybersecurity (including penetration testing) was carried out during the year. Highlighted risk areas have been addressed, including mandatory cybersecurity training for staff.</p> <p>Implementation of market-leading cloud based IT solutions and increased use of portable technology by employees has streamlined data back-up and significantly reduced the reliance on a physical office premises to ensure business continuity.</p> <p>Annual review of each property specific emergency plan which considers a range of different physical, utility and catastrophic risks.</p>	<p>Review and update the Group's business continuity plan.</p> <p>Re-run independent cybersecurity review, implement multi-factor authentication on user access, and obtain 'Cyber Essentials' certification.</p> <p>Continue to assess, and revise where relevant, the Group's insurance coverage.</p> <p>In light of recent, heightened risks around pandemics, we are reviewing staff safety measures and remote working practices. A focus for remote working is to ensure that there is the necessary system infrastructure to cope with a potential increase in the volume of remote access as well the ability to carry out key operational procedures such as payment authorisations.</p>

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:
Low

Change in risk profile in year:
Decreased

Key Risk Indicators	KPI Link	Business Model Link	Risk Mitigation in Action	Risk Mitigation Priorities for 2020
<ul style="list-style-type: none"> ■ Inability to refinance debt at maturity due to lack of funding sources, market liquidity etc. ■ Unavailability of financing at acceptable debt terms ■ Risk of rising interest rates on floating rate debt ■ Risk of breach of loan covenants ■ Foreign currency risk ■ Financial counterparty risk ■ Risk of not having sufficient liquid resources to meet payment obligations when they fall due 	<ul style="list-style-type: none"> ■ TSR(A) ■ TSR(R) ■ TAR 		<p>The Group continues to maintain a wide number of banking relationships to diversify funding sources. During the year the Group raised new debt, or refinanced existing debt, totalling £292.4 million via 8 separate loan facilities and 8 separate lenders.</p> <p>Debt maturity profile improved with refinancing of largest single asset of the Group extending debt maturity on this property from 2021 to 2024.</p> <p>During the year, 61% of new debt drawn in 2019 was fixed at an average rate of 2.50%, which significantly mitigated the risk associated with fluctuations in interest rates. The Group's weighted average cost of debt at 31 December 2019 was 2.42%.</p> <p>The Group's exposures to the Swedish krona and US dollar were significantly reduced in the year with the disposal of equity interests in First Camp and Catena and the liquidation of the corporate bond portfolio, which also contributed to a significant increase in liquid resources for the Group.</p>	<p>The Group currently has facilities with 27 lenders and will continue to maintain its existing relationships and develop new ones, whilst also exploring the feasibility of other funding sources in 2020 to further diversify funding sources and achieve longer tenor of debt.</p> <p>The Group will continue to focus on its core financing risk mitigation strategies including:</p> <ul style="list-style-type: none"> ■ 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 hedge relationships; ■ Monitor lender exposure and ensure that no one lender represents more than 20% of total Group debt; and ■ Manage cash balances with the aim of maintaining a minimum of £100m of liquid resources on average to mitigate refinancing and liquidity risk.

Business Model and Strategy

We acquire the right properties

We secure the right finance

We deliver value through active management and cost control

We continually assess whether to hold or sell properties

For more information on our Business Model and Strategy see pages 14-17

Key Performance Indicators (KPIs)

TSR(A)	Total Shareholder Return (Absolute)
TSR(R)	Total Shareholder Return (Relative)
TAR	Total Accounting Return
VR	Vacancy Rate
ACR	Administration Cost Ratio

For more information on our key performance indicators see pages 20-21

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:
Increased

Key Risk Indicators	KPI Link	Business Model Link	Risk Mitigation in Action	Risk Mitigation Priorities for 2020
<ul style="list-style-type: none"> ■ Transition of the UK exit from the EU ■ Global geopolitical and trade environments 	<ul style="list-style-type: none"> ■ TSR(A) ■ TSR(R) ■ TAR ■ VR ■ ACR 		<p>A range of scenarios were modelled to determine how various changes to property values, rental income and interest cost may impact the business model and funding. This review also provided a key input into the conclusions formed in the Viability Statement on page 31.</p>	<p>Continue to maintain geographical, customer and financing diversification of the business model and continue to monitor potential implications of the UK's transition out of the EU.</p> <p>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.</p>

People risk

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

Risk assessment:
Medium

Change in risk profile in year:
No change

Key Risk Indicators	KPI Link	Business Model Link	Risk Mitigation in Action	Risk Mitigation Priorities for 2020
<ul style="list-style-type: none"> ■ Failure to recruit senior management and key executives with the right skills ■ Staff turnover levels ■ Lack of succession planning ■ Poor employee engagement levels 	<ul style="list-style-type: none"> ■ TSR(A) ■ TSR(R) ■ TAR ■ VR ■ ACR 		<p>Our succession plans were implemented during the year as a new independent chairman was appointed as well as two new non-executive directors. In addition, a new CFO joined the Group following the retirement of John Whiteley in June.</p> <p>Establishment of Workforce Advisory Panel to improve workplace practices and policies. The Panel is chaired by a Non-Executive Director and comprises members of staff from each region.</p> <p>Annual review of salary and benefits for each employee to ensure they are at appropriate levels.</p> <p>Annual appraisal process focussing on future development opportunities</p> <p>Continued high levels of training and development.</p> <p>Ensuring we have a modern workplace and work practices, including effective IT systems.</p>	<p>We will be undertaking the next staff survey in 2020 to receive feedback on the actions completed since the last survey and to identify any improvements.</p> <p>Continue workforce engagement through the Workforce Advisory Panel, Group training activities and events.</p> <p>Continue to ensure remuneration and benefits are at market levels.</p> <p>Annual review of succession planning at all levels to be presented to the Board.</p> <p>Continuation of our health and wellbeing programme.</p> <p>Ensure we have appropriate systems in place to allow employees to perform at their best, in line with our vision and values.</p>

Emerging risks

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

Emerging risks may also be superseded by other risks or cease to be relevant as the internal and external environment in which we operate evolves. The Senior Operations Board, which has representatives from each area of the business, is tasked with identifying emerging risks for the business and discussing what impact these risks may have on the business and what steps we should be taking to mitigate these risks. The Board reviews these assessments on an annual basis.

A non-exhaustive list of some of the current emerging risks relevant to the Group and time when they may have a material effect on the business are set out below:

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

Viability Statement

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

The Board concluded that the Viability Statement should correspond with the way in which the Group models its forecasts. The Group produces a budget for the current year and forecasts over a further three years reflecting the Group's business model, strategy, and risk appetite, including the potential impact of Brexit. The Board considers this period to be the most appropriate as it provides a detailed and realistic forecast. The forecast is built up from a tenant level and considers the Group's weighted average lease length of 4.7 years (2018: 5.3 years) and the maturity profile of the Group's debt of 3.5 years (2018: 3.5 years).

The forecasts provide a comprehensive view of the Group's entire operation, covering:

- cash flows;
- financial resources;
- long-term funding;
- capital expenditure commitments; and
- administration costs;

Cash flow forecasts are updated weekly and reviewed by the executive directors. The budget and three year forecasts are set in November and updated in May and August to take into account changes to assumptions and are reviewed by the Board.

As explained in the Audit Committee report, the forecasts are also stress-tested to reflect our principal risks, ensuring the Group has sufficient resources in severe cases, such as a steep property downturn, the loss of key tenants and significant rises in the costs of medium-term funding.

The Committee remained of the view that the statement should correspond with the way in which the Group models its forecasts, being the current year plus a further three years. The way in which the model was stress tested for changes in the Group's operating environment were considered appropriate and clearly supported the statement.

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

Going concern

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

Refocusing for long-term growth

UK properties

London	33
South East	8
Birmingham	1
Aberdeen	1
Salford Quays	1
Norwich	1
	<hr/>
	45 ¹

Value of investment properties

£1,059.8m

Percentage of Group's property interests

53%

Number of properties

45

Number of tenants

253

Vacancy rate

4.1%

Lettable space

2.2m sq ft

Government and major corporates

57.0%

Weighted average lease length to end

4.8 years

1. As at the year-end three properties were exchanged to be sold and completed in the first two months of 2020. The disposals were Norwich and Salford Quays, and Sidcup in London.

Apex Tower, New Malden

Market overview

The UK economy held up well in 2019, with GDP growth of 1.4%. For much of the year the property market was influenced by Brexit and other economic uncertainty which led to less movement of tenants and significantly lower investment volumes (2019: c.£55 billion, 2018: c.£65 billion). However, CLS outperformed this trend with greater letting activity than in 2018 and also found more acquisition opportunities as a result of less active institutional buyers. Going forward we see further opportunities with London and the South East remaining attractive given supportive long-term fundamentals.

Acquisitions

As highlighted, the UK market remains attractive with CLS exchanging on 9 acquisitions in and around London for £188.1 million at an average net initial yield of 5.8%. Two of the acquisitions for £32.8 million completed at the start of 2020. On the whole, the acquisitions presented active asset management opportunities in terms of lease re-gears, vacancy reduction and/or refurbishment to capture higher rents.

Disposals

In 2019, we exchanged on the disposal of 23 properties for £94.1 million with three of these properties, for £8.4 million, completing at the start of 2020. As set out on pages 18-19, the most significant transaction was the disposal of the UK regional portfolio of 19 properties for £65.0 million. Following major lease re-gears, the properties had less active asset management potential and the sale of the portfolio is in line with our strategy of actively recycling our capital and focusing the UK portfolio on London and the South East. The average net initial yield of all the disposals was 6.9% but this is distorted by the strategic decision to exit the regions with the net initial yield on the other disposals being 2.9%.

Asset management

The vacancy rate in the UK slightly increased to 4.1% at 31 December 2019 (2018: 4.0%) largely driven by the acquisition of some vacancy and the disposal of the fully-let UK regional portfolio. In 2019, we let or renewed leases on 261,133 sq. ft (24,260 sqm) and lost 303,327 sq. ft (28,180 sqm) of space from expiries or new vacancies. Excluding those arising from contractual indexation uplifts, 67 rent reviews, lease extensions and new leases added £6.8 million of rent at an average of 2.2% above 31 December 2018 ERVs. The portfolio was 9.2% reversionary at the year end.

Acquired/Refurbishment started

2010/2019

Office building

96,000 sq ft

Location

7 High Street

The office space, comprising ground to 15th floor, is wholly let to BAE Systems. New arrangements have been agreed with the tenant to allow CLS to refurbish c.50% of the building to a Grade A standard. The refurbishment includes the conversion of one office floor into our new flexible workspace brand "Base Offices" as well as providing an enhanced reception and well-being facilities, whilst retaining the tenant in the remaining half of the building.

Developments and refurbishments

In 2019, a planning permission application was submitted for a new 29,000 sq. ft (2,694 sqm) 10-floor, office development at Vauxhall Walk next to our Spring Mews property and we expect a decision in the first half of 2020. During 2020 we will submit an application for a 6-floor (43,000 sq. ft (3,995 sqm)) office development in Maidenhead.

A number of refurbishments to capture rental increases are ongoing with the most significant: at Apex Tower, as highlighted above; and about to start at Prescott Street. Smaller schemes are taking place at CI Tower and Great West House as well as a rolling programme at Chancery House.

Valuation

The UK portfolio was valued at £1,059.8 million at the year end, which reflects a 0.3% year on year valuation decrease. The like for like valuation increase was 0.3% but the valuation fell after taking acquisition costs into account. The yield fell to 5.4% (2018: 5.6%) reflecting the sale of the UK regional portfolio. Like for like contracted rents rose by 1.3% whilst ERVs increased by 1.3%.

Acquisition of Prescott Street, London



Located on the fringe of the City we can utilise our asset management expertise to deliver value over the long term"

We acquire the right properties

This acquisition is a clear demonstration of our ability to undertake transactions on an opportunistic basis where we can utilise our asset management expertise to deliver value over the long-term in line with our strategy. The property's excellent location and attractive potential make this an exciting opportunity for CLS.

Location

Prescot Street is located on the fringe of the City of London in the Aldgate area, which continues to undergo significant regeneration, including the new Chinese Embassy at the former Royal Mint site, and is close to multiple key transport links including Fenchurch Street, Tower Hill, Aldgate East and Shadwell stations.

Property

The freehold property comprises 96,948 sq ft (9,007 sqm) of multi-let office space over seven floors and is 100% let to four tenants with a weighted average unexpired lease term of 2 years to breaks. The Lower Ground to 3rd floor is currently occupied by a single tenant with a lease that is due to expire in 2021, the area has not been refurbished for a number of years and provides CLS with an opportunity to undertake a substantial refurbishment of this space and to capture significant reversionary rental upside upon completion.

Opportunity

The property, which was acquired at a capital value of £555 per sq. ft and a net initial yield of 4.5%, has significant reversionary rental upside to deliver an estimated yield approaching 8% through active asset management. Current contracted rental income of £2.56 million equates to £26.41 per sq ft and CLS intends to undertake a substantial refurbishment to deliver high-quality space in an improving area with limited supply.

Number of tenants

4

Over 7 floors

Weighted average unexpired lease term
to breaks

2 years

Actively looking to invest in larger cities

Germany properties

Hamburg	10
Munich	7
Stuttgart	3
Berlin	2
Düsseldorf	2
Dortmund	2
Cologne	1
Freiburg	1
Wiesbaden	1
Bochum	1
<hr/>	
	30

Hamburg

Munich

Value of investment properties

£667.0m

Percentage of Group's property interests

33%

Number of properties

30

Number of tenants

349

Vacancy rate

4.3%

Lettable space

3.2m sq ft

Government and major corporates

30.7%

Weighted average lease length to end

4.6 years

East Gate, Munich

Market overview

The German economy, which is heavily export-led, slowed somewhat in 2019 but still grew by 0.6% given robust consumer and service sectors. Despite some manufacturing job losses, overall employment stood at record levels. In the office market, vacancy levels were at record lows and investment volumes were at record highs (2019: c.€70 billion, 2018: c.€60 billion). These two factors drove growth in capital values and rents. Market sentiment for 2020 remains positive with investors viewing Germany as a "safe-haven" given its diversified economy, which is forecast to grow in 2020, and low interest rates. Whilst the supply pipeline has increased, more than half of the supply under construction is pre-let. The continued demographic shift to the larger cities also reinforces our strategic focus in Germany.

Acquisitions

In 2019, despite strong competition, we acquired two well-located, multi-let offices in Germany for a combined total of €62.5 million. PURO in Munich, comprising 140,717 sq. ft (13,073 sqm), was acquired for a net initial yield of 5.1% and a reversionary yield of c.6.4%. Office Connect in Cologne, comprising 140,491 sq. ft (13,052 sqm), was also acquired for a net initial yield of 5.1% with a reversionary yield estimated to be over 6%. Further details are given on the following pages. In total, we submitted offers for properties worth over €1 billion but we were not willing to compromise on price and/or due diligence. We will maintain this discipline

going forward but continue to look for acquisition opportunities, particularly those with reversionary potential or the ability to increase the lettable space.

Disposals

We continued, on a selective basis, to sell properties where we have driven value through active asset management but which now have a less favourable long-term risk/return profile. In July, we exchanged on two disposals, for a combined €57.2 million at a net initial yield of 4.1%, which completed before the end of September. As highlighted above, East Gate in Munich was sold for €45.3m. The property, which was refurbished and then re-let, achieved a profit on sale of €2.5m. Schanzenstrasse in Düsseldorf was sold for €11.9 million, 76% above the 31 December 2018 valuation. The office property, which was close to obsolescence, was sold to a local residential developer.

Asset management

The vacancy rate in Germany increased to 4.3% (2018: 4.2%) due to letting activity. We let or renewed leases on 316,468 sq. ft (29,401 sqm) and lost 340,255 sq. ft (31,611 sqm) of space from expiries or new vacancies. Excluding those arising from contractual indexation uplifts, 60 rent reviews, lease extensions and new leases added €7.0 million of rent at an average of 6.6% above 31 December 2018 ERVs. On a like-for-like basis, ERVs rose by 5.1% in the year and at the end of 2019 the portfolio was 12.6% net reversionary. As a result of increasing local

ERVs, we expect further rental growth to be captured in 2020 through letting vacant or existing space.

Developments and refurbishments

Our existing portfolio offers a number of development and refurbishment opportunities. The most significant development, which we are currently pursuing, is for our Vor dem Lauch building in Stuttgart. Planning for a new office development with c.141,000 sq. ft (13,099 sqm) lettable space, over 50% larger than the current building, was submitted in August 2019 with a planning decision expected in spring 2020. In addition, we are progressing extension opportunities for: c.2,000 sqm at Bochum for our existing tenant with a planning decision expected in spring 2020; and c.3,500 sqm at Adlershofer Tor in Berlin with a planning application submission expected in the first quarter of 2020.

Valuation

The German portfolio was valued at €785.9 million at the year end, which reflects an 8.4% year on year valuation increase in local currency and a net initial yield of 5.0% (2018: 5.4%). The main drivers have been the increase in ERVs especially in Berlin and Munich plus the ongoing yield compression in all markets in which CLS is invested. Like-for-like ERVs increased by 5.1% and like-for-like contracted rent by 1.2% as we have actively sought to capture rental growth.

Sold

July 2019

Office building

184,321 sq ft

Location

Kapellenstrasse 12, Feldkirchen

The property, previously the headquarters of a medical technology company, was vacated in January 2017. The offices, which had been purchased for €29 million, were transformed following an €8 million refurbishment into a multi-let, high tech hub which was over 90% let before sale. It was sold in July 2019 for €45.3m achieving a profit before costs of €2.5m or 6.4% above December 2018 book value.

Acquisition and financing of Office Connect, Cologne



This acquisition gives us an opportunity to utilise our in-house asset and property management teams to deliver value to our investors over the long-term"

Cologne has been an area of interest for CLS for several years and this transaction allows us to enter the market at an exciting time.

We acquire the right properties

Office Connect is one of the most prominent properties in the Airport Business Park in Cologne, a well-connected and growing destination in the south of Cologne between the city centre and Cologne-Bonn Airport. The property is located adjacent to the S-Bahn station, Köln Frankfurter Strasse. The building is a well maintained and modern office building, with a strong tenant mix and a popular restaurant on the ground floor. The property consists of an 11-storey tower and five-storey lower main building. It is easily sub-dividable, making it both flexible and easy to re-let.

We secure the right finance

The building was financed with a new lender, a local savings bank in Cologne. The financing arrangement provides a 65% loan-to-value facility for 7 years at an all-in fixed rate of 0.92%. This arrangement provides further diversification of our debt portfolio and establishes a local presence in Cologne.

Acquired September 2019 for

€25.1m

Net Initial Yield

5.1%

Delivering value from existing assets

France properties

Paris	14
Lyon	5
Lille	3
	<hr/>
	22 ¹

Paris

Lyon

Value of investment properties

£285.3m

Percentage of Group's property interests

14%

Number of properties

22¹

Number of tenants

177

Vacancy rate

3.1%

Lettable space

0.9m sq ft

Government and major corporates

54.5%

Weighted average lease length to end

5.0 years

1. As at the year-end one property, 62 Avenue Foch in Paris, had exchanged to be sold and completed in January 2020.

Les Reflets, Lille

Market overview

The French economy proved resilient in 2019 with GDP growing by 1.2%. Whilst, growth forecasts have been downgraded across much of the world due to uncertainty, trade wars and a perceived global slowdown, France's economic performance offered a degree of stability which was viewed positively by property investors. Property investment volumes in France in 2019 were substantially higher in 2019 at c.€36 billion (2018: c.€33 billion) as a result of this economic stability and a lack of new supply.

Acquisitions

In March 2019 we completed the acquisition of Les Reflets in Lille, which had exchanged in December 2018, for €11.4 million reflecting a net initial yield of 6.6%. Les Reflets is a 44,756 sq. ft (4,158 sqm) multi-let office building with annual rent of €0.7 million. In December 2019, in-line with our strategy to control fully our co-owned offices, we acquired two additional floors at Park Avenue in Lyon-Villeurbanne. The acquisition for €3.5 million was of 12,486 sq. ft (1,160 sqm) of offices which are single let on a long-term lease with a net initial yield of 6.2%. As a result of this purchase, we now own 86% of the building.

Disposals

In July 2019, CLS sold Ateliers Victoires in Paris, comprising 21,500 sq. ft (2,028 sqm), for €42.0 million. The disposal price reflected a net initial yield of 3.03% and a net profit of €6.9 million. A case study highlighting the substantial refurbishment and successful letting of the building before its eventual sale is detailed over the following pages. Continuing our policy of disposing of properties too small to have a meaningful impact on the group, in December we unconditionally exchanged on the sale of Foch in la Garenne-Colombes in Paris. The 1,948 sq. ft (181 sqm) building was sold for €0.9 million at a net initial yield of 5.5%. The sale completed in February 2020.

Asset management

The vacancy rate in France increased to 3.1% (2018: 2.3%) mainly because of the sale of the fully let Atelier Victoires. In 2019, we let or renewed leases on 71,475 sq. ft (6,647 sqm) and lost 88,722 sq. ft (8,251 sqm) of space from expiries or new vacancies. Excluding those arising from contractual indexation uplifts, 31 rent reviews, lease extensions and new leases added €1.7 million of rent at 31 December 2018 ERVs. On a like-for-like basis, ERVs rose 2.5%, and at the end of 2019 the portfolio was broadly rack-rented.

Developments and refurbishments

Due to the strategic location of CLS' Quatuor building in Montrouge in front of the future Grand Paris train station, we have appraised an outline scheme design for a 10,000 sqm new office building. Further work will be performed in 2020 around land assembly option agreements as well as progressing a planning permit. In addition, a series of refurbishments will take place in 2020 to upgrade our buildings, in particular enhancing their environmental sustainability.

Valuation

The French portfolio was valued at €337.3 million at the year end, which reflects a 3.8% year on year valuation increase in local currency and a net initial yield of 5.2% (2018: 5.2%). The property valuation increase was in addition to the €6.9 million profit on the disposal of Atelier Victoires, which sale also resulted in the slight increase in net initial yield.

Acquired

March 2019

Office building

44,756 sq ft

Location

1 Rue Jean Walter

A four-year-old multi-let office building located in the south of Lille, fully let to five tenants with a WAULT of 3.5 years. The property has an annual net rent of €0.7 million, reflecting a net initial yield of 6.6% giving a high quality, high-yielding office property with scope for strong returns. Lille is the third largest office market in France with vacancy level of only 4%. The city is experiencing widespread regeneration and has fast transport links to Paris and London.

The active life cycle of Ateliers Victoires, Paris



Through our active in-house development and asset management teams we secured a significant value uplift”

CLS acquired Ateliers Victoires in 1998 for €8.9 million. The property is located in the heart of Paris, facing the historic headquarters of Banque de France and close to the Louvre Museum. Banque de France let the 1,800 sqm building from 1988 until September 2014.

We deliver value through active management

Development project

Prior to the property being handed back to CLS with vacant possession, our in-house development team assessed the viability of several different options for this property including change of use to high-end residential or a hotel. It was decided to keep the building as an office but complete a full redevelopment including a new façade and roof terrace. A firm of architects were appointed and the initial planning permit was obtained during 2015. After development, this 2,028 sqm (21,829 sq ft) asset is composed of a glazed façade with external thermal insulation and high quality internal specification which benefit from BBC Effinergie & HQE excellent accreditations.

Asset management

Prior to the development completing, the marketing of the newly redeveloped office space was launched in 2017. With a very active market in the centre of Paris (vacancy rate of only 2.3%), there were a significant number of potential tenants interested and multiple site visits were completed. Our in-house asset management team considered the possibility of a multi-let office but determined that a single let option would capture the uplift in Paris rents more effectively. The location, size & independency of this building as well as the terrace on the 7th floor with panoramic views of Paris would make it a perfect headquarters. It was fully let to Epoka, a B2B communication agency, under a firm 7/9 year lease.

We continually assess whether to hold or sell properties

Realising the value added

Following the new letting, the CLS board made the strategic decision to sell Atelier Victoires and capture the value our in-house teams had added achieving a sale price €7.4 million above valuation when it was sold in June 2019.

Sold for
€42m
in June 2019

Net Initial Yield on sale

3%

Sale price was 21.4% above 31 December
2018 valuation

Continued strong performance underpinned by low cost financing

I am pleased to present my first financial review as the CFO of CLS. I'm delighted to have joined a company with such a clear strategy, experienced management and a fantastic track-record, and which has delivered an excellent performance in 2019.

Summary

EPRA net assets per share rose by 6.3% to 329.2 pence (2018: 309.8 pence) and basic net assets per share by 7.1% to 295.1 pence (2018: 275.5 pence). Profit after tax from continuing operations of £135.2 million (2018: £132.8 million) generated basic earnings per share of 33.3 pence

(2018: 30.5 pence) and EPRA earnings per share of 12.0 pence (2018: 13.1 pence).

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

Exchange Rates

Approximately 53% of the Group's business is 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 impact on the translation of our balance sheet and monetary assets recognised in the income statement: sterling's average rate strengthened against the euro by just 0.9% but at 31 December 2019 sterling was 6.3% stronger against the euro than twelve months previously.

Exchange rates to the £

	EUR
At 31 December 2017	1.1260
2018 average rate	1.1304
At 31 December 2018	1.1122
2019 average rate	1.1406
At 31 December 2019	1.1825

Income statement

Rental income in 2019 of £107.7 million, as set out in graph A, was £4.7 million higher than in 2018. Acquisitions and developments added £6.3 million whilst disposals led to a reduction of £1.3 million. Other lettings activity was flat with foreign exchange movements leading to a £0.4 million reduction.

Other property income of £6.8 million (2018: £6.9 million) included hotel revenue from Spring Mews of £4.7 million (2018: £4.4 million) and dilapidations, surrender premiums and other one-off receipts of £2.0 million (2018: £2.5 million). In aggregate net rental income rose by 3.1% to £110.6 million (2018: £107.3 million).

We monitor the costs of running the business closely and the administration cost ratio (administration costs as a percentage of net rental income) is a Group key performance indicator. In 2019, the administration cost ratio was expected to increase, as personnel costs comprise the majority of these costs and there were a notable number of personnel changes across the business, including the Board. The administration cost ratio therefore rose to 17.7% (2018: 16.0%).

The net surplus on revaluation of investment properties of £57.4 million (2018: £62.8 million) demonstrated the benefit of our diversified approach with Germany again the strongest

with an 8.4% rise in values and France rose by 3.8% (both in local currencies) whilst the UK fell by 0.3%.

We completed the disposal of twenty-four properties in the year for £178.1 million (a further four were exchanged for £9.2 million and completed in 2020) resulting in a profit of £8.6 million after costs and before tax (2018: £2.3 million).

At the start of September, CLS sold its entire 10.5% shareholding in Catena realising a profit on sale of £38.7 million (2018: £22.2 million fair value gain). During November, CLS sold its entire bond portfolio realising proceeds of £34.5 million and a profit on sale of £1.7 million. These disposals helped deliver our strategy of increasing the focus of the Group and provided resources to continue to capture opportunities in our core markets.

Finance income of £5.0 million (2018: £6.1 million) comprised: interest income of £2.1 million (2018: £4.2 million) from our comparatively smaller corporate bond portfolio; dividends from Catena of £2.2 million (2018: £1.7 million); and other interest of £0.7 million (2018: £0.2 million).

Finance costs of £29.4 million (2018: £26.5 million) included foreign exchange variances of £3.6 million (2018: £0.6 million) and fair value movements of derivative financial

instruments of £0.5 million (2018: income £2.3 million), whilst 2018 was impacted by the loss on the early redemption of debt (£3.7 million). On a like for like basis, excluding this loss; foreign exchange variances; and fair value movements of derivative financial instruments, finance costs were £25.3 million (2018: £24.5 million) reflecting slightly increased interest costs as a result of the timing of acquisitions and disposals during the year.

The tax charge of 14.9% was below the weighted average rate of the countries in which we operate (19.8%), primarily due to the profit on disposal of our shareholding in Catena, which was not subject to tax.

Of the loss from discontinued operations of £0.5 million (2018: £14.9 million), £0.3 million profit (2018: £8.5 million loss) is attributable to the owners of the Company. This related to the disposal of First Camp for the period until sale on 7 March 2019.

Overall, as set out in graph B, EPRA earnings were 8.6% lower than last year at £48.9 million (2018: £53.5 million) and generated EPRA earnings per share of 12.0 pence (2018: 13.1 pence). The decline was primarily due to foreign exchange losses due to the strengthening of sterling and lower interest income.

Cash flow and net debt

As at 31 December 2019, the Group's cash balance had increased to £259.4 million (2018: £100.3 million cash and £30.3 million bonds as well as £77.5 million Catena shareholding). As set out in graph C, net cash flow from operating activities generated £48.9 million, of which £28.7 million was distributed as dividends. Acquisitions of £237.2 million and capital expenditure of £16.7 million were partly funded by proceeds after tax from property disposals of £165.0 million. Moreover, the cash position increased as a result of the net drawdown of loans for £79.3 million, the sale of the Group's shareholding in Catena for £113.1 million and the disposal of the bond portfolio for £34.5 million.

Gross debt increased by £54.9 million to £897.2 million (2018: £842.3 million) due to the net drawdown of loans and movements in issue costs totalling £82.7 million offset by a fall of £27.8 million due to foreign exchange rate movements. Loans of £209.5 million were repaid in the year and £292.4 million of new or replacement loans were taken out. Year-end net debt fell to £632.3 million (2018: £706.3 million). In addition, CLS had undrawn bank facilities of £50.0 million, of which £30.0 million was committed.

At 31 December 2019, the weighted average unexpired term of the Group's debt was 3.5 years (2018: 3.5 years) as shown in graph D.

The weighted average cost of debt at 31 December 2019 was 2.42%, 1 basis point ("bps") lower than 12 months earlier and a new all-time low for CLS, as shown in graph E. The repayment of more expensive debt accounted for a fall of 11 bps but this was partly offset by: a greater amount of more expensive sterling refinancing compared to a lower amount of cheaper euro refinancing accounting for an increase of 7 bps; and the weakening of the euro reduced the weighted average contribution of euro denominated debt albeit there was some benefit from lower interest rates resulting in a net 3 bps increase. In 2019, interest cover remained at a healthy level of 3.4 times (2018: 3.8 times).

EPRA net asset value and gearing

At 31 December 2019, EPRA net assets per share were 329.2 pence (2018: 309.8 pence), a rise of 6.3%, or 19.4 pence per share. As set out in graph F, the main reasons for the increase were investment property valuation gains of 14.1 pence per share, EPRA earnings per share of 12.0 pence, the profit realised on the sale of our stake in Catena of 8.8 pence per share, less dividends of 7.1 pence per share, foreign exchange movements of 7.7 pence per share and other movements of 0.7 pence per share.

Balance sheet loan-to-value (net debt to property assets) at 31 December 2019 was 31.4% (2018: 36.7%) and the loan-to-value of secured loans by reference to the value of properties secured against them was 48.0% (2018: 51.0%). The value of properties not secured against debt fell to £143.6 million (2018: £283.6 million).

Financing strategy

The Group's financing strategy remains to hold a significant proportion of its investment properties in single-purpose vehicles ("SPVs") financed primarily by non-recourse bank debt in the currency used to purchase the asset.

In this way, credit and liquidity risk can be managed easily; around 47% of the Group's exposure to foreign currency is naturally hedged; and an efficient use can be made of the Group's assets. In addition, the Group has a number of portfolio loans or secured notes which have tended to arise where a portfolio is acquired, such as the German properties in 2017, and each is financed by a single loan.

The advantage of these portfolio loans is that they can be structured to afford the Group greater flexibility such that properties, with the appropriate attributes, can be substituted into and out of such portfolios. Currently all of the Group's borrowing is on a secured basis. However, we are going to explore the use of more portfolio lending on a secured or unsecured basis to give the Group increased flexibility, more diverse sources of financing and/or longer maturity. Hence, a number of recent acquisitions in the UK have not yet been encumbered. At 31 December 2019, the Group had 49 loans (40 SPVs, 7 portfolios and 2 facilities) from 27 banks.

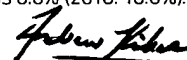
To the extent that Group borrowings are not at fixed rates, the Group's exposure to interest rate risk is mitigated by financial derivatives, mainly interest rate swaps. In the recent medium-term low interest rate environment, the Group chose to take advantage of the conditions, fixing most of the medium-term debt taken out during the year. In 2019, the Group financed or refinanced 9 loans to a value of £292.4 million at a weighted average duration of 5.2 years and at a weighted average all-in rate of 2.65%, and of these £177.9 million were fixed at a weighted average all-in rate of 2.50%. Consequently, at 31 December 2019, 77% of the Group's borrowings were at fixed rates or subject to interest rate swaps, 1% were subject to caps and 22% of debt costs were unhedged; the fixed rate debt had a weighted average maturity of 3.6 years, and the floating rate 3.0 years.

The Group's financial derivatives, predominantly interest rate swaps, are marked to market at each balance sheet date. At 31 December 2019 they represented a net liability of only £4.1 million (2018: £5.1 million).

Distributions and total return to shareholders

In April 2019, a final dividend for 2018 of 4.7 pence per share (£19.1 million) was paid. In September, an interim dividend for 2019 of 2.35 pence per share (£9.6 million) was paid. The proposed final dividend for 2019 is 5.05 pence per share (£20.6 million). This represents a full year distribution of 7.4 pence per share (£30.1 million) which was covered 1.6 times by EPRA earnings per share.

The 2019 dividend is an increase of 7.2% over the prior year and the total accounting return to shareholders, being the increase in EPRA NAV plus the dividends paid in the year, was 8.6% (2018: 10.8%).



Andrew Kirkman
Chief Financial Officer
5 March 2020

Focus on sustainability

Highlights

<p>Reduction in carbon emissions</p> <p>3.1%</p> <p>now 23.43kg CO₂e/ m²(NLA)/year</p>	<p>Water intensity reduction</p> <p>4.5%</p> <p>now 0.354 m³/ m²(NLA)/year</p>	<p>Renewable and low carbon generation</p> <p>718,750kWh</p> <p>up 31% from 2018</p>	<p>Solar PV capacity</p> <p>349kWp</p> <p>enough to power 92 homes off grid</p>
<p>Recycling</p> <p>73%</p> <p>proportion of recycling across all UK managed assets</p>	<p>CDP rating</p> <p>B-</p> <p>up from a C last year</p>	<p>GRESB rating</p> <p>70</p> <p>up 7 points from last year</p>	<p>CSR Events</p> <p>43</p> <p>investing in our communities and employees</p>

Context on our results

We have seen another year of improvement across all our sustainability targets and metrics. In the past 12 months, we have further widened our monitoring of the challenges we face on climate change but have also focused our efforts on key metrics that support our progress towards a more sustainable business.

Recognition and leadership
CLS adopts, submits and reports to several different schemes across the industry to promote transparency and benchmark our progress. More details on these results can be found on our website.

Smarter buildings

92% Completed

Location

German portfolio

In 2018, we set out an ambition to smart meter the German property portfolio in line with our sustainability objectives. Following a tender process, we selected Naturstom to be our metering partner. They, together with our in-house property management team, implemented a rollout programme to be carried out in 2019. By the end of the year 92% of our electricity meters had been converted to smart meters. This allows us to monitor and analyse our managed portfolio on a real-time basis, which helps us to reduce carbon emissions and provides energy savings to our tenants.

Schellerdam 16, Hamburg

Our Approach

CLS operates in some of the most densely populated office urban landscapes in Western Europe. Faced with the challenges of growing urban populations and climate change, the case for improving the sustainability and resilience of our assets is clear.

Our approach over the last 10 years has seen our strategy evolve. Our strategy has been developed in accordance with our own business model as well as to align with Global Real Estate Sustainability Benchmarks (GRESB), taking account of the UN Sustainable Development Goals (SDGs) and climate risk profiling across Western European region.

We strive to create a better environment and better opportunities for all our stakeholders. By actively managing our properties in-house we cultivate strong relationships with our tenants enabling us to influence and effect the positive changes that are vital in delivering a sustainable future.

Our approach is underpinned by our four pillars concept: People, Property, Planet and Profit. Each pillar is vital to our sustainable future. We adopt closed-loop management of each pillar through our commit-measure-do-review process that is detailed in our sustainability report which is available on our website.

UN Sustainable Development Goals

To ensure we are acting on our wider responsibility as a successful business, we have aligned our sustainability strategy to the UN SDGs. This allows us to link directly every activity within the business to a single pledge and to report to the Board on our progress.

Our UN SDGs focus

Link to our strategic pillars

Planet

Property

People

Profit

Our climate risk

The purpose of the climate risk modelling we adopt is to identify potential climate risk within the regions we operate within, where CLS has transitional or physical risks from all our business activities.

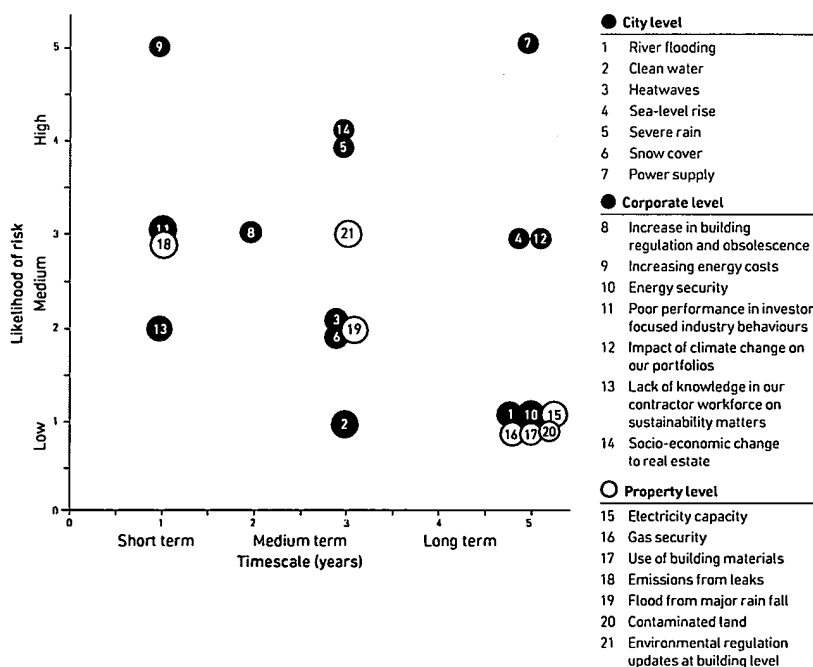
This process gives us material information to make better investment decisions across short, medium and long-term thinking. It also gives our strategy the resilience to deliver on our wider ambitions of tackling climate change in the right way.

In order to understand our business risks, we monitor three key levels of risk.

- Climate change risks at city level. These are all the major associated risks linked to the cities we operate within. For example, London has major risks about flooding and clean water.
- Climate change risks at corporate level. These are risks directly or indirectly linked to our core corporate business model and focus mainly around transitional and decision-making
- Climate change risks at property level. These are risks which cover all the aspects of our physical properties. We split these risks into two main types:
 - Risks resulting from our business operations that are directly within our control (CLS Business-driven Risks) and;
 - Risks that are not directly within our control but are dependent on the occupiers' activities and actions within our owned assets (Occupier-driven risks).

Our climate risk

We undertake annual reviews of the climate risk to our business. These risks and their expected level of impact are shown below:

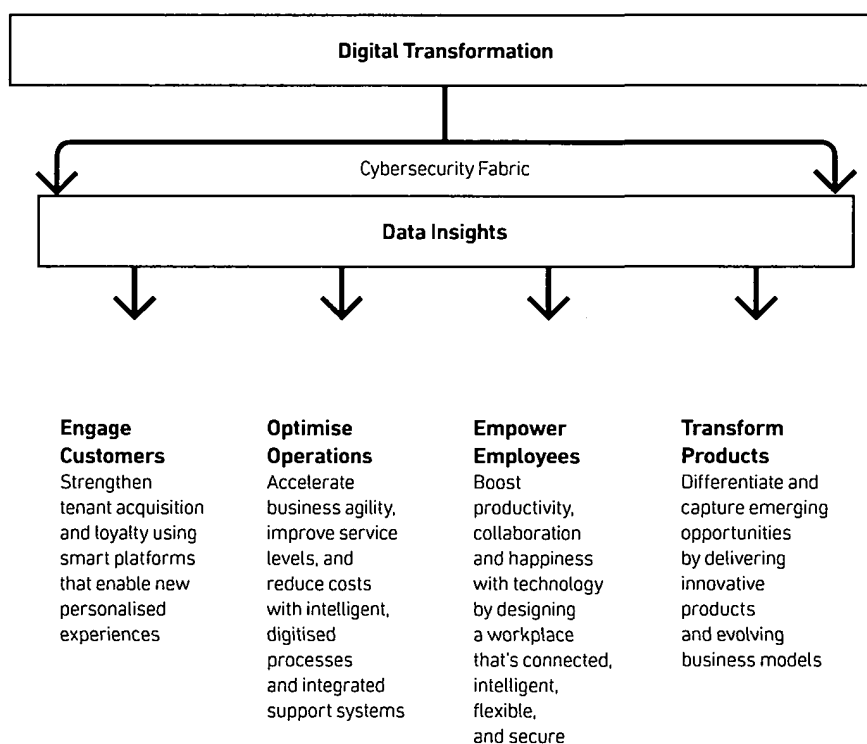


Digital transformation

The Group is digitally transforming to improve its business agility – enabling faster strategic responses to changes in business priorities and technology advancements. Guided by industry best-practice, our approach to digital transformation can be defined as leveraging technology across four pillars: engaging customers; optimising operations; empowering employees; and transforming products.

This holistic model is underpinned by: a group-wide data analytics platform that will interconnect the four elements of the model and provide data insights to drive faster and more informed decision making; and a cybersecurity fabric designed to protect our IT systems from malicious attackers and restore systems back to a safe operational state if they are compromised.

Now into its second year, the transformation programme is focused on digitalising the property portfolio with smart sensors, improved connectivity and digital amenities. This will drive a range of business benefits including stronger customer relationships, energy savings, and predictive maintenance of mechanical and electrical systems.



EPRA emissions

The figures in the table below have been calculated in accordance with EPRA guidance. In 2019 the carbon managed portfolio grew by 12.5% and this is reflected in our absolute energy increases. However, the carbon intensity of the portfolio has decreased by 3.1% when compared to our 2018 baseline. This was mainly due to the decarbonisation of the national grids. Our water intensity has also reduced across the portfolio by 4.5% this year.

Impact Area	EPRA Sustainability Performance Measures (Environment)				Total portfolio			
	EPRA Code	Units of measure	Indicator		Absolute performance (Abs)			
					2018	2019	% change	
Energy	Elec-Abs	kWh	Electricity	for landlord shared services	15,485,567	16,911,565	9.2%	↑
				(sub)metered exclusively to tenants	8,849,285	10,205,895	15.3%	↑
				Total landlord-obtained electricity	24,334,852	27,117,460	11.4%	↑
				Proportion of landlord obtained electricity from renewable sources	96%	94%	2%	↓
	DH&C-Abs		District heating and cooling (DH&C)	for landlord shared services	8,189,782	13,618,450	66.3%	↑
				(sub)metered exclusively to tenants	-	-	-	→
				Total landlord-obtained district heating and cooling	8,189,782	13,618,450	66.3%	↑
				Proportion of landlord obtained DH&C from renewable sources	0.0%	0.0%	-	→
	Fuels-Abs		Fuels	for landlord shared services	17,851,471	20,791,303	16.5%	↑
				(sub)metered exclusively to tenants	46,567	36,584	-21.4%	↓
				Total landlord-obtained fuels	17,898,038	20,827,887	16.4%	↑
				Proportion of landlord obtained fuel from renewable sources	0.0%	0.0%	-	→
	Energy-Int	kWh/m ² /year	Energy Intensity	Landlord-obtained energy	95	95	-	→
	No of applicable properties			Energy and associated GHG disclosure coverage	72	81	12.5%	↑
Greenhouse gas emissions	GHG-Dir-Abs	tonnes of CO ₂ e	Direct	Scope 1	3,206	3,770	17.6%	↑
	GHG-Indir-Abs		Indirect	Scope 2	4898	5241	7.0%	↑
			Indirect	Scope 3	2,691	2,896	7.6%	↑
	GHG-Dir-Abs, GHG-Indir-Abs		GHG Emissions	Total emissions	10,795	11,908	10.3%	↑
	GHG-Int	kg CO ₂ e/m ² /year	GHG emissions intensity	Scope 1&2&3 emissions	24.18	23.43	-3.1%	↓
Water	Water-Int	m ³ /m ² /year	Water Intensity	Total building water intensity	0.371	0.354	-4.5%	↓

↗ Positive change ↘ Negative change Note: The majority of negative change is due to an increase in portfolio size.

Cumulative carbon saved tCO₂e (over 5 years)

Solar PV generation (kWh)

Diversity and inclusion

CLS has offices in four different countries and so understanding and respecting each others' cultures is key to our success. Our population of employees is diverse having nationalities from 20 countries and 16 ethnicities. Our gender diversity is approximately equal and we are spread across the ages of 21 to 80. See page 76 for more information on our diversity.

Our employees, through their shared talent, skills and knowledge enable us to create long term value for our stakeholders. CLS creates an engaging and supporting environment where people want to work, develop and succeed. Central to this is being a responsible employer that respects individuals' values, promotes diversity and inclusion, and recognises the contribution of its workforce.

Employee engagement

We seek the views of our employees through staff satisfaction surveys, conducted through a third party advisor so as to ensure anonymity. On completion of our purpose, vision and values project during 2019 (see page 67-69), the outcomes from our previous staff survey have all been addressed. A new staff survey will take place in early 2020. The survey will cover a range of topics including: effectiveness; engagement; remuneration; development opportunities; respect and recognition; and confidence in leaders.

In 2019, the new workforce advisory panel, chaired by Non-Executive Director Elizabeth Edwards (see page 60) was established. The panel meets quarterly to discuss workforce related issues. See page 64 for more detail on the Workforce Advisory Panel.

Remuneration

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

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

Business ethics

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

Prompt Payment Code

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

For the year ended 31 December 2019 CLS settled 96% of all undisputed invoices in the UK within 60 days, and 81% within 30 days, thus complying with the PPC. In addition, we report on the Group's UK companies' payment practices twice yearly in accordance with The Reporting on Payment Practices and Performance Regulations 2017.

The Modern Slavery Act 2015

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

The Group upholds the highest standards of business ethics and undertook a review of its supply chain in 2019. The Board is confident that as a result of the Group's management and reporting structure, the Company is in compliance with this law.

Gender diversity

	Male	Female
Board	73%	27%
Senior Operations Board	82%	18%
Group wide employees	49%	51%

For more information see our website
www.clsholdings.com

Health & Safety

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

UK

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

As at the date of this report, the percentage of risks which were under control were: 99.6% for Risk Management & Control; and 96.8% for Document Compliance. Our Accident Frequency Rate in 2019 was 105 accidents per 100,000 people (National Accident Frequency Rate: 930/100,000).

Germany

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

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


As at the date of this report, 95% of all identified risks were under control

France

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

The building facilities (such as the electricity supply, and building and mechanical safety checks) are reviewed once or twice a year by a statutory controller. The reports of the statutory controller are reviewed by our operational team. This process is audited externally twice a year. During 2019 we launched a campaign to establish risk prevention plans at all our sites. The accountability remains with CLS France.

As at the date of this report, 100% of regulatory audit reports have been processed.

Our Sustainability History	2011		2012	2013	2014
	The Start Dedicated in-house Sustainability department UK Only	1st Pledge CLS announced 6 pledges to tackle Climate Change	1st Solar PV array We installed our first solar PV array at Buspace Studios	1st External Reporting CLS submitted our first external report to GRESB (Investors)	Group wider function The team is given full responsibility for Group activities around Sustainability
2015	2016	2018		2019	 Net-Zero Carbon future Pathway
Group Alignment Started the data management alignment across regions	1st Sustainability Report Published our first external Sustainability report to the market	10th Solar PV array We installed our 10th solar PV array at INSIDE, France	Awarded International Green Apple CLS recognised for its recycling campaign in the UK	Enhanced Sustainability Strategy 4 pillars and alignment with UN SDGs and corporate strategy	

Our people

Recruitment

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

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

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

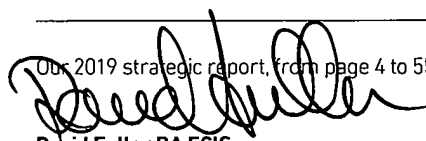
We are proud that we are able to attract, motivate and retain high calibre employees, which, in turn, has benefited the performance of the Group.

Training and development

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

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

Our 2019 strategic report, from page 4 to 55, has been reviewed and approved by the Board of Directors on 5 March 2020.



David Fuller BA FCIS
Company Secretary

Engagement

We promote all aspects of employee engagement; we encourage all employees to share ideas and to get involved in challenging and developing our policies and practices. With a predominantly flat management structure we are able to ensure that all employees are informed of matters concerning their interests and the financial and economic factors affecting the business. Weekly team meetings are held across the Group and our Executive Directors present our annual and half-yearly results to all employees, which is followed by a question and answer session. This is designed to give everyone an understanding of the business, and how their work contributes to the Group's performance.

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

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

Engagement is also about understanding the needs of our employees. This enables us to create a better working environment which, in turn, drives performance, loyalty and success. We recognise it is important to celebrate success and so ensure managers arrange appropriate events following completion of projects.

Culture

Everyone has visibility and a voice. Our culture is professional, inclusive and friendly reflecting our vision and values (see page 68). Our open-door policy encourages everyone to share opinions, creating greater transparency, honesty and trust. We have employees from 20 countries, which helps to foster a diverse, collaborative, cosmopolitan environment. We have fewer than 100 employees looking after a property portfolio of £2.0 billion so we recognise how vital they are to our success. We foster an environment of openness and feedback by consulting regularly with our employees and other stakeholders through various channels, including our employee intranet and tenant surveys, to understand their needs and ensure our culture evolves with the business and modern working practices. We pride ourselves in the way we build relationships and our agile approach allows us to see potential and opportunities in ways that others don't. We act with agility and speed to make the most of possibilities as they arise.

In this section:

- 58 Chairman's introduction
- 60 Board of Directors
- 62 Board leadership
- 67 Purpose, values and culture
- 70 Division of responsibilities
- 72 Nomination Committee Report
- 78 Audit Committee Report
- 82 Remuneration Committee Report
- 104 Directors' Remuneration Policy
- 116 Directors' Report

Driving performance through culture

Q. As the Chairman, what is your view on the role of governance?

A. I believe governance has a fundamental influence on long term value creation. Governance sets the benchmark for standards which in turn drives improvements, efficiencies and behaviour across the business.

Q. How would you describe the purpose of the business?

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

Our investments are based on a long-term vision, and we are continuously modernising our portfolio so that each building remains viable, future-focused and sustainable.

We apply the same approach to our tenants – we want to understand their own business ambition. If we provide the right environment and share our expert insight, we can help them make more informed choices and grow their businesses in a more responsible, considered way.

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

A. We have continued to build on the changes we made last year, largely in response to investor feedback to more closely align our Board structure with the Code.

We saw the retirement of Henry Klotz as Executive Chairman, whom I replaced as independent Non-Executive Chairman.

We have appointed two new independent Non-Executive Directors, Denise Jagger and Bill Holland who will succeed Malcolm Cooper and Chris Jarvis, both having served on the Board for over nine years. Chris will remain on the Board, but will not be considered to be independent and will not sit on any Committees post AGM. John Whiteley also retired from the Board and Andrew Kirkman was appointed as our new Chief Financial Officer.

Q. What engagement with stakeholders has the Board had during the year?

A. Our first step was to clearly identify and articulate our key stakeholders and you can find them on page 22-23 of this report.

We have continued with a very successful programme of property tours in the UK and France. This allowed Board members to understand our portfolio better, its challenges and opportunities, and meet both tenants and staff.

We established the Workforce Advisory Panel, which is chaired by Elizabeth Edwards. The Panel is a key part of our stakeholder engagement framework and reports back to the Board after each meeting. The Panel discusses workforce practices and processes, and how they can be improved. I am very pleased how popular it is and to see the positive impact it is having.

We also consulted with our top 15 shareholders covering 86% of the share register in relation to our New Remuneration Policy. Further details can be found on page 85.

Q. How does the Board maintain and monitor the culture of the business?

A. We understand the importance of having the right culture within the organisation to create and enhance a successful and motivated workforce. Our organisational structure and open door policy further encourages employees to provide regular constructive feedback, directly through reporting lines.

The formation of our Workforce Advisory Panel adds a two-way feedback mechanism for employees and the Board, allowing us to monitor and maintain our culture more closely. More information on pg 64. By "getting out there" and meeting our employees during our property tours means we each better understand our people and culture.

Q. What is the Board's role from a sustainability governance perspective?

A. We all have a part to play in managing our impact on the environment and our stakeholders. It is clear that we must do as much as we can to deliver our vision in the most sustainable way. The Board is committed to ensuring we are responsible in all that we do, even if it comes at a justifiable financial cost.

Q. What are your future priorities?

A. Embedding our Purpose, Vision and Values within the organisation. Developing and implementing our sustainability strategy and overseeing the induction of our new Directors.

Lennart Sten
Non-Executive Chairman
5 March 2020

UK Corporate Governance Code – Principles and how the Company addresses them

Compliance with the code

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

The Board fully supports the principles of good governance as set out in the Code, which is available on the FRC's website (www.frc.org.uk), and its application of the Main Principles are set out on pages 60 to 119. Save as identified and explained in this report, the Board considers that throughout 2019 it complied with the provisions of the Code.

Requirement	Information	Where to find further information
Board leadership and Company purpose	<p>Our Board of Directors are responsible for setting the Group's strategy and ultimately ensuring the success of the Group. We hold 5 board meetings a year, including a strategy day.</p> <p>Our purpose is to transform office properties into sustainable, modern spaces, that help businesses to grow.</p>	<p>Board of Directors</p> <p>Board Activities</p> <p>Approach to S.172(1)</p> <p>Strategy, Purpose, Vision and Values</p> <p>see pages 60-69</p>
Division of responsibilities	<p>This year we have updated our division of responsibilities to reflect the changes in our Board.</p> <p>We have set out a clear division of responsibilities between the Chairman and the Chief Executive Officer. We have also addressed the responsibilities of our Non-Executive Vice Chairman and our Senior Independent Director.</p>	<p>Governance Framework</p> <p>see pages 70-71</p>
Composition, succession and evaluation	<p>Our Board Consists of an Independent Non-Executive Chairman, 3 Executive Directors and 5 other independent Non-Executive Directors and 2 Non-Executive Directors.</p> <p>Succession planning is reviewed periodically by the Nomination Committee.</p> <p>The evaluation of the Board and Committee's performance is overseen by our Chairman.</p>	<p>Nomination Committee Report/ Chairman's Statement</p> <p>see pages 6-7 and 72-77</p>
Audit, risk and internal control	<p>The Audit Committee review the effectiveness of our risk management and internal controls system and the need for an internal audit function annually.</p>	<p>Audit Committee Report</p> <p>see pages 78-81</p> <p>Going Concern basis</p> <p>see page 31</p> <p>Viability Statement</p> <p>see page 31</p> <p>Assessment of the principal risks facing the Group</p> <p>see pages 26-31</p> <p>Annual review of systems of risk management and internal control</p> <p>see pages 24-31</p> <p>Fair, balanced and understandable</p> <p>see page 79</p>
Remuneration	<p>This year we reviewed our remuneration policies to ensure they align with the Group's strategy.</p> <p>The Remuneration Committee consulted with the Company's top 15 shareholders and developed the new Remuneration Policy for 2020.</p>	<p>Remuneration Committee Report</p> <p>see pages 82-115</p>

The right skills and experience to deliver our strategy

Lennart Sten
Independent
Non-Executive
Chairman

Appointment as a Director:
1 August 2014

Nationality:
Swedish

Tenure: 5 years 4 months

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

Qualifications: Degree in Law, Stockholm University

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

Anna Seeley
Non-Executive
Director and
Deputy Chairman

Appointment as a Director:
11 May 2015

Nationality:
Swedish

Tenure: 4 years 7 months

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

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

Experience: 20+ years of property industry and business experience

Fredrik Widlund
Chief Executive
Officer

Appointment as a Director:
3 November 2014

Nationality:
Swedish

Tenure: 5 years 1 month

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

Qualifications: Degree in Business Administration, Stockholm University

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

Andrew Kirkman
Chief Financial
Officer

Appointment as a Director:
1 July 2019

Nationality:
British

Tenure: 6 months

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

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

Experience: Extensive plc, property, finance and operational experience

Sten Mortstedt
Executive
Director

Appointment as a Director:
14 March 1994

Nationality:
Swedish

Tenure: 25 years 9 months

Former roles: Executive Chairman (to March 2016)

Qualifications: Entrepreneur

Experience: Founded CLS in 1987; listing on London Stock Exchange main market, 1994. MD, Citadelle AB (listed on Stockholm Stock Exchange, 1981). Banker, Svenska Handelsbanken, Stockholm. Chairman of the investment vehicle for the Sten and Karin Mortstedt Family and Charity Trust

Elizabeth Edwards
Non-Executive
Director

Appointment as a Director:
13 May 2014

Nationality:
British

Tenure: 5 years 7 months

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

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

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

Malcolm Cooper Senior Independent Director	Appointment as a Director: 22 May 2007	Nationality: British	Christopher Jarvis Non-Executive Director	Appointment as a Director: 25 November 2008	Nationality: British
	Tenure: 12 years 7 months			Tenure: 11 years 1 month	
	Former roles: Project Director then Group Tax and Treasury Director, National Grid plc. Director, Corporate Finance, Lattice Group plc. Financial roles with BG Group plc. Arthur Andersen Consulting			Former roles: Owner, Jarvis & Partners real estate consultancy. Partner, HRO Group. MD, Richard Ellis Germany	
	Qualifications: Degree in Pure Mathematics, Warwick University. Fellow, Chartered Institute of Certified Accountants. Fellow, Association of Corporate Treasurers			Qualifications: Chartered Surveyor. Masters in Land Economy, Cambridge University	
	Experience: Corporate finance, accounting and tax with global corporates. Independent NED and Audit Committee Chair, Morgan Sindall plc. SID, MORHomes plc. Member of Audit Committee of Local Pensions Partnership Ltd			Experience: Advising on all property-related matters, from debt financing to asset acquisitions, primarily in the German market	

Denise Jagger Non-Executive Director	Appointment as a Director: 1 August 2019	Nationality: British	Bengt Mortstedt Non-Executive Director	Appointment as a Director: 7 March 2017	Nationality: Swedish
	Tenure: 5 months			Tenure: 2 years 9 months	
	Former roles: Solicitor, Slaughter and May, Director Asda Stores, Company Secretary and General Counsel Asda Group plc/Asda Wal Mart, Partner Eversheds Sutherland LLP			Former roles: Director, CLS Holdings plc (1992–2010). Former Junior District Court Judge in Sweden	
	Qualifications: Law degree, Warwick University, Certificate in EU Studies Université de Nice, Hon Doctorate of Law, Leeds Beckett University			Qualifications: Degree in Law, Stockholm University	
	Experience: Legal advisory (corporate finance, M&A, regulatory, compliance and governance). Retail and property sector specialism. Independent NED and SID Bellway plc; NED and Remuneration and Nominations Committee Chair, Pool Reinsurance; Chair and Pro Chancellor University of York; Chair St Giles Trust			Experience: European property market and Group business. Developed and runs hotels in St Vincent & Grenadines, West Indies	

Bill Holland Non-Executive Director	Appointment as a Director: 20 November 2019	Nationality: British
	Tenure: 2 months	
	Former roles: Senior Partner, KPMG real estate audit practice	
	Qualifications: Fellow, Institute of Chartered Accountants. Degree in Economics	
	Experience: Real estate, finance and audit experience. Non-Executive Director, Urban&Civic plc and Ground Rents Income Fund plc. Governor, Winchester College.	

Attendance Table

	Board attendance	Audit Committee attendance	Remuneration Committee attendance	Nomination Committee attendance
Lennart Sten	5/5	x	5/5	3/3
Anna Seeley	5/5	x	x	3/3
Fredrik Widlund	5/5	x	x	x
Andrew Kirkman ¹	3/3	x	x	x
Sten Mortstedt	5/5	x	x	1/3
Elizabeth Edwards	5/5	3/3	x	3/3
Malcolm Cooper	5/5	3/3	5/5	x
Christopher Jarvis	5/5	3/3	5/5	x
Denise Jagger ²	3/3	2/2	1/1	x
Bengt Mortstedt	5/5	x	x	x
Henry Klotz ³	3/3	x	x	x
John Whiteley ⁴	2/2	x	x	x
Bill Holland ⁵	–	–	–	–

1. Appointed 01.07.2019

2. Appointed on 01.08.2019

3. Retired on 14.08.2019

4. Retired on 30.06.2019

5. Appointed on 20.11.2019

The Board met five times during the year.

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

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

The Board recognises the importance of seeing first hand the challenges and opportunities faced by its teams across the portfolio. The day prior to its meetings in May and August, the Board went on a portfolio tour in Lyon, France and London, UK respectively.

During these tours, the Board were able to meet and speak to our customers and employees to understand their views on our product and our working environment.

This feedback provided invaluable insight which the Board were able to consider when discussing strategic and cultural matters affecting the Group. The feedback from our customers and employees on the Board's visibility were very positive.

In addition to their discussions at Board meetings, directors undertake additional activities and professional development as summarised on page 75.

Board meeting activity breakdown

May

Key agenda items

- Report from the Nomination Committee
- Portfolio acquisitions and disposal proposals
- Meeting of the Non-Executive Directors

Presentations

- Lyon property tour and tenant engagement
- Presentation from the Head of France

March

Approvals

- Approval of the 2018 Annual Report and Accounts and associated responsibility statements
- Approval of the going concern and viability statements
- Approval of Full Year Dividend

Key agenda items

- Report from Audit Committee on the 2018 Audit, principal risks and uncertainties and internal controls
- Report from Remuneration Committee on the KPI review and targets for 2019

Presentations

- UK valuation presentation from Cushman & Wakefield

Portfolio visit in Lyon

The Board took part in a property tour of the Group's key properties in Lyon.

During the tour the Board were able to see first hand the challenges and opportunities faced by the team in Lyon and gain an understanding of the local property market.

The Board were also able to meet with local tenants and interact with members of our French team.

Portfolio visit in London

The Board took part in a property tour of some of the Group's key properties in the London portfolio.

The tour was focussed around properties that had been recently refurbished in order to highlight our sustainability initiatives.

The Board also visited local sub-markets where our in-house teams highlighted the potential for growth.

October

Approvals

- Updated Group Strategy and Forecast document
- Vision and Values Project

Key agenda items

- Report on geopolitical and macro-economic conditions
- Financing Strategy Review
- Sustainability Strategy

Presentations

- CEO presentation on updated growth strategy and key targets

August

Approvals

- Approval of the Half-Yearly Financial Report
- Interim dividend recommendation
- Approval of the going concern statement

Key agenda items

- Reports from the Audit, Remuneration and Nomination Committees
- Report from the Workforce Advisory Panel
- Half-Yearly Financial Report
- IT Strategy update

Presentations

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

November

Approvals

- Approval of the 2020 Budgets and Forecasts
- Review of Internal Controls and Risk Management

Key agenda items

- Reports from Audit, Remuneration and Nomination Committees
- 2020 Budget and 2021–2023 Forecasts
- Board Evaluation Report
- Principal Business Risks Review & Internal Controls and Risk Management
- Independence review of Mr Cooper and Mr Jarvis
- Meeting of the Non-Executive Directors to review performance of the Chairman

Board leadership and Company purpose

Understanding the views of stakeholders

Our approach to Section 172 (1)

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

During the year, the Board received guidance from the Company Secretary on the new regulatory requirements and how the Group would ensure its governance processes would enable better visibility over the impact their decisions have on key stakeholder groups.

Whilst the Board had always had regard to its responsibilities under section 172, to support the recording and reporting of our obligations we changed the way in which Board papers were written so that they included a specific section detailing the impact the decision they were being asked to make would affect key stakeholders. In some circumstances it has led to decisions being amended to reduce the impact on certain stakeholder groups.

Meeting tenants and employees (including those below senior management level) through our property tours, together with individual meetings with members of staff

and external advisors on specific topics provides an excellent platform to understand the views of our key stakeholder groups.

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

Our key stakeholders are set out on pages 22 to 23 and illustrate how the Group has engaged and consulted with them. This approach is reflected in the Board's decision making process and examples of key decisions are set out below.

Employees

Workforce Advisory Panel

The Board considered how to implement the changes to the UK Corporate Governance Code in relation to workforce engagement. The Board discussed the importance of our employees as one of our key stakeholders and how it could best gather and present their views in a way that encapsulated our values surrounding collaborative and openness.

It concluded that the Workforce Advisory Panel be established, chaired by Elizabeth Edwards, and it held its first meeting on 6 September 2019.

The Board agreed that to ascertain a wide range of views, the Panel should consist of 8 employees from the UK, France, Germany and Luxembourg. Employees were asked to volunteer and as there were so many volunteers, each panel member was selected following an interview process with the Panel's Chair. Membership will be refreshed periodically.

Outcomes

The discussions from the Panel, which are fed back to the Board, resulted in the decision to increase operational headcount to ensure we continued to meet the needs of tenants as the portfolio grows.

Going forward, the Panel will meet once every quarter, and the Board will be updated on the discussions at the following Board meeting to ensure the voice of our workforce is present in the Boardroom.

Tenants

Tenant Surveys

The Board wanted to understand the views of tenants better in order to improve the service and product that we provide.

Tenant surveys were implemented across the Group which highlighted areas for improvement.

The Board received and discussed the results of the tenant survey during the year.

Outcomes

The survey resulted in a reallocation of the overall capital expenditure to ensure each property within the portfolio met the needs of tenants and how improvements could benefit the wider community.

Key – Section 172 criteria

the likely consequences of any decision in the long term

the interests of the Company's employees

the need to foster the Company's business relationships with suppliers, customers and others

the need to act fairly between members of the company

the impact of the Company's operations on the community and the environment

the desirability of the Company maintaining a reputation for high standards of business conduct

Long-term strategy**Disposal of the UK regional portfolio**

As part of its annual strategic review, the Board discussed the refocusing of the geographical locations of its UK property investments.

It considered that the Group's expertise was focussed in and around London and the South East. 19 properties were identified as having less active asset management potential in the long term. The Board considered that whilst the average net initial yield of the identified properties was above the portfolio average, the long-term outlook in these locations was less favourable.

Outcomes

It was concluded that the 19 properties should be sold and the capital recycled into properties in London and the South East. This would underpin the long term success of the portfolio. A sale was completed on 30 December 2019. Further details can be found on pages 18-19.

Investors**Capital Allocation****Dividend**

The Board recognises meeting shareholder dividend expectations is a key factor in investors supporting our growth strategy.

The Group's progressive dividend policy supports the long-term strategic plan, while meeting our obligations to reinvest and grow the portfolio to ensure we realise our vision to be a leading office space specialist and a supportive, progressive and sustainably focused commercial landlord.

Outcomes

The Board decided to recommend our final dividend to shareholders at the AGM. Further details on capital allocation and dividend policy can be found on page 7.

Disposal of Catena Shares

The Board considered the feedback from shareholders to focus on its core business.

As part of its annual strategic review, the Board discussed the sale of non-core property investments.

Outcomes

It was concluded to sell CLS' entire holding in Catena and reinvest the proceeds to support the creation of long-term value in line with our strategy of direct investments in commercial property.

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

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

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

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

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

The Group issues its annual financial report to each of its shareholders. In accordance with the UK company disclosure regulations the Group does not distribute its half-yearly financial report to shareholders but makes it available on its website. Copies are available on request.

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

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

Proxy voting

The proxy forms for the Annual General Meeting which was held in 2019 included a "vote withheld" box.

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

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

Key Shareholder Events

March

36

Institutional investor meetings

Analyst presentation

UK Investor Day

April

7

Institutional investor meetings

Annual General Meeting

Capital Markets Day

August

22

Institutional investor meetings

Analyst presentation

September

18

Institutional investor meetings

Board leadership and Company purpose

Purpose, values and culture

Defining purpose

The Board is clear that the Group's purpose goes beyond just profit, ensuring it has a long-term sustainable vision.

This year we considered how best to articulate our purpose, vision and values such that it encapsulated the views of all employees and key stakeholders in a way that was engaging and ownable.

Defining our purpose, vision and values

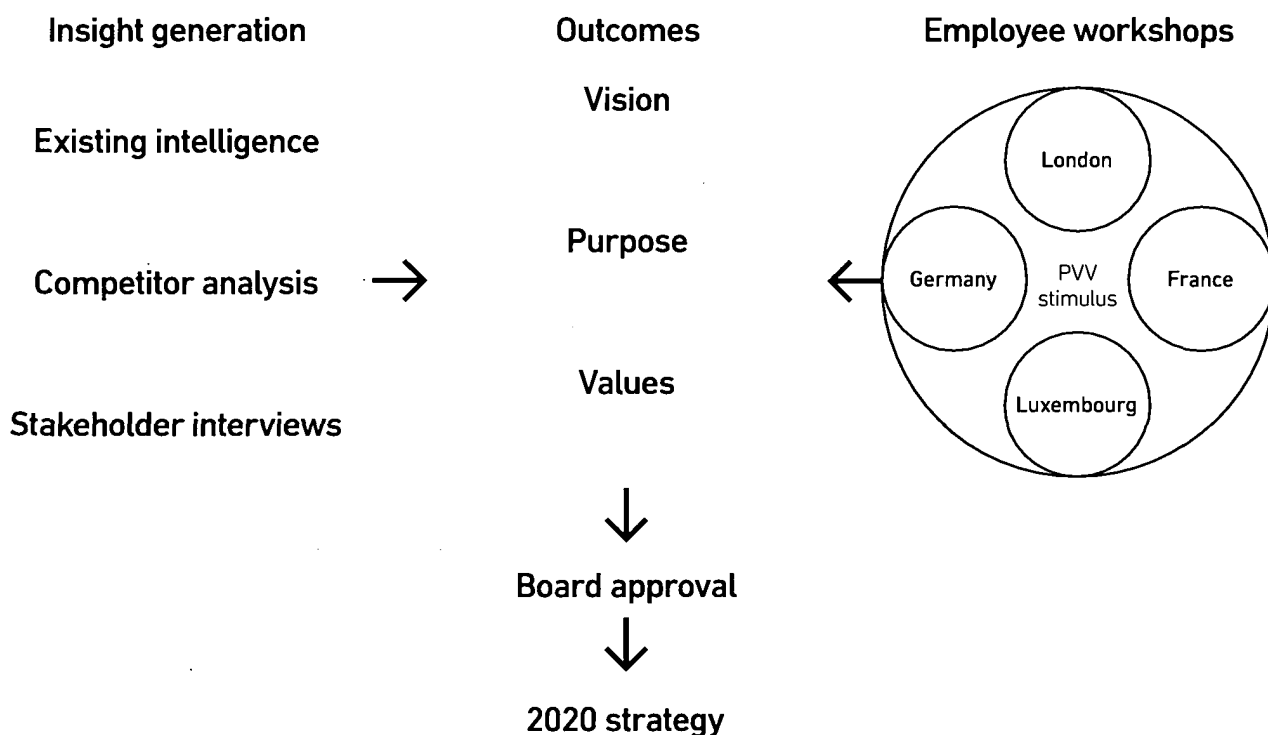
CLS has a unique culture, developed over many years ever since Sten Mortstedt founded the Company over 30 years ago. This culture has been the cornerstone of our success.

Given the growth of the Group in recent years, and with many new employees, the Board decided that we should codify our purpose, vision and values in order to ensure we maintain and develop the key factors that resulted in our success.

In 2019, we undertook a project to define our purpose, vision and values with the help of our entire workforce, as well as key external stakeholders.

During the process we spoke to over 20 key stakeholders to identify external views and invited all employees to workshops to debate and synthesise their opinions on our values and what we stand for.

This was then debated and presented to all employees, following which a final document was provided to the Board with 4 key values, a clear vision and purpose that they endorsed wholeheartedly.



A communications strategy to imbed the Purpose, Vision and Values within the workforce has been established. This focuses on internal and external communications together with employee engagement initiatives.

How our vision, purpose and values link to our strategy

Our vision

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

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

Our purpose

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

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

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

Our Values

Our tenants, our focus.

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

Agility unlocks opportunity.

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

Openness creates closeness.

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

Collaboration gets the job done.

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

Maintaining a healthy culture

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

Ensuring the right culture

CLS' culture and the role of the Board

We engage with our employees where appropriate to ensure the voice of the workforce is prominent in our decision-making process; in 2019, we established the Workforce Advisory Panel.

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

In order to understand how the culture of the Group evolves, feedback mechanisms have traditionally been through informal groups or workshops.

In its discussions this year, and in light of the new UK Corporate Governance Code, we have formalised our procedures to ensure we receive direct feedback via our Workforce Advisory Panel.

We have also undertaken a wider project on our Purpose, Vision and Values, with the workforce, which has helped the Board to ensure it has the right framework that underpins the culture of the organisation. Further details can be found on pages 67 and 68.

How the Board monitors culture

KPIs

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

We will undertake an employee engagement survey during 2020.

see page 20-21

Strategy

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

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

see pages 14-19

Risk management

Our approach to risk governance can be found on page 25 This allows us to be methodical in our approach but agile enough to take advantages of opportunities as they arise. This reflects our four key values that form part of our overall approach to the product and service that we provide our tenants.

see pages 24-25

Remuneration

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

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

see page 50

Stakeholder engagement

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

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

see pages 64-65

Ethics, whistleblowing, fraud and anti-bribery

We have an open, close culture, where everyone is encouraged to speak up.

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

see page 50

Our measures

Tenant surveys undertaken in all countries, employee engagement surveys to seek the views of the workforce, employee turnover statistics reported to the Board, and training and development policies to assist in upskilling our employees.

see pages 54-55

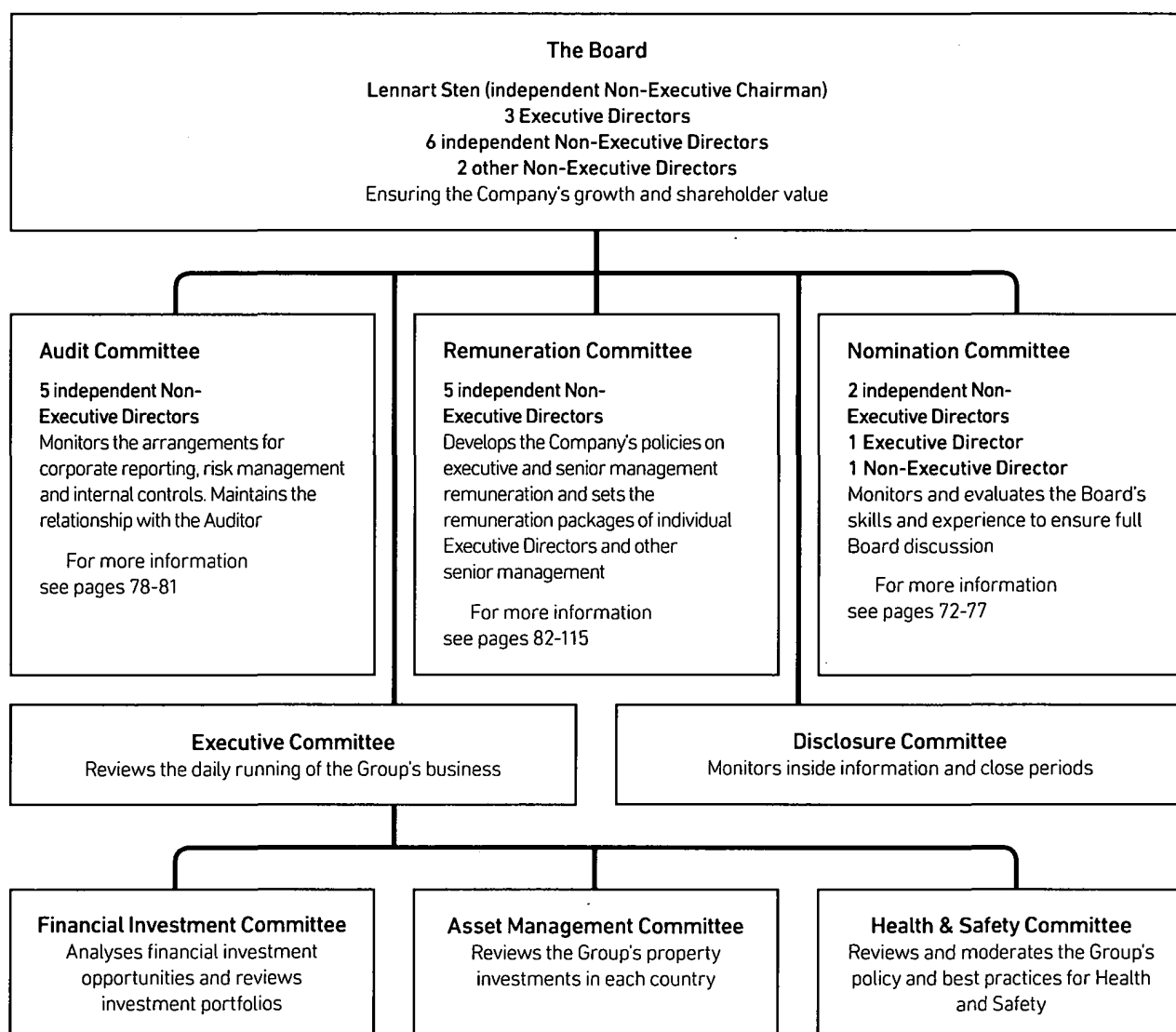
The Board's role

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

Board and Committee structure

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

Board and committee structure



Chair leadership and effectiveness

The Group's first independent Non-Executive Chairman, Lennart Sten, was appointed on 15 August 2019 when Henry Klotz, who was previously Executive Chairman, retired.

Lennart leads the Board in promoting a culture of openness and debate to ensure the Board operates effectively. Lennart and the Board lead by example and the culture

of openness and collaboration resonates through the Group, which was evident in the project undertaken during the year on Purpose, Vision and Values.

Roles and responsibilities of the Directors
The Board's composition and responsibilities are set out in a formal schedule of matters specifically reserved to it for decisions. Matters reserved for Board decisions include

identifying strategic long-term objectives, approving the annual Group budget, and approving substantial property transactions and investment decisions over £5 million.

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

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

1. Determined by the Board to be independent in accordance with Code Provision 10.

Division of responsibilities

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

Conflicts of interest

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

Non-executive directors

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

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

As highlighted by this year's Board evaluation, the Board was satisfied with the experience, expertise and performance of each Board member; they continue to add significant value to the operation of the Company through their combined knowledge and experience,

and exercise objectivity in decision-making and proper control of the Company's business.

Independence

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

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

The Company was therefore not compliant with Provision 11. However, the Board considers that having a mix of Non-Executive Directors, excluding the Chairman, who are either "independent" as defined by the Code, or have an in-depth knowledge of the Company, provides better oversight and governance than having predominantly independent non-executive directors.

Of the independent Non-Executive directors, Mr Cooper and Mr Jarvis have served on the Board for more than nine years. In light of Provision 10 the Board undertook a rigorous review as to whether it considered them to remain independent. The discussion focused on Mr Cooper's current non-executive directorships, one of which as Chairman of the Audit Committee of a FTSE small-cap company, and Mr Jarvis's full time role with Jarvis and Partners, together with the amount

of time dedicated to their roles as non-executive directors and their contributions to the Board in discussions generally.

The Board was satisfied that they maintained the necessary levels of independence in addition to the Code's independence criteria and they continued to remain independent.

External directorships

Current external directorships for all directors can be found on pages 60-61. All additional directorships must be approved by the Chairman, taking into account potential conflicts of interest and time commitment. It is our policy that full time executive directors should not take on more than one non-executive directorship in a FTSE company or other significant appointment.

Information, support and development

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

Directors can obtain independent professional advice at the Company's expense and access to the advice and support of the company secretary on all governance matters,

A schedule of appropriate training and development courses, seminars and briefings is circulated to Board members at each meeting, which they are encouraged to attend. To further their development and knowledge we organise for directors to meet key employees and undertake site visits.

Driving performance through culture

Dear Shareholder,

On behalf of the Nomination Committee, I am pleased to present my report as Chairman of the Committee for the year ended 31 December 2019. This report is intended to provide an insight into the work of the Committee during the year.

Role of the Committee

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

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

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

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

Main activities during the year
During 2019, the main activities have been:

- the appointment of a new Chief Financial Officer;
- a review of Board composition and structure concluding in the appointment of a new independent Non-Executive Chairman;
- the appointment of two new independent Non-Executive Directors; and
- reviews of the Diversity and Inclusion Policy as well as succession planning including the pipeline of internal talent.



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

Anna Seeley
Chairman, Nomination Committee

Membership and attendance

The Committee met three times during 2019 and held frequent discussions outside of formal meetings. Other than becoming Chairman during the year, the Committee's composition remains unchanged and comprises one executive director and three non-executive directors, two of whom are independent. The composition of the Committee is not compliant with Provision 17 but the Board considers that because the Group has a Controlling Shareholder its composition reflects the need for independent oversight whilst recognising the shareholder base.

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

Committee members' attendance during the year ended 31 December 2019

Lennart Sten	3/3
Anna Seeley	3/3
Sten Mortstedt	1/3
Elizabeth Edwards	3/3

Induction and ongoing development

It is important for all the directors, both executive and non-executive, when joining the Company that they are provided with and given an insight into the Company's operations, culture and values.

The induction program has been set-up to involve a full overview of the Company and how it operates. The process starts with individual meetings with the non-executive Chairman, Chief Executive Officer and the Chief Financial Officer.

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

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

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

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

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

Appointments to the Board

As recommended by the UK Corporate Governance Code, the Committee leads the process for Board appointments and makes its recommendations to the Board for final approval.

During 2019 the Committee has made four recommendations to the Board all of which were approved. These recommendations were for the appointment of a new independent Non-Executive Chairman, a new Chief Financial Officer following the retirement of John Whiteley and the appointment of two new independent Non-Executive Directors.

Malcolm Copper will step down as Chairman of the Audit Committee and Member of the Remuneration Committee on 5 March 2020 and will not stand for re-election at the 2020 AGM. From 6 March 2020, Bill Holland

Focus for the year ahead

- Annual review of our succession plans and talent pipeline
- Monitoring of new Director inductions
- Undertake External Board Evaluation process
- Develop and implement a broader Diversity and Inclusion Policy

becomes our new Audit Committee Chairman. I would like to thank Malcolm for his valued contribution to the Group.

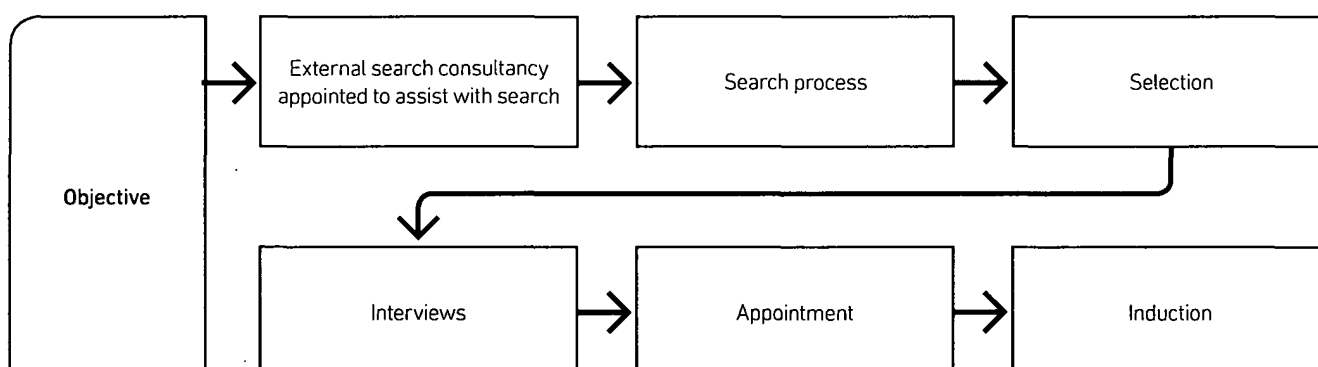
In light of his specific knowledge and experience of the German market, Chris Jarvis will remain on the Board but will step down as member of the Audit Committee on 5 March 2020 and will hand over the Chairmanship of the Remuneration Committee to Denise Jagger following the conclusion of AGM at which a new Remuneration Policy will be put to shareholders.

We note the votes against the re-election of Chris Jarvis, which exceeded the 20% threshold and, as required, we lodged a response which can be found on the Investment Association's Register. In light of shareholder feedback, from this financial year he will no longer be considered by the Board to be independent.

Anna Seeley

Chairman, Nomination Committee

Search and recruitment process for Andrew Kirkman, Denise Jagger and Bill Holland



Composition, succession and evaluation

Nomination Committee Report continued

Induction in action:

Andrew Kirkman and Denise Jagger

Andrew Kirkman Chief Financial Officer

I joined in July 2019 and received a tailored induction programme that had been put together by our Chief Executive Officer and Company Secretary.

My induction included meetings with the Chairman, Chief Executive Officer and other members of the Board, including the Chairman of the Audit Committee. This gave me an opportunity to understand fully the Group's strategy and how we are prioritising our resources to meet our annual targets.

To appreciate fully the workings of the business I have also had one-to-one meetings with other heads of functions and countries including visiting properties in each of our three countries with our asset management teams.

Over time, the programme included meetings with our key advisers, which gave me understanding of how we are perceived in the market.

Denise Jagger Non-Executive Director

I joined in August 2019 and received a tailored induction programme that had been put together by our Chairman and Company Secretary.

As part of my induction, I have had meetings with the Chairman, Deputy Chairman and other Committee Chairs, CEO and CFO, so as to understand and discuss Board strategy.

I have met with our external auditors and with our external remuneration consultants and internally with heads of function in the UK all of which has provided an insight into our operations and corporate culture.

Upon joining I attended a board site visit in London and separately I undertook a tour of several of our properties in Paris where I met with team members. A similar trip to meet colleagues and visit sites in Germany is planned in the near future. I believe this is important not only to understand some of the challenges and opportunities faced by our teams on the ground, but also to give better visibility and promote the work of the Board within the Group.

Succession planning

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

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

Following the announcement that John Whiteley would retire in 2019, the Committee underwent a process to recruit a new Chief Financial Officer.

Following the appointment of an independent external executive search consultancy, a long list was reviewed by the Chief Executive Officer, which produced a shortlist of candidates for a three stage interview process. The final candidates were interviewed by the Committee, together with the Chief Executive Officer and Andrew Kirkman was recommended to the Board to be appointed as Chief Financial Officer.

Board composition and skills

This year the Committee focused on Board composition, its balance of skills and experience.

First, we discussed and agreed with the Board to move to a more conventional FTSE structure, and, in August, we appointed Lennart as our new independent Non-Executive Chairman. Second, following feedback from shareholders on the tenure of two of our directors; Malcolm Cooper and Chris Jarvis, both of whom have served for more than 9 years, the Committee sought to find suitable candidates to replace them.

Independent external executive search consultancies were appointed and, following a thorough interview process, Denise Jagger and Bill Holland were recommended to be appointed as new independent non-executive directors. Their biographies can be found on page 61.

Neither independent external executive search firm had any connection with the company or individual directors.

At the 2020 AGM, Malcolm will not stand for re-election. Malcolm will step down from the Audit Committee and Bill will become its new Chairman. At the same time, Malcolm will also step down as a member of the Remuneration Committee.

Following the conclusion of the AGM, Chris will step down as Chairman of the Remuneration

Committee and be succeeded by Denise. At the same time as Malcolm, Chris will also step down from the Audit Committee. In response to institutional shareholder feedback, the Board will no longer consider Chris to be independent.

At the year end, the Board consisted of 3 Executive Directors, 6 independent Non-Executive Directors and 2 non-independent Non-Executive Directors. From the conclusion of the 2020 AGM, there will be 4 independent Non-Executive Directors and 3 non-independent Non-Executive Directors.

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

Diversity

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

The Nomination Committee continues not to set specific representation targets for women at Board level (currently 27%). However, on recruitment, our policy is that we expect our

search consultants to ensure, where possible, there is a diverse selection of candidates. We consider this to mean more than just gender, but also ethnically diverse candidates; a policy that we encourage throughout the Group when recruiting. To this end, we ask our search firms for all recruitment levels across the Group to aim for a long list of at least 50% women and appropriate diversity representation.

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

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

We believe this will be a gradual process as the workplace evolves and policies, especially in the area of parental leave, are aligned to offer equal benefits.

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



Composition, succession and evaluation

Nomination Committee Report continued

Snapshot of Board skills & diversity

Composition of the Board

Board skills and experience

Skills & Experience

Property – wide ranging experience of the property sector including our European markets

International Markets – experience and in-depth knowledge of dealing in, and the operation of, international markets

Financial Management – substantial background of financial experience from wide ranging industries and markets

Governance – significant listed company governance experience and understanding of investor requirements

Risk Management – in-depth insight and experience of risk management within the property sector

Human Resource – knowledge of HR operations, setting and monitoring culture, and diversity and inclusion

Length of tenure

Gender diversity Board

Gender diversity Executive Committee

Gender diversity Senior Operations Board

Gender diversity Group wide

Average age Group wide

Nationality of all employees

Performance evaluation

The Board undertakes a formal review of its performance and that of its Committees each financial year, and is required to conduct an external evaluation once every three years. In accordance with Provision 21 of the Code, the Board undertook its first externally facilitated board performance evaluation in November 2017 and will undertake its next externally facilitated evaluation in 2020.

The 2019 internal evaluation was based on a questionnaire which addressed the following key areas: strategy, leadership and accountability, effectiveness of the board, board culture, information flows to the board and risk management. Each Committee also undertakes a review of its performance, effectiveness and accountability.

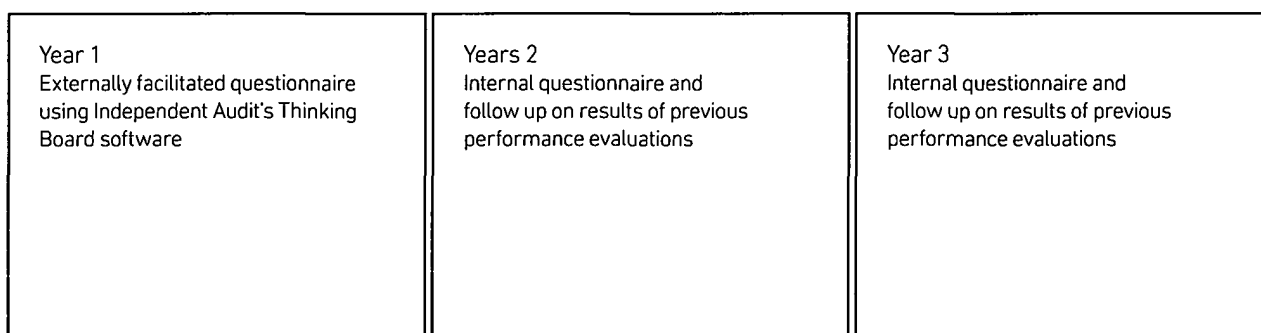
The performance of individual directors is carried out through individual meetings with the Chairman during the year. The findings and outcomes of the evaluation are set out below.

The Board reviewed the 2018 outcomes that it focussed on in 2019. It concluded they had largely been achieved:

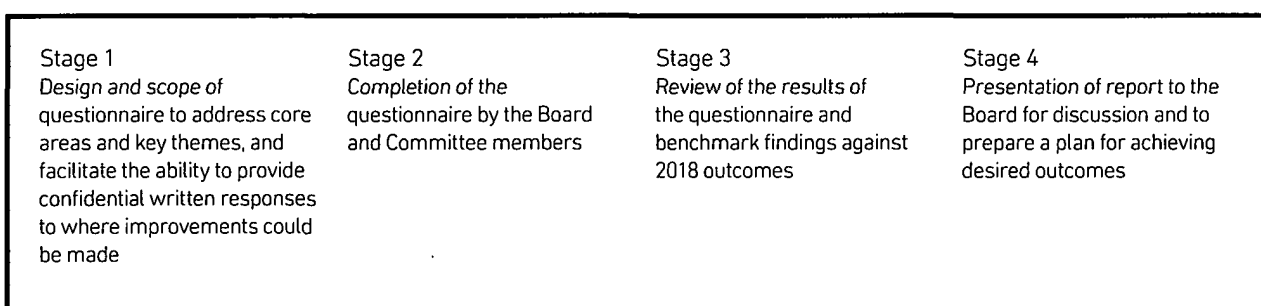
- Reviewed the succession planning process.
- Extended the programme of site visits in order that the Board members spent more time in the business and with key stakeholders. Presentations were arranged to provide more in-depth information on topical issues.

- Increased the time spent on discussing organisational culture and receiving feedback from the workforce through the Workforce Advisory Panel.
- Set aside more time to discuss how best the non-executive directors and executive directors can add value to the business.

Board Committee and Directors' performance evaluation cycle (2019 year 3)



The process was divided into four stages:



Findings
Recognised that significant structural changes have been made to the Board, but that more improvements could be made.
Greater discussion on assessing and discussing cybersecurity and organisational risks.
Further and more regular engagement with employees at senior management level and below.
Further work on how the Board can add value to the organisation.

Outcomes
Continue to formally discuss succession planning, at least once a year. Assist in the induction of new directors.
Continue to provide regular updates around cybersecurity and organisational risks.
Continue to develop relationship with employees, including those below senior management level.
Increase interaction between Board members, especially between Committees, and between the Committees and the Board.

Ensuring integrity, oversight and risk management

Focus for the year ahead

- Successful handover to Bill Holland as the new Chair of the Audit Committee
- Ensure valuations and assumptions surrounding the valuations are appropriate at the full and half year
- Monitor principal and emerging risks to ensure they remain appropriate
- Review and monitor internal controls and receive regular updates on internal controls testing
- Maintain the relationship with the Auditor with a focus on the key issues outlined in each audit report during the year
- Monitor the impact of changes to accounting and governance laws and regulations.

Dear Shareholder,

On behalf of the Audit Committee, I am pleased to present what will be my last report as Chairman of the Committee for the year ended 31 December 2019. This report is intended to provide an insight into the work of the Committee during the year. I would like to thank my fellow Board and Committee members for their support during my tenure as Chairman of the Committee.

The role of the Committee

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

Membership and attendance

During the year we have welcomed two new Committee members, Denise Jagger and Bill Holland, both of whom are independent Non-Executive Directors. When I step down from the Committee on 5 March 2020, Bill will take over as Chairman of the Committee.

At the same time, Chris Jarvis will also step down as a member of the Committee.

Bill's experience, which can be found on page 61, means he has recent and relevant financial experience. All committee members have significant experience of the real estate sector.

The Committee met three times during 2019.

Committee members' attendance during the year ended 31 December 2019

Malcolm Cooper	3/3
Elizabeth Edwards	3/3
Bill Holland	N/A
Denise Jagger	2/2
Christopher Jarvis	3/3

Audit, risk and internal control

The Audit Committee

Main activities during the year

Principal responsibilities of the Committee

Areas of Responsibility	Key areas discussed and reviewed by the Committee during the year in discharging its responsibilities
Monitoring the integrity of the financial statements and any formal announcements relating to financial performance, and reviewing significant financial reporting judgements contained in them	At our meetings in March and August we reviewed the full-year and half-year results. This was in conjunction with the presentation of supporting external audit reports from Deloitte, our External Auditor, on those financial statements. Our discussions focussed on the significant financial judgements which are explained in the next table. In November we supported the Board in its review of the Trading Update to ensure it was a reflective of the Group's financial performance during the period.
Providing advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable , and providing the information necessary for shareholders to assess CLS' position and performance, business model and strategy	We reviewed the annual report and accounts at our Committee meeting in March and reported our conclusions to the Board that they contained sufficient information for shareholders to assess the Group's performance and strategic operations. Additionally, having considered how the report was formulated, reviewed internally and by the external auditor, we considered that the annual report and accounts meets the criteria set out in Provision 25 of the Code and recommended them to the Board. The Board's statement is set out on page 119.
Reviewing our internal financial controls and internal control and risk management systems	The Committee assists the Board in undertaking a robust assessment of the Group's emerging and principal risks. It receives reports at its meetings which identify movements in principal risks, which it then reviews and reports to the Board on its findings, for wider discussion and approval. The way in which the Group's principal and emerging risks are identified and addressed are set out on pages 24 to 31. During the year, in addition to the established framework for internal controls and risk management systems, the Committee received and discussed reports from management on the programme of internal controls testing, which incorporated both financial and non-financial controls covering areas such as authorisation processes, payroll and covenant reporting. No deficiencies were found, and we remain of the view that these controls are sufficiently robust to minimise risk to the organisation, which we reported to the Board. The testing also highlighted ways in which we could streamline our processes to avoid duplication but maintain a robust process. A programme for reviewing processes and controls for 2020 was received at our meeting in February 2020.
Monitoring and reviewing annually whether there is a need for an internal audit function and making a recommendation to the board	In light of the size and complexity of the organisation, and the regular updates the Committee receives on internal controls testing, the Committee is confident that there remains no requirement for an Internal Audit function. This view was supported by the external auditor. How assurance on internal auditing is achieved is set out on page 81.
<i>Conducting the tender process and making recommendations to the board, about the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor</i>	Deloitte have been the Group's external auditors since 2007. The lead audit partner responsible for the external audit rotates every 5 years. The last time the external audit was tendered was in 2016, at which point Deloitte had served 10 years as the external auditor. Following the tender process, Deloitte was appointed and can serve for a further 10 years, however, the Committee undertook to review whether to undertake another audit tender after 5 years, being 2021. The Committee recommended the reappointment, remuneration and terms of engagement of the external auditor to the Board, which was approved.
Reviewing and monitoring the external auditor's independence and objectivity	The Committee receives a report twice yearly from the external auditor on their continued independence. Following consideration, the Committee believe Deloitte remains independent and objective in its external audit of the Group.

Audit, risk and internal control

The Audit Committee continued

Areas of Responsibility	Key areas discussed and reviewed by the Committee during the year in discharging its responsibilities
Reviewing the effectiveness of the external audit process , taking into consideration relevant UK professional and regulatory requirements	<p>We reviewed the external audit strategy and findings from the review of the half yearly financial report and from the audit of the annual report and accounts. We found them to be comprehensive and sufficiently detailed and focussed.</p> <p>We also met with the auditor prior to the Board's final approval of those financial statements in order to receive reports on the external audit process. The Committee is pleased to report that there were no issues of a material nature that needed to be brought to the Board's attention.</p> <p>After the external audit process has taken place the Committee meets with internal stakeholders to review the effectiveness of the external audit process. This is fed back to our external audit partner. We continue to consider that Deloitte provides an effective audit and that key accounting and auditing judgements had been identified in line with regulatory and professional requirements. This allowed us to recommend their reappointment to the Board.</p>
Developing and implementing a policy on the engagement of the external auditor to supply non-audit services , ensuring there is prior approval of non-audit services, considering the impact this may have on independence , taking into account the relevant regulations and ethical guidance in this regard, and reporting to the board on any improvement or action required	<p>The Committee have developed a policy on the supply of non-audit services to safeguard auditor independence and objectivity. The policy reflects the requirements of the FRC's ethical standard. The Committee expects further changes to the FRC's ethical standards which it will address when they are published.</p> <p>During the year non-audit services undertaken by Deloitte amounted to £37,000 (2018: £52,000) and related to the external auditor's work on the Interim Review. The Committee concluded that the external auditor's independence was not impacted.</p> <p>The Committee considers that it has complied with the provision of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.</p>

Financial reporting and significant financial judgements

Significant issues considered by the Committee relating to the Financial Statements	How these issues were addressed by the Committee
Property Valuations	<p>The Committee met with the Group's valuers, Cushman & Wakefield, to which it invited the whole Board. During the meeting we discussed the methodology used for the six monthly valuations of the Group's properties and received in depth reports on the local markets in which the properties were located.</p> <p>Independently, the Auditor also met with the Group's valuers using real estate specialists and provided the Committee with a summary of their review contained within their report at the half-year and year end.</p> <p>The Committee was satisfied with the explanations in relation to the portfolio and its associated key risks, such as specific local market updates, vacancy levels and rental demand, which management was addressing.</p>
Significant Transactions	<p>The Committee also focused on the management's accounting treatment for significant transactions during the year, such as the disposal of the Group's holding in Catena in September 2019 and the completion of the £28.7 million sale of First Camp to a Norwegian campsite operator in March 2019.</p> <p>Key financial judgements that were considered related to the classification of the First Camp investment as a discontinued operation and its remeasurement to fair value less cost to sell which resulted in a loss being recognised. The treatments were discussed with the Auditor and the Committee agreed with the accounting treatment.</p>

Significant issues considered by the Committee relating to the Financial Statements	How these issues were addressed by the Committee
Brexit	The Committee continued to look at the impact of Brexit on the principal risks and uncertainties and provided the full Board with the Committee's views in their wider discussion as set out in the Strategic Review.
Management override of controls	The Committee assessed the framework for financial controls to be regularly reviewed by management and brought to the Committee for review. The Auditor confirmed to the Committee that there were defined lines of reporting and control processes in place within the Group such that the Auditor and Committee were satisfied that the risk was adequately mitigated.
<p>Establishment and review of effectiveness of Internal controls</p> <p>The Board recognises that it is responsible for maintaining and monitoring the Group's system of internal controls and reviewing its effectiveness. In order to do so, it is supported by the work of the Committee.</p> <p>During the year, the Committee undertook a review of the Group's internal control systems, which sets out all control and authorisation parameters and highlighted changes that had happened in between meetings.</p> <p>Following its discussion, the Committee then reported its findings to the Board for further discussion and subsequent approval.</p> <p>Key features of our system of internal control include:</p> <ul style="list-style-type: none"> ■ a comprehensive system of financial reporting and business planning; ■ a defined schedule of matters for decision by the Board, revisited by the Board at least annually; ■ an organisational structure with clearly defined levels of authority and division of responsibilities; ■ formal documentation and approval procedures; ■ the close involvement of the Senior Leadership Team in all aspects of day-to-day operations, including regular meetings with line managers to review all operational aspects of the business and risk management systems; ■ annual Board review of Group strategy including forecasts of the Group's future performance and progress against strategy; and ■ formal sign-off on the Group's Whistleblowing, Securities Dealing and Anti Bribery policies by all employees annually. 	<p>Effectiveness of internal audit</p> <p>In the absence of an internal audit function, the Committee seeks assurance through a programme of internal control testing, overseen by the Group Financial Controller.</p> <p>The 2019 programme of controls testing focussed on the following areas of process:</p> <ul style="list-style-type: none"> ■ Purchase Ledger: Authorisation of purchases; authorisation of payments; and recovery through service charges. ■ Sales Ledger: Recording on tenant database; fullness of sales invoicing; and debt collection. ■ Borrowings: Compliance with covenant reporting and reconciliation of Treasury system to books and records. ■ Payroll: Authorisation of monthly payroll; and payments to tax authorities. <p>The results, which are presented to the Committee with the external auditor present, confirmed no issues had arisen but it had assisted in ensuring the processes were sufficiently robust.</p> <p>Joint venture and associates</p> <p>This Corporate Governance report applies to the Company and its subsidiaries. It does not include associates. The Group has no joint ventures.</p> <p>Going Concern and Viability Statements</p> <p>In accordance with Provisions 30 and 31 of the UK Corporate Governance Code, our going concern and viability statements can be found on page 31.</p> <p>Malcolm Cooper Chairman, Audit Committee</p>

Annual Statement from the Remuneration Committee Chairman

Role of the Remuneration Committee
The Committee's main purpose is to assist the Board in discharging its responsibilities for:

- reviewing the broad policy for the senior management;
- recommending and monitoring the level and structure of remuneration for senior management;
- governing all share schemes; and
- reviewing any major changes in employee compensation and benefit structures throughout the Company or Group.

The Committee's terms of reference are available on our website.

Membership and attendance
The Committee's membership has changed compared to last year with the addition of two independent non-executive directors and now comprises 5 independent non-executive directors.

During 2019, the Committee met 5 times and held a number of informal discussions with the executive directors, the Sten and Karin Mortstedt Family and Charity Trust and institutional shareholders. We believe it is important that the Committee keeps up-to-date during the year to enable timely discussions where business decisions may affect remuneration.

Committee members' attendance during the year ended 31 December 2019

Christopher Jarvis	5/5
Malcolm Cooper	5/5
Bill Holland ¹	N/A
Denise Jagger ²	2/2
Lennart Sten	5/5

1. Appointed to the Board on 20 November 2019
2. Appointed to the Board on 1 August 2019

Dear Shareholder,

As the Chairman of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2019. This will be my last report as Chairman of the Committee as I will be stepping down and handing over the chairmanship to Denise Jagger from the conclusion of the 2020 AGM. I would like to thank my fellow Committee members for their help and support during my time as Chairman of the Committee.

This report sets out the implementation of the Company's current Directors' Remuneration Policy ("Policy") for the year ended December 2019 and the proposed new Policy ("New Policy") which will operate for the three years from 23 April 2020 subject to shareholder approval at the 2020 AGM. We also set out how we intend to implement the New Policy for the financial year ending 31 December 2020.

In this report we set out:

1. The Annual Statement from the Chairman of the Remuneration Committee.
2. The Annual Report on Remuneration which explains how we have paid our Directors under the current Policy this year and how our framework aligns with our wider strategy and corporate governance best practice, as well as how we consider remuneration of the wider workforce in relation to Executive Pay.
3. The proposed New Policy, which we are asking shareholders to approve at the 2020 AGM.

As in previous years, the Annual Report on Remuneration and this Annual Statement are subject to an advisory shareholder vote at the 2020 AGM.

2019 Company performance and remuneration outcomes

As set out in the Chairman's Statement, the Company has performed well during 2019 despite the political and economic uncertainties which have impacted the property investment market.

The Company continued to execute its strategy with the objective to increase earnings, cash flow and dividends for the long term. In 2019, the Group produced solid underlying earnings and valuation gains leading to a growth in NAV.

In 2019, EPRA NAV increased by 6.3% to 329.2 pence per share mainly through revaluation uplifts and EPRA earnings. The Absolute TSR was 47.1% in 2019 with Relative TSR performance at 10th out of 27 constituents in the peer group FTSE 350 Real Estate Super Sector Index.

The key remuneration outcomes resulting from this underlying performance in the year are given below.

Performance assessment of incentives
Under the current Policy, both Element A and Element B of the Performance Incentive Plan (the "PIP") are assessed against the same annual performance conditions and criteria.

As set out in more detail on page 94, and as a result of the strong financial and operational performance in the year, the Committee and Auditors determined that five of the six Key Performance Indicators ('KPIs') consisting of absolute TSR, relative TSR, personal performance, vacancy rate, and total accounting return exceeded the benchmark targets. The administration cost ratio was marginally below target, due in part to higher personnel costs, but above the level at which risk adjustment would operate.

As a result, Elements A and B of the PIP paid out at 87.3% for the CEO and 87.1% for the CFO of the maximum opportunity, noting that 2019 was the 2nd year of Cycle 3 of the PIP Element A award granted in 2018.

It is also noted that the first awards granted in 2017 under Element B of the PIP will vest on 26 April 2020. The number of shares to be vested for the CEO and former CFO are 126,860 and 80,850 shares respectively.

In line with our commitment to link executive remuneration to annual corporate performance and long-term shareholder returns, the strong performance demonstrated in the year resulted in higher pay outcomes in 2019.

Discretion

The PIP was applied without any adjustment or exercise of discretion in respect of 2019 as the awards were deemed by the Remuneration Committee to have been a fair and accurate reflection of business performance and replicate remuneration outcomes throughout the wider employee workforce.

The overall restructuring of responsibilities within the Board of these four positions has led to a reduction in total remuneration for the four positions of Chairman, Deputy Chairman, CEO and Founder compared to 2018. The Remuneration Committee wrote to our 15 largest shareholders representing 86% of the Company's issued share capital on 6 November 2019 to inform them of the changes made to salaries and fees in 2019 which are as follows:

	Salary/Fees (£000)			
	Chair	Deputy Chair	Founder	CEO
2018	£447	£35	£767	£344
2019	£459	£55	£767*	£354
2019 (after changes)	£220	£120	£500	£450
Difference	-£239	+£65	-£267	+£96

* Assuming 2019 remuneration would be similar to 2018

Remuneration

Remuneration Committee Report continued

The changes resulted in an overall reduction in remuneration of £345,000.

Full details of the changes in light of the changing responsibilities, which were communicated to our top 15 shareholders in 2019, is provided on page 83.

New Remuneration Policy

The Company's current Policy was approved by shareholders at the 2017 AGM which included a new Element B to the PIP. The Committee noted feedback from a number of the Company's shareholders since the implementation of Element B of the PIP, which indicated that they did not consider awards based on a prior year's performance to be a long-term incentive arrangement, despite having a three-year vesting period and two-year holding period.

After undertaking a remuneration review, the Committee determined to put forward a new incentive structure which will form the main change of substance from the 2017 Policy; other than changes made to bring the Company's remuneration in to line with the 2018 UK Corporate Governance Code (the "Code") and current best practice.

Key Features of the New Policy

The key features/changes proposed for the New Policy are set out as follows:

■ Element A of the PIP:

- Structurally will continue to operate unchanged. There will be a revision to the performance conditions to simplify the scorecard of measures by removing the personal performance element, administrative cost ratio, and absolute TSR. Therefore, the performance conditions applying will be:

20% on Vacancy rate;

40% on relative Total Shareholder Return; and

40% on Total Accounting Return.

■ **New Long-Term Incentive Plan** introduced to replace Element B of the PIP, which will be a market standard long-term incentive plan. After our shareholder consultation ended, EPRA made changes to the EPRA NAV measurement by splitting it into sub-measurements. After consulting widely within the Company and external advisors as to the appropriate metric, the Committee decided to adopt EPRA Net Replacement Value (EPRA NRV) as the most appropriate and similar performance measure. The LTIP will therefore operate on the following basis:

- Annual grants of share awards which vest over 3 years subject to the following performance conditions:

50% EPRA NRV growth per share; and

50% Total Shareholder Return (Relative).

Both measured relative to the FTSE 350 Real Estate Super Sector constituent companies.

- Any awards which vest will be subject to a further 2 year holding period.
- The maximum opportunity under the LTIP will be increased to 150% of salary for the CEO (maximum under Element B was 100%, previous year's grant level 80% of salary), and to 120% of salary for the CFO (previous year's grant level 65% of salary under Element B). The increase in award level between Element B and the new LTIP reflects:

The unwinding of the discount from a performance on grant award (Element B) to the LTIP. The Committee felt that the discount from an LTIP to a performance on grant award was approximately 1/3rd and therefore when moving from Element B to the new LTIP the maximum award level should therefore be increased from 100% to 150% of salary. The intention is that the economic value of Element B and the LTIP remain the same.

More stringent conditions, recognising shareholder feedback, reflecting market evidence that full payout is very exceptional.

In addition, the Committee was satisfied that the LTIP maximum award level was in line with the FTSE 250 and sector peer companies (albeit the Company's total remuneration remains relatively conservative as illustrated by the chart on page 110).

Both incentive elements will be subject to robust malus and clawback provisions and the Committee will have overriding discretion to adjust formulaic outcomes (both upwards and downwards) if these produce payments which are out of line with the underlying performance of the Company.

■ Shareholding requirement:

- 250% of salary for the CEO (no change) and 200% of salary for the CFO (increased from 150%).

■ Post-employment shareholding requirement introduced:

- The minimum shareholding requirement set out above to be retained for two years post cessation.
- The Company will establish a Trust or nominee accounts to ensure that it can enforce shareholding requirements.

■ Pension

- 10% of salary for the CEO and CFO. This is in line with the maximum Company contribution level available to the majority of employees.
- For new Executive Directors, the pension benefit will be aligned to the staged percentages applicable to the wider UK workforce, currently 5% of salary upon joining, rising to 7.5% of salary after three years and 10% of salary after 5 years.

The New Policy has been designed to support the Company in its next phase of development as it aims to grow the property portfolio significantly over the next five years in order to generate substantial long-term returns to shareholders. In order to support the strategy, the Committee believes that the New Policy should retain, motivate and reward executives to deliver this strategic objective and facilitate the recruitment of key talent. This breaks down into the following:

- In order to ensure the achievement of the Company's key strategic objectives, executives need to be motivated and rewarded for the successful delivery of key annual objectives, hence the retention of Element A.

- Given the state of maturity of the Company following previous periods of instability, the Company is better placed to set longer-term strategic growth targets, and this is reflected in the introduction of the new LTIP.
- The new structure ensures the alignment of the interests of Executive Directors and senior management with shareholders. This is achieved through the majority of incentives earned being in the form of shares, and a significant proportion of which must be held by the Participant for a material period. This is reinforced through a minimum shareholding requirement of 250% of salary for the CEO and 200% for the CFO.
- The new structure ensures the total compensation levels are competitive in the industry in which the Company competes for talent.

Engagement with shareholders

The Committee takes the views of the shareholders seriously and these views were taken into account when shaping the New Policy. The Committee consulted with its 15 largest shareholders, representing 86% of the Company's issued share capital, by way of a letter on 27 November 2019, and the consultation also included the main shareholder representative bodies (IA, ISS, Glass Lewis) on the proposed New Policy. The Committee is grateful for the time that shareholders have taken to consider proposals and provide feedback. At the end of the consultation the majority of shareholders consulted indicated they were supportive of the proposals.

The following table sets out comments received from some shareholders, any corresponding change to the proposed New Policy and the Committee's rationale:

Comments	Response
Why did the Committee increase the maximum award level under the proposed LTIP from Element B?	As stated above it is the Committee's view after taking advice from PwC that the maximum Element B award and maximum LTIP award have the same economic value. The change in maximum is simply the result of reversing the discount applied when moving from an LTIP to a performance on grant model.
Why did the Committee retain Element A rather than move to a more standard bonus plan?	<p>The Committee's rationale for making no change is:</p> <ul style="list-style-type: none"> ■ Element A has operated since 2012 and is a well understood and successful long standing part of the Company's remuneration; ■ Element A allows the smoothing of bonus payments over a number of years which is helpful to ensure motivation and retention of Executives in an inherently cyclical industry – it helps mitigate the "boom" or "bust" remuneration which can otherwise occur; ■ The ability for the Committee to reduce banked payments for a worsening in performance provides all stakeholders with a protection greater than simply malus and clawback.

Remuneration

Remuneration Committee Report continued

Leadership Changes

Departing CFO

Mr John Whiteley, the former Chief Financial Officer, retired on 30 June 2019. The Remuneration Committee reviewed his performance and agreed that pursuant to the rules of the PIP, Mr Whiteley should be treated as a Good Leaver. As a result, and in accordance with the PIP rules and the current Policy, Mr Whiteley received the following elements of remuneration:

PIP Element A

- Financial Year 2018 Deferred Bonus Pool: The Deferred Bonus Pool, based on 40,594 notional shares as at 1 January 2019, was paid in cash based on the 30-day average share price in June, being £2.177, on 1 July 2019.
- Financial Year 2019 Bonus Pool: This has been pro-rated to 50% of the maximum available bonus to reflect the termination date of 30 June 2019. This Bonus Pool will be paid by 31 March 2020, based on the achievement of the 2019 performance targets which was 87.8% of maximum.
- There will be no further payments under Element A.

PIP Element B

- As a Good Leaver there was no forfeiture of any subsisting or accrued awards, nor has there been any early vesting.
- In respect of the 2019 Financial Year, the relevant Award to be made in March 2020 will be pro-rated to 50% of the maximum available award to reflect the termination date of 30 June 2019 and will vest three years later (March 2023). The award will be granted based on the achievement of the 2019 performance targets, which was 87.8% of maximum.
- The vesting periods and holding periods on Element B share awards will continue post the revised termination date.

Incoming CFO

Mr Andrew Kirkman joined as Chief Financial Officer on 1 July 2019. Mr Kirkman's remuneration in respect of 2019 is set out below and is in accordance with the current Policy approved by shareholders. All amounts will be prorated for 2019.

- Annual Salary: £275,000.
- PIP maximum opportunity:
 - Element A: 100% of salary;
 - Element B: 65% of salary.
- Benefits: In line with current Policy.
- Pension: 10% of salary Company contribution, in line with the maximum employee opportunity.

In addition, the Company also made a relocation payment to Mr Kirkman of £60,000, which is subject to a scaled repayment clawback over a three-year period, as well as buy-out awards in respect of incentives foregone at his previous employer. All payments are in accordance with our current Policy. Further details on the payments can be found in on page 92.

Wider Employee Pay

As part of our commitment to fairness across the business, and in line with requirements under the Corporate Governance Code, we have set out in this report information on the pay conditions of the wider workforce and comparisons with Executives, as well as our diversity policies and statistics. We are committed to transparency internally and externally in relation to developments on these important issues and will continue to consider how our disclosures can be enhanced going forward.

Pay structures across the Group

In making decisions on executive pay, the Committee considers wider workforce remuneration and conditions. We recognise the central importance of all our teams in delivering success.

We aim to provide a remuneration package for our employees which is aligned to our values and remuneration principles across the Group. Our remuneration for employees is market competitive and operates the same core structure as for Executive Directors. This includes employee share and variable pay plans, with pension provision for all Directors and employees.

Each year, prior to reviewing the remuneration outcomes, the Committee considers a report covering key information such as base pay levels, pension and share scheme participation.

Employee engagement

We regularly communicate with our employees on a range of issues, including executive pay. In 2019 our Workforce Advisory Panel met for the first time, chaired by Elizabeth Edwards, who was appointed as the Designated NED. Further details on the outcomes of this meeting and how we engaged with employees in the year is set out on page 22. The Committee will continue to use the voice of employees as valuable insight when making wider remuneration decisions.

Diversity and inclusion

The Board recognises the value of the gender pay gap reporting requirements and the opportunity this brings to focus even more on gender diversity. We provide detail on our progress in this area on page 52. The Board and leadership team recognise that inclusion and diversity in all its forms are vital in achieving diversity of thought, experience and skills within the Group. The Board is committed to promoting diversity throughout the business and is continuing to find effective ways of doing this.

Corporate Governance

We have taken the following steps to ensure alignment with the Code as well as prevailing shareholder guidance.

- Review of our New Policy to ensure alignment of our structures with corporate governance best practice and long-term value creation for shareholders
- Reviewed our terms of reference to ensure it has appropriate oversight of the Directors and senior management pay as well as the operation of reward arrangements throughout the organisation.
- Reviewed pension levels for Executive Directors to ensure alignment with the wider workforce.
- Implemented post-employment shareholding requirement such that the minimum shareholding requirement to be retained for two years post cessation, with a robust mechanism in place to enforce this.
- Assess workforce pay policies and practices to ensure they are aligned to our wider culture and remain an effective driver of Group success.

The Committee continues to regularly review and monitor governance developments and market context in order to ensure the appropriateness of the New Policy.

Performance of the Committee

The Remuneration Committee undertakes a review of its performance each year. During 2019 the Committee undertook an internal review of its performance and found that the Committee continued to perform effectively.

Advisers to the Remuneration Committee

To ensure that the Company's remuneration practices are in line with best practice, the Committee has appointed independent external remuneration advisers, PricewaterhouseCoopers LLP ('PwC'). PwC attends meetings of the Committee by invitation.

During the year, the Committee sought advice from PwC in relation to the New Policy, the Performance Incentive Plan and general matters related to remuneration, and from the Company Secretary in relation to peer group remuneration analysis. On occasion, the following persons were invited to parts of Remuneration Committee meetings to respond to questions from the Committee: the CEO and Head of Group HR. Such attendances specifically excluded any matter concerning their own remuneration. The Company Secretary acts as secretary to the Committee.

PwC is one of the founding members of the Remuneration Consultants Group Code of Conduct and adheres to this Code in its dealings with the Committee. The Committee reviews the objectivity and independence of the advice it receives from PwC at a private meeting each year. It is satisfied that PwC is providing independent, robust and professional advice.

The fees for the advice provided by PwC in 2019 were £79,140 (2018: £60,025). The fees were fixed on the basis of agreed projects.

Concluding Remarks

The Remuneration Committee believes that the proposed approach to Executive Director pay aligns with the Company's strategies of growing profitability and delivering appropriate returns in-line with expectations. The Remuneration Committee has structured an approach that is in-line with the market to retain and attract talented individuals and is aligned with shareholders' interests.

We trust that this report will answer any questions you may have in respect of remuneration, and we would be glad to receive your support at the 2020 AGM in respect of the binding vote on the New Policy and the advisory vote on the Annual Report on Remuneration.

Christopher Jarvis

Chairman, Remuneration Committee

Focus for the year ahead

- Successful handover to Denise Jagger as the new Chairman of the Remuneration Committee, following the 2020 AGM
- Subject to approval at the 2020 AGM, embed the New Policy
- Continue to ensure consistency of approach and fair pay conditions across the Group.
- Ensure high quality remuneration advice and information to inform decisions.
- Ensure Company performance is appropriately reflected in any performance-related pay element of remuneration.
- Review the PIP and LTIP KPIs and corresponding targets, on an annual basis.
- Receive updates from Head of HR in relation to developments in employee benefit structures.
- Continue to ensure compliance with the Code.

Remuneration at a glance

Total Executive remuneration

		2019 £'000	2018 £'000
Henry Klotz ¹	Executive Chairman	448	431
Fredrik Widlund	CEO	1,078	1,117
John Whiteley ²	CFO	373	732
Andrew Kirkman ³	CFO	742	–
Sten Mortstedt	Executive Director	500	767

1. Retired during 2019

2. Retired on 30 June 2019

3. Joined July 2019

CEO pay compared to employees

The graph below shows the comparison of the CEO's base salary to the average base salary for employees. To see further comparatives and for more detail see page 99.

CEO pay ratio

New Remuneration Policy at a glance

The Company's New Policy remains to attract, retain and motivate its leaders and to ensure they are focused on delivering business priorities within a framework designed to promote long-term success, aligned with shareholder interests. The diagram below illustrates the balance of pay and time period of each element of the Policy for Executive Directors. Our New Policy can be found on pages 104-115, and its link to our strategy and how it aligns with the provisions of the UK Corporate Governance Code on pages 90-91.

	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed Pay	Salary, Pension and Benefits.				
PIP	50% of PIP Account.	Deferral of remaining Account balance into notional shares which pay out over remainder of 4-year cycle.			
		New PIP cycle granted in year 4.			
LTIP	3-year performance period.			2-year post-vesting holding period.	

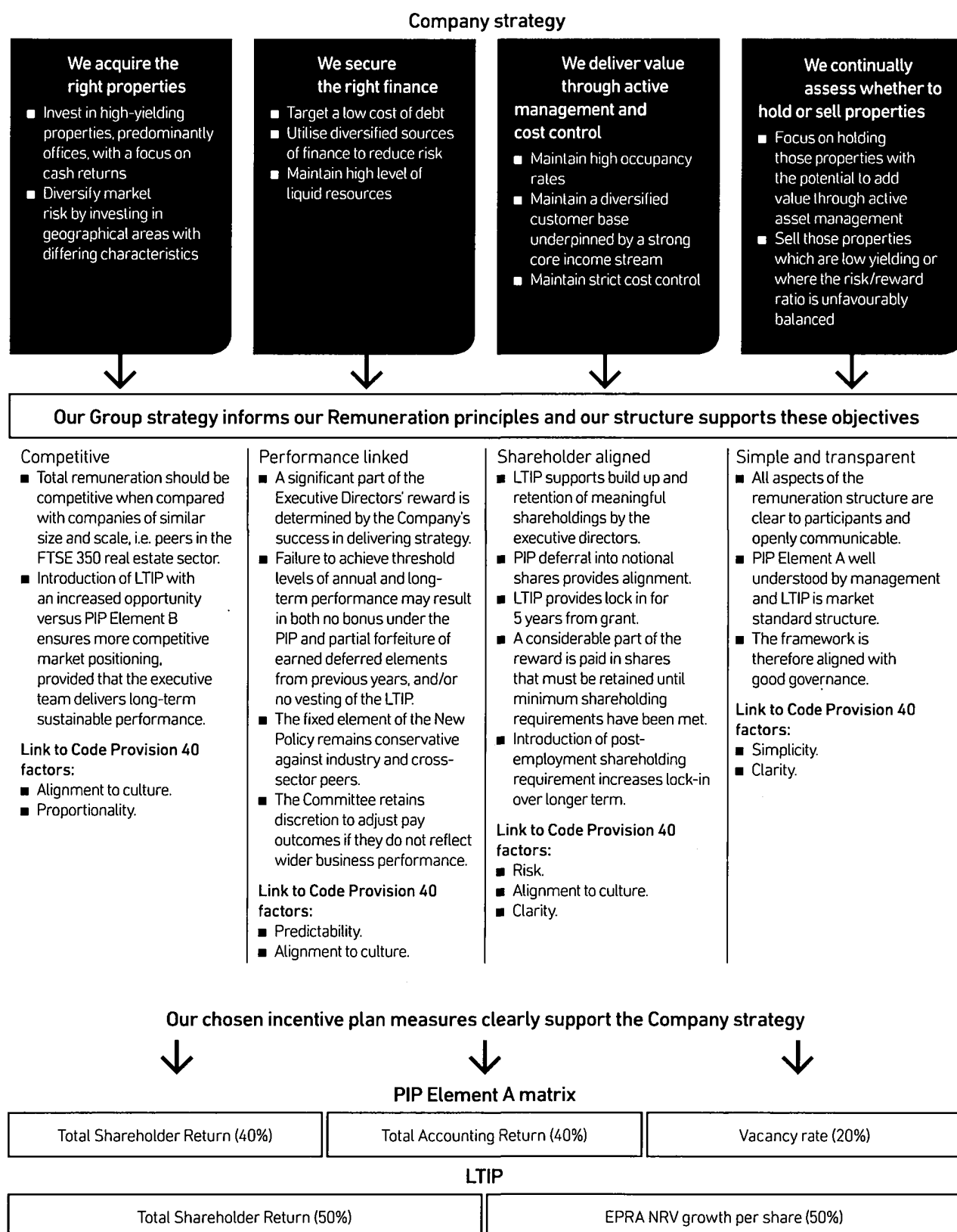
Key points to note

- Base salary and benefits policy remain unchanged as existing policy considered appropriate
- No change to the policy on non executive director fees
- Pension policy amended for new joiners only to align company contributions with those of the wider UK workforce
- Bonus element A will be retained
- The number of KPIs for Element A has been reduced from 6 to 3 to facilitate simplicity and objectivity
- Bonus element B will be replaced with a market standard long-term incentive plan
- Increased shareholding requirement for the CFO
- Introduction of a post employment shareholding requirement for executive directors

Remuneration

Remuneration Committee Report continued

Linking our New Remuneration Policy to our Strategy



Aligning new policy with Provision 40 of the 2018 Corporate Governance Code

The Code requires the Committee to determine the Policy and practices for Executive Directors in line with a number of factors set out in Provision 40. The following table sets out how the Remuneration Committee's proposed new Policy aligns with Provision 40 of the Code, the objective of which is to ensure the remuneration operated by the Company is aligned to all stakeholder interests including those of shareholders.

Provision 40 factor	How the Policy aligns with the factor
Clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	<ul style="list-style-type: none"> ■ The Company's performance-based remuneration is based on supporting the implementation of the Company's strategy as measured through its core KPIs. There is transparency over the performance metrics in place for both PIP Element A and the LTIP and there is a clear link between long term value creation and the provision of reward to Executive Directors and senior management. ■ The operation of the structures and in particular the value outstanding in respect of awards at a given time is made clear in the Directors' Remuneration Report.
Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	<ul style="list-style-type: none"> ■ Element A of the PIP has been in place for a number of years so participants and shareholders will have a good understanding of how it operates. ■ The reduction of performance metrics in Element A from six to three removes some duplication and complexities associated with this Element. ■ The new LTIP is a market standard structure which will be familiar to participants and shareholders alike.
Risk – remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	<ul style="list-style-type: none"> ■ The Policy includes: <ul style="list-style-type: none"> – setting defined limits on the maximum awards which can be earned; – requiring the deferral of a substantial proportion of the incentives in shares for a material period of time; – aligning the performance conditions with the strategy of the Company; – ensuring a focus on long-term sustainable performance through the LTIP; – forfeiture thresholds; – ensuring there is sufficient flexibility to adjust payments through malus and clawback and an overriding discretion to depart from formulaic outcomes. ■ These elements mitigate against the risk of target-based incentives by: <ul style="list-style-type: none"> – limiting the maximum value that can be earned; – deferring the value in shares for the long-term which helps ensure that the performance earning the award was sustainable and thereby discouraging short term behaviours; – aligning any reward to the agreed strategy of the Company; – ensuring that the use of an LTIP supports a focus on the sustainability of the performance over the longer term; – reducing the awards or cancelling them if the behaviours giving rise to the awards are inappropriate; – reducing the awards or cancelling them, if it appears that the criteria on which the award was based do not reflect the underlying performance of the Company.
Predictability – the range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	<ul style="list-style-type: none"> ■ The Remuneration Committee has good line of sight and control over the potential performance outcomes, and the actual and perceived value of the incentives. ■ The Policy sets out the potential remuneration available in a number of performance scenarios.
Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the company should be clear. Outcomes should not reward poor performance.	<ul style="list-style-type: none"> ■ One of the key strengths of the proposed approach of the Company to remuneration is the direct link between the Company strategy and the value received by Executives. ■ The Company has clearly articulated the potential reward to the Executives compared to the value that has to be delivered to shareholders for that reward to be earned.
Alignment to culture – incentive schemes should drive behaviours consistent with company purpose, values and strategy.	<ul style="list-style-type: none"> ■ The new LTIP rewards long-term sustainable performance in an inherently cyclical market. ■ This focus on long-term sustainable value is a key tenet of the Company's strategy and its culture and values.

Annual Report on Remuneration

Single Total Figure for Executive Directors' Remuneration (Audited)

The following table shows an analysis of remuneration in respect of qualifying services for the 2019 financial year for each Executive Director:

2019

Executive Director	Salary £000	Taxable Benefits ⁴ £000	Bonus (PIP) ⁴ £000		LTIP ⁵ £000	Pension £000	Other fees ⁷ £000	Total Rem £000	Total ⁹ Fixed £000	Total ⁹ Variable £000
			Cash	Deferred shares						
Henry Klotz	406	34	–	–	–	8	–	448	448	–
Fredrik Widlund ¹	430	8	256	272	112	–	–	1,078	438	640
Andrew Kirkman ²	147	63	60	78	–	5	389	742	215	527
John Whiteley ³	158	7	126	82	–	–	–	373	165	208
Sten Mortstedt	500	–	–	–	–	–	–	500	500	–

2018

Executive Director	Salary £000	Taxable Benefits £000	Bonus (PIP) £000		LTIP £000	Pension £000	Other fees £000	Total Rem £000	Total Fixed £000	Total Variable £000
			Cash	Deferred shares						
Henry Klotz	400	24	–	–	–	7	–	431	431	–
Fredrik Widlund	378	7	162	172	398	–	–	1,117	385	732
Andrew Kirkman	–	–	–	–	–	–	–	–	–	–
John Whiteley	307	13	87	113	212	–	–	732	320	412
Sten Mortstedt	317	–	–	–	–	–	450	767	317	450

- Mr Widlund would have received total pension contributions of £39,062 (2018: £34,398). In accordance with the Policy, the entire amount was paid as a salary supplement (this element of salary is not bonusable or pensionable). £30,929 of Mr Widlund's LTIP was attributed to share price appreciation.
- Andrew Kirkman joined the Company as the new Chief Financial Officer and Director of the Company, with effect from 1 July 2019. He would have received total pension contributions of £13,750 (2018: £n/a). In accordance with the Policy, £8,750 was paid as salary supplement and £5,000 was paid to his SIPP (this element of salary is not bonusable or pensionable). His taxable benefit figure for 2019 includes a £60,000 relocation package, including £8,000 HMRC relocation allowance, which is subject to a scaled repayment clawback over a three-year period.
- Mr Whiteley served as the Chief Financial Officer and Director of the Company until 30 June 2019. He received total pension contributions of £14,368 (2018: £27,899). In accordance with the Policy, the entire amount the entire amount (2018: £27,899) was paid as salary supplement (this element of salary is not bonusable or pensionable).
- The Bonus total under the current Policy comprises 50% of the Element A 2019 contribution into the Director's Plan Account and the award made of deferred shares in respect of Element B of the PIP (see below for details of calculations). The reason that only 50% of Element A is disclosed as Bonus is because the balance is deferred and at risk of forfeiture in respect of future years' performance and therefore under the Regulations is required to be disclosed on vesting. The award of deferred shares under Element B does not vest until three years after the date of grant and cannot be sold for a further 2 years. However, in accordance with the Regulations the value of these shares is shown in the Bonus column on the date of grant as there are no further performance conditions which have to be satisfied for the shares to vest. The value of the Element B award disclosed in the table has been calculated using the average market value of a share for the 30-day period to 31 December 2019 of £2.95 in accordance with the rules of the PIP. The figures shown for Andrew Kirkman and John Whiteley take account of pro-rating of their PIP Element A and B awards as a result of service provided during 2019.
- The LTIP column value is equal to 50% of the value of the Opening balance of deferred notional shares under PIP A Account. This approach reflects the fact that this value is subject to forfeiture over the remaining life of the PIP cycle. Please see page 87 for detail on how we have reconciled the PIP payments to the single figure table. The value of the notional shares under Element A has been based on the average market value of a share for the 30-day period to 31 December 2019 of £2.95 in accordance with the rules of the PIP.
- Taxable Benefits relate to the provision of private medical insurance.
- This includes the value of restricted shares awarded to Mr Kirkman in lieu of incentives foregone at his previous employer on joining the Company. This figure also includes an estimate of the value of the cash bonus foregone at his previous employer on joining the Company that relates to their performance which, as at the date of this report, has not been published. Please see section on Recruitment of Andrew Kirkman on page 94 for more details.
- Total Fixed column is the total of Salary, Pension and Benefits.
- Total Variable column is the total of Cash, Deferred Shares, LTIP and Other Fees.

Additional requirements in relation to the single total figure table

Base salary and Non-Executive Directors' fees

Executive Chairman (Henry Klotz) change to Non-Executive Chairman (Lennart Sten)

In 2018 for the full-time role of Executive Chairman, Henry Klotz received a total remuneration (including his Catena AB directorship fee) of £446,953 and this was estimated to increase to a rate of £458,953 for 2019 (which assumed 3% basic salary increase but no increase in Catena fees or taxable benefits). Mr Klotz's responsibilities for dealing with the activities and investments in Sweden have been transferred to the CEO together with the Chairmanship of the investment committee and liaison with the Trust (the majority shareholder) through the Deputy Chairman.

The Remuneration Committee determined that for Lennart Sten, the new role of Non-Executive Chair, warranted an annual remuneration of £220,000 per annum after having regard to the responsibilities and comparable remuneration of the peer group, the FTSE 350 Real Estate Super Sector. The remuneration of the Non-executive Chairman represents a reduction of £226,953 on the 2018 remuneration of the Executive Chairman and a reduction of £238,953 on the 2019 remuneration rate.

Founder and Executive Director (Sten Mortstedt)

For many years, the Founder shareholder, Sten Mortstedt has received a base salary with further remuneration for additional consultancy services beyond his contractual obligation. During the last two years this remuneration was £767,000 in 2018 (salary £317,000 plus consultancy fees of £450,000) and £958,000 in 2017 (salary £308,000 plus consultancy fees of £650,000). It was decided to restructure Mr Mortstedt's remuneration to a salary of £500,000 (with no further

emoluments) effective from the start of 2019 in order to bring his remuneration structure more in line with corporate governance guidelines. This meant that the remuneration of Sten Mortstedt will reduce by £267,000 compared to 2018 and £458,000 compared to 2017.

Deputy Chair (Anna Seeley)

The Deputy Chair has taken over the liaison with the majority shareholder, the Sten and Karin Mortstedt Family and Charity Trust (the "Trust"), and has been instrumental in arranging the continuing improvement in corporate governance by moving from an Executive Chair to a Non-Executive Chair. She will continue to lead the improvement in the corporate governance area together with the support of the rest of the Board. In addition, she is Chair of the Nomination Committee. For these additional responsibilities her remuneration will increase from £55,000 in 2019 (£45,000 NED fee plus £10,000 Chair of Nomination Committee fee) to £120,000 per annum reflecting the additional responsibilities outlined above.

CEO (Fredrik Widlund)

Following the restructuring of the full time Executive Chairman role to the Non-Executive Chairman role, the CEO took over responsibility for dealing with the activities and investments in Sweden together with the Chairmanship of the investment committee, and liaison with the Trust (the majority shareholder) through the Deputy Chair.

In addition, the Remuneration Committee reviewed the general level of remuneration of the CEO and concluded that although CLS is around median at 10th out of 27 constituents of the comparator index the FTSE 350 Real Estate Super index in terms of assets under management with investments in three countries, the CEO salary remuneration at £354,000 in 2019 was below the lower quartile at £412,000. After considerable review by the Remuneration Committee, and in the interests of fair treatment, retention and the good performance of Mr Widlund, it was determined appropriate to increase the CEO's salary to £450,000 p.a at 15 August 2019 when the new responsibilities were taken over by the CEO from the former Executive Chair, Henry Klotz.

In summary the base salary/sees applying and changes are as follows:

	Annual Salary/Fees (£000)				
	Chair	Deputy Chair	Founder	CEO	CFO
2018	£447	£35	£767	£344	n/a
2019	£459	£55	£767*	£354	n/a
2019 (after changes)	£220	£120	£500	£450	£275**
Difference	-£239	+£65	-£267	+£96	n/a

* Assuming 2019 remuneration would be similar to 2018.

** Salary effective 1 July 2019 being the date Andrew Kirkman became CFO.

Remuneration

Remuneration Committee Report continued

Recruitment of Andrew Kirkman

As disclosed on our website on 2 July 2019, the Company agreed to certain payments to Andrew Kirkman on his recruitment in line with current Policy and they are included in the single figure table on page 92. These payments are summarised below:

- A £60,000 relocation package, which is subject to a scaled repayment clawback over a three-year period (included in the taxable benefit column).
- A pro-rated 2019 bonus in relation to the period of time served during 2019 at the previous employer (for the avoidance of doubt based on the salary payable by the previous employer in respect of this period and the maximum bonus potential for this period). The payment will be made at the same time as it would have been made by the previous employer. The calculation of this bonus will be based on the level of satisfaction of the performance conditions disclosed in the Harworth Group plc 2019 Directors' Remuneration Report which, as at the date of this report, has not been published, and any personal performance element will be calculated by reference to "on-target" performance. An estimate of £82,803 is included in the Other fees column.
- In lieu of Mr Kirkman's lapsed 2017 and 2018 LTIP awards with his previous employer (which would have vested on 5 April 2020 and 5 April 2021, respectively), on 2 July 2019 the Company granted awards with an equivalent fair value under PIP Element B that are restricted until 5 April 2020 (68,523 shares) and 5 April 2021 (56,305 shares). On the date of grant these awards were valued at £306,453 and this figure is included in the Other fees column.

2019 PIP outcomes

Summary of PIP matrix outcomes in the year

The Remuneration Committee determined the 2019 PIP contribution and forfeiture outcomes during 2019. A summary of the 2019 KPIs and their achievement is as follows:

KPI	Maximum Forfeiture	Forfeiture Threshold	On-Target Performance	Good Performance	Maximum Performance	2019 actual Achievement
Total Shareholder Return (absolute)	1%	3%	12%	14%	16%	47.1%
Total Shareholder Return (relative)	Lower Quartile	(Linear)	Median	(Linear)	Upper Quartile	10/27
Vacancy Rate	10%	8%	5%	4%	3%	4.00%
Administration Cost Ratio (as % of Net Rental)	19%	18%	17%	16%	15%	17.72%
Personal Performance	2	2.5	4	4.5	5	See below
Total Accounting Return	0%	3%	6%	7.5%	9%	8.54%

The following table sets out the weighting and outcomes for both Elements A and B of the PIP for 2019 award for the CEO and CFO expressed as a percentage:

KPI	CEO		CFO (Andrew Kirkman)		CFO (John Whiteley)	
	Weighting	Achievement (% of max)	Weighting	Achievement (% of max)	Weighting	Achievement (% of max)
Absolute Total Shareholder Return	37.5%	100%	25%	100%	25%	100%
Relative Total Shareholder Return	22.5%	65.4%	15%	65.4%	15%	65.4%
Vacancy Rate	22.5%	88.9%	10%	85.0%	10%	85.0%
Administration Cost ratio (as % of Net Rental)	22.5%	77.8%	20%	86.4%	20%	86.4%
Personal Performance (see pages 95 and 96 for details)	15.0%	85.0%	10%	75.0%	10%	82.6%
Total Accounting Return	30.0%	94.9%	20%	94.9%	20%	94.9%
Overall achievement	150%	87.3%	100%	87.1%	100%	87.8%

Element A in 2019

The schematic below illustrates the ongoing operation of PIP Element A, noting that the new CFO has joined the plan in the same year and cycle as the CEO and former CFO:

Year	2016	2017	2018	2019	2020	2021
Cycle 2	2nd year	3rd year	4th year			
Cycle 3			1st year	2nd year	3rd year	4th year

With reference to the schematic above, Cycle 2 of the PIP Element A award was completed in 2018 and a new Cycle 3 award was granted in the same financial year.

For 2019, Element A of the PIP represented the 2nd year of the Cycle 3 award.

The table below sets out the annual opportunity and resulting contribution to the PIP Element A account for the Executive Directors.

	CEO	CFO (Andrew Kirkman)	CFO (John Whiteley)
Maximum Element A award (% salary) in 2019	150%	50%*	50%*
Maximum Element A award (£) in 2019	£585,930	£275,000	£287,365
KPIs achievement as % of maximum	87.3%	87.1%	87.8%
Contribution to Account based on achievement above	£511,444	£119,706	£126,181
Bonus as a % of 2019 Salary	130.9%	87.1%	87.8%

* Maximum annual award of 100% salary – Andrew Kirkman received a prorated opportunity for 2019 having joined 1 July 2019, half way through the performance period. John Whiteley received a prorated opportunity for 2019 up to the date of retirement on 30 June 2019.

The following table sets out the breakdown of the performance calculation of the second award under Cycle 3:

KPI	Performance Breakdown (£)		
	CEO	CFO (Andrew Kirkman)	CFO (John Whiteley)
Absolute Total Shareholder Return	146,483	34,375	35,921
Relative Total Shareholder Return	57,466	13,486	14,092
Vacancy Rate	78,124	11,688	12,213
Administration Cost ratio (as % of Net Rental)	68,400	23,758	24,826
Personal Performance (see below for details)	49,804	10,313	11,868
Total Accounting Return	111,167	26,088	27,261
2019 Total Bonus	511,444	119,708	126,181

Personal performance

Personal Performance is a grading of the executive director by the Remuneration Committee in a range of 1–5 with 5 being the highest rating. They undertake an appraisal process and are assessed and scored against each of the following areas: annual objectives, quality and knowledge of their work, innovation, teamwork, staff development and communication. Performance ratings for Fredrik Widlund, Andrew Kirkman and John Whiteley were 4.25, 3.75 and 4.13, respectively.

	Personal measure	Performance criteria	Outcome
Fredrik Widlund, CEO	Implementation of Group Strategy	Target agreed ROI for new investments	Achieved at or above ROI criteria
	Implementation of business plan to review and grow portfolio	Deliver £175m of new acquisitions	Delivered £257m of acquisitions
	Lead Sustainability agenda	Reduce carbon emissions in managed portfolio by 25% by 2025 (baseline 31 December 2018)	3.1% annual reduction in carbon emissions in managed portfolio, on target.
		Generate 3.5% of Group electricity from on site renewables	On site generation target achieved at 3.6%.
		70% recycling across UK managed assets	73% recycling target achieved.
	Drive vacancy levels whilst maintaining ERV	Target below 5% vacancy	Vacancy level 4%

Remuneration

Remuneration Committee Report continued

	Personal measure	Performance criteria	Outcome
Andrew Kirkman, CFO (joined 1 July 2019)	Ensure continuation of budget and cost control	Target Administration Cost Ratio at 17%	Marginally below target at 17.72%
	Deliver high quality reporting	Delivery of Half year and full year reports and investor material	Successful delivery of Half year and full year reports, audit and investor material
	Review Group financial strategy	Delivery of proposal to the Board for approval	Recommended appropriate financing strategy for remainder of 2019 and into 2020
	Ensure creation of good internal and external working relationships	Delivery through team and individual meetings, networking with external advisors and investor road shows	Induction programme completed successfully. Met with all external advisors and key investors
John Whiteley, CFO (retired 30 June 2019)	Meet agreed budget and cost control	Target Administration Cost Ratio at 17%	Marginally below target at 17.72%
	Drive high quality accounting processes and practices	Successful delivery of 2018 year end accounting process and audit	2018 year end audit and reporting process completed successfully
	Ensure succession planning within team	Delivery of succession planning strategy for team	Successful handover and resourcing for succession planning

The following table sets out for Cycle 3 the PIP Element A Accounts for the participants and shows the value of the closing balance and the number of deferred notional shares which will form the opening balance in respect of 2020:

	CEO	CFO (Andrew Kirkman)	CFO (John Whiteley)
PIP Plan Element A Accounts (Cycle 3)			
Number of Deferred Notional Shares in Account at the end of Year 2	75,713	–	–
Value of Deferred Notional Shares at the end of Year 2 ¹	£223,505	–	–
2019 Bonus (contribution into the Account)	£511,444	£119,706	£126,181
Cumulative Account following contribution	£734,949	£119,706	£126,181
Less: 2019 Payment out of the Account	(£367,474)	(£59,853)	£126,181
Value of Deferred Notional Shares carried forward into Year 3	£367,475	£59,853	–
Number of Deferred Notional Shares carried forward into Year 3 ¹	124,483	20,275	–

1. The price used to calculate the value of shares was the mid-market value of a share for the 30-day period to 31 December 2019, which was £2.95 per share.

In the context of the operation of the PIP Element A, the Deferred Notional Shares is a mechanism that allows the deferred cash element of the award to be linked to the share price. The Committee confirms that there is no intention to issue actual shares.

Element B in 2019

	CEO	CFO (Andrew Kirkman)	CFO (John Whiteley)
Maximum Element B award (% of salary) for 2019	80%	32.5%*	32.5%*
Maximum Element B award (£) for 2019	£312,496	£89,375	£93,394
KPIs achievement as % of maximum	87.3%	87.1%	87.8%
Face value of Element B awards to be granted	£272,770	£77,809	£82,018
Number of shares to be awarded	92,401	26,358	27,783

* Maximum annual award of 65% salary – Andrew Kirkman received a prorated opportunity for 2019 having joined 1 July 2019, half way through the performance period. John Whiteley received a prorated opportunity for 2019 up to the date of retirement on 30 June 2019.

Shares earned under Element B are subject to a three-year vesting period during which the participant must remain employed by the Company and cannot be sold for five years from the date of award, irrespective of employment status. There are no further performance conditions. The number of shares to be awarded under Element B has been based on the average market value of a share for the 30-day period to 31 December 2019 of £2.95 in accordance with the rules of the PIP.

Reconciliation of PIP Element A and Element B with single figure table

Annual Bonus – Cash	CEO	CFO (Andrew Kirkman)	CFO (John Whiteley)
50% of 2019 contribution into the PIP Element A Account ¹	£255,722	£59,853	–
Annual bonus – deferred shares			
Face value of Element B awards to be granted	£272,770	£77,809	£82,018
LTIP			
50% of opening balance of PIP Element A Account ²	£80,824	–	–
Value of LTIP due to share price increase	£30,929	–	–

1. The reason that only 50% of Element A 2019 Company Contribution is disclosed as Bonus is because the balance is deferred and is at risk of forfeiture in respect of future years' performance and therefore under the Regulations is required to be disclosed on vesting.
2. Comprising 50% of value of opening balance of Deferred Notional Shares.
3. Andrew Kirkman joined during 2019 and therefore there was no prior year deferral.
4. John Whiteley retired during 2019 and was treated as a "Good Leaver". His PIP Element A Account was paid in full on retirement and therefore there was no prior year deferral.

Total pension entitlements

The Executive Directors are entitled to participate in a defined contribution pension scheme. No directors were participants of the scheme as at 31 December 2019 (2018: none). As a result of the Lifetime Allowance Limit, Fredrik Widlund received the full 10% as a salary supplement and Andrew Kirkman received part of his contributions as a salary supplement and the rest as a contribution to his Self Invested Personal Pension Plan (see Note 2, Single Total Figure for Executive Directors' Remuneration (Audited)).

The maximum Company contribution for all UK employees is 10% (2018: 10%). In accordance with the Policy, the CEO and CFO received 10% as a salary supplement. On 1 August 2014, under the auto-enrolment process, Mr Klotz became a member of the statutory scheme operated by the Company whereby he contributed 5% of basic salary and the Company contributes 3%. This arrangement ceased on his retirement from the Company.

External appointments

Mr Klotz received additional fees which he retained of £17,396 (2018: £15,935) in respect of his role as non-executive director of Catena AB.

Mr Widlund was appointed as a non-executive director of Morden College on 31 August 2018, for which no remuneration is paid. There were no other executive directors who served as non-executive directors of other companies during the year ended 31 December 2019.

Single total figure for Non-Executive Directors' remuneration (audited)

Non-executive directors do not participate in any of the Company's incentive arrangements nor do they receive any benefits other than reimbursement for reasonable travel expenses for attending Board meetings.

The following table sets out the fees received for 2019:

	Base Membership Fee £000		Other Committee Fees £000		Additional Fees £000		Taxable Benefits £000		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Malcolm Cooper	45	30	25	18	–	–	–	–	70	48
Elizabeth Edwards	45	30	10	10	3	–	1	–	59	40
Christopher Jarvis	45	30	15	13	–	–	7	5	67	48
Bengt Mortstedt	45	30	–	–	–	–	29	24	74	54
Anna Seeley	74	30	6	5	–	–	–	1	80	36
Lennart Sten	112	30	6	10	–	–	–	8	118	48
Denise Jagger	19	–	4	–	–	–	–	–	23	–
Bill Holland	5	–	1	–	–	–	–	–	6	–

1. Mr Cooper received the following annual fees: Board membership £45,000; Senior Independent Director £10,000; Audit Committee Chairmanship £10,000; and Remuneration Committee membership £5,000.
2. Ms Edwards received the following annual fees: Board membership £45,000; Audit Committee membership £5,000; Nomination Committee Membership £5,000; and Workforce Advisory Panel £2,625.
3. Mr Jarvis received the annual following fees: Board membership £45,000; Remuneration Committee Chairmanship £10,000; and Audit Committee membership £5,000.
4. Ms Seeley received the annual following fees: up to 5 March 2019, a Nomination Committee membership fee of £5,000 and then a chairmanship fee of £10,000; up to 14 August 2019 a Board membership fee £45,000; and then a Non-Executive Vice-Chairman fee of £120,000 (inclusive of all Committee fees). The figures shown in the table above are prorated.
5. Mr Sten received the following annual fees: Up to 14 August 2019 a Board membership fee £45,000; a Remuneration Committee membership £5,000; and Nomination Committee Membership £5,000. From 15 August 2019, he received a Non-Executive Chairman fee of £220,000 (inclusive of all Committee fees). The figures shown in the table above are prorated.
6. Ms Jagger received the following annual fees: Board membership £45,000; a Remuneration Committee membership £5,000; and Audit Committee Membership £5,000. The figures shown in the table above are prorated.
7. Mr Holland received the following fees: Board membership £45,000; a Remuneration Committee membership £5,000; and Audit Committee Membership £5,000. The figures shown in the table above are prorated.
8. In accordance with the Company's expenses policy, non-executive directors receive reimbursement for their reasonable expenses for attending Board meetings. In instances where those costs are treated by HMRC as taxable benefits, the Company also meets the associated tax cost to the non-executive directors through PAYE.

Remuneration

Remuneration Committee Report continued

Payments to past directors

Mr Klotz retired from the Board on 14 August 2019 at which point he ceased to be a director. He continued to be an employee of the company up until the end of his agreed notice period, being 28 December 2019, and received his salary and benefits up until this date.

Payments for loss of office

As described above John Whiteley retired from the role of CFO on 30 June 2019. The Remuneration Committee have agreed that pursuant to the rules of the 2017 PIP, Mr Whiteley has been treated as a Good Leaver. As a result, and in accordance with the PIP and the current Policy, Mr Whiteley has received the following elements of remuneration in 2019:

PIP Element A

Financial Year 2018 Deferred Bonus Pool:

In line with the PIP rules, the Deferred Bonus Pool, based on 40,594 notional shares as at 1 January 2019 was paid in cash based on the 30 day average share price in June (leading to his retirement), being £2,177, on 8 July 2019.

Financial Year 2019 Bonus Pool:

This has been pro-rated to 50% of the maximum available bonus (i.e. 50% of salary) to reflect the termination date of 30 June 2019. Against the financial elements (which were assessed against the same targets and weighting as presented for the current CFO on page 94), and the personal performance described on page 95, this resulted in a bonus of 87.8% of maximum being payable.

Based on the overall outcome and the prorated opportunity, this resulted in a bonus of £126,181 which will be paid as cash in line with the PIP rules.

There are no further payments under Element A in future years.

PIP Element B

As a Good Leaver there was no forfeiture of any subsisting or accrued awards, nor has there been any early vesting. In respect of 2019 Financial Year, the award to be made in March 2020 is pro-rated to 50% of the maximum available award (i.e. 32.5% salary) to reflect the termination date of 30 June 2019 and will vest three years later (March 2023). The award in respect of the 2019 Financial Year will be granted based on the achievement of the 2019 performance targets, which was 87.8% of maximum, as set out above and on page 96, and vest on 4 March 2023.

The vesting periods on Element B share awards will continue post the revised termination date (80,850 shares vest 25 April 2020; 70,388 share vest 6 March 2021; 52,773 shares vest 6 March 2022). Each award has a post vesting date holding period of two years.

Directors' interests in shares

The Executive Directors' interests against the shareholding requirement under the current Policy is provided below, with an indication of whether the current shareholding requirement has been met. Under the current Policy the Committee has implemented minimum shareholdings for the Executive Directors, which requires that within five years of becoming an executive director the Chief Executive Officer should build a holding with a value of at least 250% of salary and the Chief Financial Officer at least 150%. At 31 December 2019, the interests of the Directors in the ordinary shares of 2.5 pence each of the Company were:

Director	Unconditional Shares	Conditional PIP Element A Shares	Conditional PIP Element B Shares	SIP Shares (Partnership)	SIP Shares (Matching)	Total interests ⁵	Shareholding (% salary) ⁵	Shareholding requirement met?
Sten Mortstedt ¹	209,348,740	–	–	–	–	209,348,740	125,693	n/a
Henry Klotz	–	–	–	–	–	–	n/a	n/a
Fredrik Widlund ²	227,490	75,713	315,340	2,061	2,061	546,952	309	Y
Andrew Kirkman ³	100,000	–	124,828	302	302	225,432	242	Y
John Whiteley ⁴	–	–	204,011	–	–	204,011	n/a	n/a
Malcolm Cooper	40,500	–	–	–	–	40,500	n/a	n/a
Elizabeth Edwards	4,527	–	–	–	–	4,527	n/a	n/a
Christopher Jarvis	48,440	–	–	–	–	48,440	n/a	n/a
Bengt Mortstedt	26,072,550	–	–	–	–	26,072,550	n/a	n/a
Denise Jagger	–	–	–	–	–	–	n/a	n/a
Bill Holland	–	–	–	–	–	–	n/a	n/a
Anna Seeley	–	–	–	–	–	–	n/a	n/a
Lennart Sten	28,500	–	–	–	–	28,500	n/a	n/a

1. Mr S Mortstedt's interest in shares is held in certain companies which are held in trust (see controlling shareholder note on page 117).

2. As at the date of this report: the SIP balance for Mr Widlund consists of: 2,167 Partnership Shares and 2,167 Matching Shares. As set out on page 96 a closing balance of 124,483 Conditional PIP Element A notional shares and 92,401 Conditional PIP Element B shares, will be awarded on 5 March 2020. On 22 January 2020, a Person Closely Associated to Mr Widlund sold 126,000 unconditional shares.

3. As at the date of this report: the SIP balance for Mr Kirkman consists of: 408 Partnership Shares and 408 Matching Shares. As set out on page 96 a closing balance of 20,275 Conditional PIP Element A notional shares and 26,358 Conditional PIP Element B shares will be awarded on 5 March 2020.

4. Mr Whiteley retired as a director on 30 June 2019. As set out on page 98, all notional shares awarded under PIP Element A vested upon retirement. 27,783 Conditional PIP Element B shares will be awarded on 5 March 2020.

5. Shares counting towards total interests and therefore shareholding requirement include beneficially owned, pre-tax number of Element B, all SIP but excludes the notional shares awarded under PIP Element A. Shareholding values based on 30-day average share price up to 31 December 2019, £2.95.

Otherwise than as set out in the notes above, there have been no movements in interests held by directors between 31 December 2019 and the date of this report.

Overall link to remuneration and equity of the Executive Directors

As a Committee, we want to incentivise Executive Directors to take a long-term, sustainable view of the performance of the Company. Therefore, when we look at the remuneration paid in the year, we also look at the total equity they hold, and its value based on the performance of the Company. The table sets out the number of shares beneficially owned by the CEO at the beginning and end of the financial year, and the impact on the value of these shares taking the opening and closing price for the year. PIP Conditional Element A notional shares are excluded from the calculations.

	2019 Single figure	Shares held at start of year	Shares held at end of year	Value of shares at start of year (£'000s)	Value of shares at end of year (£'000s)	Difference (£'000s)
CEO	1,078	464,688	546,952	994	1,613	619

Starting share price £2.14 (one-month average share price to 31 December 2018). End share price £2.95 (one-month average to 31 December 2019).

Total returns to shareholders 2010–2019 (unaudited)

To comply with the Regulations, the Company's TSR performance is compared to the TSR performance of the FTSE 350 and the FTSE 350 Real Estate Super sector over the same period. The Committee believes that these are the most appropriate as these are the indices and sector in which the Company has been included since listing.

Historical CEO remuneration

The table below sets out total CEO remuneration for 2019 and prior years, together with the percentage of maximum PIP (both element A and B) awarded in that year.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
CEO total remuneration (£000)	481	417	352	721	349	656	828	1,062	1,117	1,078
Element A of PIP – % of maximum	–	–	83.5%	86.6%	89.0%	81.0%	76.0%	93.3%	62.7%	87.3%
Element B of PIP – % of maximum	–	–	–	–	–	–	76.0%	93.3%	62.7%	87.3%

(-) The Company did not operate an incentive plan (PIP Element A or B) over this period.

Percentage change in CEO and employee remuneration

The table below shows how the percentage change in the Chief Executive Officer's salary, benefits and bonus between 2018 and 2019 compares with the percentage change in each of those components of pay for employees.

	Salary			Taxable benefits			Bonus		
	2019 £000	2018 £000	Percentage increase	2019 £000	2018 £000	Percentage increase	2019 £000	2018 £000	Percentage increase
CEO	391	378	3.2%	8	7	10.2%	256	162	58%
Employees	4,691	4,489	4.5%	252	209	20.7%	1,634	1,807	(9.6)%

The Group's pay review, taking effect from 1 January 2020, awarded a percentage increase in wages and salaries of 3% to UK and German employees, 2.6% to French employees and 2.8% to its Swedish employee, subject to role-specific industry benchmarks.

The nature and level of benefits to employees in the year ended 31 December 2019 was broadly similar to those of the previous year.

Remuneration

Remuneration Committee Report continued

CEO pay ratio

The table below sets out the ratios of the CEO single total figure of remuneration to the equivalent pay for the lower quartile, median and upper quartile of UK employees.

Year	Method	Pay ratio		
		25th	50th	75th
2019	Option A	19:1	15:1	8:1

The CEO remuneration figure is as shown in the Single total figure for Executive Directors' Remuneration table on page 92. The remuneration figures for the employee at each quartile were determined as at 31 December 2019. Each employee's pay and benefits were calculated using each element of employee remuneration, consistent with the CEO, on a full-time equivalent basis. No adjustments (other than to achieve full-time equivalent rates) were made and no components of pay have been omitted. The salary and total pay and benefits for employees at each of the percentile are as shown in the table below.

Pay data	Base salary (£000)	Total pay and benefits (£000)
CEO	391	1,078
Employee at 25th percentile	52	56
Employee at 50th percentile	56	73
Employee at 75th percentile	84	140

We have chosen methodology option A for the calculation, which takes into consideration the full-time equivalent basis of all UK employees and provides a representative result of employee pay conditions across the Company.

These ratios are used as part of the Committee remuneration decision-making process with regards to broader employee pay policies as well as remuneration policies for the Executive Directors.

The ratios reflect the difference in remuneration arrangements as responsibility increases for more senior roles within the Company. There may therefore be significant volatility in this ratio, caused by the following:

- Our CEO pay is made up of a higher proportion of incentive pay than that of our employees, in line with the expectations of our Shareholders, which introduces a higher degree of variability in his pay each year versus that of our employees;
- A significant proportion of our CEO's pay is provided in shares, and their value reflects the movement in share price over the three years prior to vesting. This can add significant volatility to the CEO's pay and this is reflected in the ratio.

The ratio is driven by the different structure of the pay of our CEO versus that of our employees, as well as the make-up of our workforce.

This ratio will therefore vary between businesses even in the same sector. What is important from our perspective is that this ratio is influenced only by the differences in structure within our business, and not by divergence in fixed pay between the CEO and wider workforce.

Relative importance of the spend on pay

	2019 £000	2018 £000	Percentage change
Remuneration paid to employees of the Group	10,376	9,701	7.0%
Distributions to shareholders	28,721	26,481	8.5%
Group revenue	138,248	133,026	3.9%

Wider workforce considerations

Cascade of pay through the organisation

The Group aims to provide a remuneration package for all employees which is market competitive and operates the same core structure as for Executive Directors, with the exception the PIP and LTIP, which is replaced by a time-based, company growth related loyalty bonus.

It is the Company's intention that the LTIP will extend to Senior Management within the Company, with the number of employees eligible to participate being approximately 11. The Company's remuneration philosophy for all management from the Executive Directors downwards is that all employees should have a significant annual element of performance-based pay with part provided in deferred shares to ensure a focus on long-term sustainable value creation and to align their experience with those of shareholders. For all employees, the Group operates a performance-based discretionary bonus scheme and a loyalty bonus scheme based on employment longevity. The Company also has a Share Incentive Plan (SIP) in order to increase levels of share-ownership throughout the Company and allow employees to share in the success of the Company in a tax-efficient manner.

Additionally, the Group's pension contributions to an employee's pension scheme are determined by their length of service from a minimum of 5% up to a maximum of 10%.

The table below summarises the cascade of pay elements through the organisation below Executive Directors.

	Number of employees	Fixed Remuneration (including pension)	Annual bonus / loyalty scheme	LTIP	Restricted share plan / Bonus deferral	Share Incentive Plan	Shareholding guideline
Executive Committee	4	Y	Y	Y	Y	Y	Y
Senior management	11	Y	Y		Y	Y	
Wider Workforce	81	Y	Y			Y	

In order for the Committee to review the wider workforce pay, policies and incentives, reports are regularly considered at the Remuneration Committee meetings, setting out key details of remuneration throughout the Company. The Committee is satisfied that the approach to remuneration across the Company is consistent with the Company's principles of remuneration. In the Committee's opinion the approach to executive remuneration aligns with wider Company pay policy and there are no anomalies specific to the Executive Directors.

The results of these discussions and key decisions made in respect of Executive / senior management pay as a result are communicated to employees via one of several channels used by the Company, as described below.

Employee engagement

We regularly communicate with our employees on a range of issues, including executive pay. This year, Elizabeth Edwards has been designated the Non-Executive Director responsible for overseeing employee engagement. Elizabeth chairs the Workforce Advisory Panel, which meets quarterly. This Panel provides the opportunity for an open discussion between employees and the Board. Elizabeth has engaged with c.30% of the workforce this year and we also use employee surveys as an effective means of gathering wider views.

The main discussion at the first meeting in 2019 meeting was around employee benefits. Following feedback received at the Panel, we undertook a robust internal review and external benchmarking exercise. We then communicated the results of this back to employees.

The Committee will continue to use the voice of employees as valuable insight when making wider remuneration decisions. This engagement is critical in ensuring we offer a reward package across the business that continues to attract and retain the talent necessary to achieve our Group objectives.

Fairness and diversity

The Company is committed to an active equal opportunities policy from recruitment and selection, through training and development, to performance reviews and promotion. All decisions relating to employment practices are objective, free from bias and based solely upon work criteria and individual merit. The Company is responsive to the needs of its employees, customers and the community at large. We are an organisation which uses everyone's talents and abilities, where diversity is valued. The Company remains supportive of the employment and advancement of disabled persons and ensures its promotion and recruitment practices are fair and objective. The Company encourages the continuous development and training of its employees and the provision of equal opportunities for the training and career development of all employees.

Gender pay reporting

The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 requires companies with over 250 UK employees to disclose their gender pay gap annually. CLS Holdings plc has 62 employees as at 31 December 2019 and is therefore not required to disclose the Gender Pay Gap information under the regulations. The Committee notes that any results calculated based on a small sample of employees would not be meaningful and therefore has decided not to disclose the Company gender pay gap this year.

However, the Committee acknowledges the importance of paying employees fairly regardless of gender, ethnicity, degree of physical ability or background. The Committee is committed to promote equality and diversity in the workforce as well as eliminating any form of discrimination. We review the Company pay conditions regularly to ensure that our remuneration policies and practices are fair and transparent and that they continue to promote retention of talented and motivated individuals across the Company.

Overall the Committee feels assured that the quality of processes behind individual pay decision making are effective in delivering an equal pay environment (like pay for like work) for the wider workforce.

Remuneration

Remuneration Committee Report continued

Statement of implementation of policy in following financial year

Subject to shareholder approval at the Company's AGM in April 2020, it is intended that the New Policy will operate in the following financial year. The New Policy is set out on pages 104-115 and the table below sets out an overview of the key elements of the New Policy (referencing any changes to the current Policy where relevant), together with details of how the Committee intends to implement the New Policy in 2020.

	Overview of New Policy (noting changes from current Policy)	Implementation in 2020
Executive Directors		
Base salary	No change to Policy. Any increases will be in line with wider workforce unless there is a significant change to the role and responsibilities.	<p>As at 1 January 2020</p> <ul style="list-style-type: none"> ■ CEO: £463,500 (2019: £450,000) ■ CFO: £283,250 (2019: £275,000) ■ Founder shareholder: £515,000 (2019: £500,000) <p>An identical 3% increase was applied to the UK workforce.</p> <p>The Founder Shareholder no longer receives consultancy fees. For completeness the founder shareholder is not entitled to any elements other than base salary.</p>
Benefits	The key benefits provided to the Executive Directors include private medical insurance, life insurance, income protection, gym contribution and staff lunch provision. The Founder Shareholder does not receive any benefits.	No change.
Pensions	CEO and CFO receive 10% of salary Company contribution in line with maximum employee opportunity. For new joiners, the pension benefit will be aligned to the staged percentages applicable to the wider UK workforce, currently 5% of salary upon joining, rising to 7.5% of salary after three years and 10% of salary after 5 years. The Founder Shareholder does not receive any pension contributions.	No change for current Executive Directors.
Performance Incentive Plan (the 'PIP')	<p>Only Element A will be retained for the new Policy. Element B of the PIP will be replaced by the LTIP. Maximum annual PIP opportunity of 150% of salary.</p> <p>At threshold 25% of the maximum is payable. For "on target" performance 50% of the maximum is payable.</p> <p>50% of the value of a Participant's Plan Account will be paid out annually for three years with 100% of the residual value paid out at the end of year four.</p> <p>Malus and clawback provisions will apply.</p> <p>The Founder Shareholder does not participate in the PIP.</p>	<p>2020 performance measures will be:</p> <ul style="list-style-type: none"> ■ Vacancy rate (20%); ■ Relative Total Shareholder Return (40%); and ■ Total Accounting Return (40%). <p>Maximum opportunity in 2020 will be 150% of salary for the CEO and 100% salary for the CFO.</p> <p>See below for the PIP matrix which will apply in 2020.</p>
Long-Term Incentive Plan ('LTIP')	<p>New element of the Policy to be introduced from 2020.</p> <p>Maximum annual LTIP opportunity of 150% of salary. 25% of awards vest for threshold performance.</p> <p>Performance will be measured over three years and vested awards will be subject to a further two-year holding period post vesting.</p> <p>Malus and clawback provisions will operate over the full 5-year lock in period.</p> <p>The Founder Shareholder does not participate in the LTIP.</p>	<p>Awards to be granted at 150% of salary for the CEO and 120% for the CFO.</p> <p>The 2020 LTIP grant will be based on:</p> <ul style="list-style-type: none"> ■ Total Shareholder Return (50%); and ■ EPRA NRV growth per share (50%) <p>Both measured relative to the FTSE 350 Real Estate Super Sector constituent companies.</p> <p>See below for detail of the LTIP awards which will be made in 2020.</p>
Shareholding Requirement	<p>CEO shareholding requirement of 250% of salary, and CFO shareholding requirement of 200%. Post cessation of employment shareholding requirement requiring the minimum shareholding requirement to be retained for two years.</p> <p>There is no shareholding requirement for the Founder Shareholder.</p>	CFO shareholding requirement increased from 150% to 200% of salary and introduction of post cessation of employment requirement.
Non-Executive Directors (including Non-Executive Chairman and Non-Executive Vice Chairman)		
Fees	<p>No change.</p> <p>Non-Executive Directors are paid a base fee and are eligible to receive Committee chairmanship and membership fees, a SID fee and Workforce Advisory Panel daily fee. Non-Executive Directors do not participate in any variable remuneration.</p>	See below for fees which will apply in 2020.

Chairman and Non-Executive Directors' fees (audited)

The current fee levels, and those for the future financial year, are set out in the table below.

(£'000)	Fees 2020	Fees 2019	Change
Chairman fees	220	220*	0%
Non-Executive Vice Chairman	120	120*	0%
NED Base Membership fee	45	45	0%
Senior Independent Director	10	10	0%
Audit Committee Chairmanship	10	10	0%
Remuneration Committee Chairmanship	10	10	0%
Committee membership	5	5	0%
Workforce Advisory Panel	£750 p/d	£750 p/d	0%

*Post increase during 2019.

See page 97 for total fees received by each of the Non-Executive Directors based on their respective responsibilities.

PIP Element A matrix for 2020

The following table sets out the targets for 2020 in respect of each KPI, as well as the maximum bonus which can be earned in respect of each KPI for 2020, expressed as a percentage of salary:

KPI	Maximum Forfeiture	Forfeiture Threshold	On-Target Performance	Good Performance	Maximum Performance	Performance breakdown (% salary)	
						CEO (max bonus target)	CFO (max bonus target)
Relative Total Shareholder Return	Lower Quartile	(linear)	Median	(linear)	Upper Quartile	60	40
Total Accounting Return (absolute)	0.0%	3.0%	6.0%	7.5%	9%	60	40
Vacancy Rate	10%	8%	5%	4%	3%	30	20
Total						150%	100%

Long Term Incentive Awards to be granted in 2020

The table below describes how the LTIP will be implemented in 2020. The CEO's award will be 150% of salary and the CFO's award will be 120% of salary.

	Threshold	Maximum
Award vesting for performance (% maximum)	25%	100%
Total Shareholder Return relative to FTSE 350 Real Estate Super Sector constituents (50%)	Median	Upper Quartile
EPRA NRV growth per share relative to FTSE 350 Real Estate Super Sector constituents (50%)	Median	Upper Quartile

Straight line interpolation between points.

Consideration by the Committee of matters relating to directors remuneration for 2019

The consideration of matters relating to directors' remuneration for 2019 is on pages 82-87.

Shareholder voting

The following table represents the voting at the 2019 Annual General Meeting. The current Policy was approved at the 2017 Annual General Meeting. Further information on the actions the Committee has taken to address the views of shareholders can be found on page 85:

	Directors Remuneration Report (2019 AGM)		Directors Remuneration Policy (2017 AGM)	
	Number of votes	% of votes cast	Number of votes	% of votes cast
For	330,054,396	95.01	27,785,622	85.71
Against	17,201,087	4.95	4,633,023	14.29
Total votes cast	347,255,483		32,418,645	
Votes withheld	20,631		13,488	

Directors' Remuneration Policy

The principles of our Remuneration Policy

Competitive

Total remuneration should be competitive when compared with industry peers and companies of similar size and scale.

Performance linked

A significant part of the Executive Directors' reward is determined by the Company's success. Failure to achieve threshold levels of performance may result in both no bonus under the PIP or no vesting under the LTIP and in addition partial forfeiture of earned deferred elements from previous years PIP contributions. The fixed element of the Policy remains conservative against industry and cross-sector peers.

Shareholder alignment

A considerable part of the reward is paid in shares that have to be retained until minimum shareholding requirements have been met and in the case of the LTIP for 5 years from grant.

Simple and transparent

The PIP structure is clear to participants and openly communicable; the LTIP is aligned to standard market practice and will be simple for participants and shareholders alike to understand.

New Remuneration Policy

In accordance with the regulations, the New Policy (the "Policy") as set out below will operate from 1 January 2020 and be put to a binding shareholders' vote and become formally effective if approved at the 2020 Annual General Meeting on 23 April 2020. The current Policy, which was approved on 26 April 2017, remains operative until this time and can be found on our website at www.cls Holdings plc and on pages 51 to 60 of our 2016 Annual Report.

The Committee uses the following comparators for executive remuneration:

- FTSE 350 Real Estate Supersector
- U + I plc, Helical Bar plc, Workspace Group plc, St Modwens plc, Londonmetric plc, Grainger plc, Shaftsbury plc, Great Portland Estates plc, Derwent London plc. These companies are of a similar size and/or complexity to the Group, but the comparator group is kept under review as different companies enter the market or change their size or the main characteristics of their business; and
- FTSE 250
 - changing practice in the international market where the Company competes for talent;
 - pay conditions elsewhere in the Group;
 - changing views of institutional shareholders and their representative bodies; and
 - the recruitment market.

Policy table

Element/Purpose and Link to Strategy	Operation	Opportunity	Performance Measures
Executive Directors			
Base salary Provides a base level of remuneration to support recruitment and retention of Directors with the necessary experience and expertise to deliver the Group's strategy. Key element of core fixed remuneration.	Reviewed annually and usually fixed for 12 months commencing 1st January. Factors taken into account include: <ul style="list-style-type: none"> ■ remuneration practices within the Group; ■ the general performance of the Group; ■ experience and individual performance; ■ changes in the scale, scope or responsibilities; ■ salaries within the ranges paid by the companies in the comparator groups used for remuneration benchmarking (when the Committee determines a benchmarking exercise is appropriate); and ■ the economic environment. 	Competitive in the range for the Company's comparator groups. The Committee intends to review the list of companies each year and may add or remove companies from the groups as it considers appropriate. Any changes to the comparator groups will be disclosed in the part of the report setting out the operation of the policy for the future year. In general salary rises to Executive Directors will be in line with the rise to UK based employees. Maximum increase of 5% of salary per annum unless there is a significant change to the role and responsibilities.	None, although individual's performance and contribution are taken into account.
Benefits To provide a competitive level of benefits and encourage the well-being and engagement of employees.	The key benefits provided to the Executive Directors include private medical insurance, life insurance, income protection, gym contribution and staff lunch provision. The Committee recognises the need to maintain suitable flexibility in the determination of benefits that ensure it is able to support the objective of attracting and retaining personnel. Accordingly, the Committee would expect to be able to adopt benefits such as relocation expenses, tax equalisation and support in meeting specific costs incurred by Executive Directors to ensure the Company and the individuals comply with their obligations in the reporting of remuneration. Where the Company offers a flexible benefits approach (where the value of one benefit may be exchanged for another) to employees generally an Executive Director would have the option to participate. Other benefits (in line with those received by the general workforce) may be offered at the discretion of the Committee, such as long service awards or recognition of life events.	Market level in the range for the Company's comparator groups. The maximum will be set at the cost of providing the benefits described.	None.
Pension Provide retirement planning and protection to employees and their family during their working life. Provides a standard UK market level of retirement funding to enable the Company to recruit and retain Directors with the experience and expertise to deliver the Group's strategy.	Employer retirement funding is determined as a percentage of gross basic salary, up to a maximum limit of 10%. Where this exceeds the maximum annual pension contribution that can benefit from tax relief, any excess may be provided in the form of a salary supplement, which would not itself be pensionable or form part of salary for the purposes of determining the extent of participation in the Company's incentive arrangements.	The maximum Company contribution is 10% for current directors. For new joiners, the pension benefit will be aligned to the staged percentages applicable to the wider UK workforce, currently 5% of salary upon joining, rising to 7.5% of salary after three years and 10% of salary after 5 years. The maximum employee contribution is 5%.	None.

Remuneration

Remuneration Committee Report continued

Element/Purpose and Link to Strategy	Operation	Opportunity	Performance Measures
<p>All employee share plan The Company's Share Incentive Plan ("SIP") allows all employees, including Executive Directors, to share in the potential value created by the Company.</p> <p>Increase share ownership throughout the organisation.</p>	In line with the legislation for this type of plan.	The maximum opportunity will be in line with the limits set by HMRC.	None.
<p>Performance Incentive Plan (the 'PIP') – Element A The PIP provides a significant incentive to the Executive Directors linked to achievement of delivering annual goals that are closely aligned with the Company's strategy and the creation of value for shareholders. In particular, the PIP supports the Company's objectives by:</p> <ul style="list-style-type: none"> ■ allowing the setting of annual targets based on the business' strategic objectives at that time, meaning that performance metrics can be used that are relevant and suitably stretching whilst also providing sufficient incentive linked to potential to be achievable; ■ providing substantial deferral and ongoing adjustment by requiring a threshold level of performance to be achieved during the deferral period. Amounts deferred are also forfeitable on an Executive Director's voluntary cessation of employment which provides an effective lock-in; and ■ enables the Company to recruit top executive talent in a highly competitive market. 	<p>The PIP consists of an annual element which is paid partially in cash and partially is deferred into notional shares.</p> <p>Contributions will be earned annually for the first 3 years based on the satisfaction of Corporate KPIs. 50% of the value of a Participant's Plan Account will be paid out annually for three years with 100% of the residual value paid out at the end of year four.</p> <p>50% of the unpaid balance of a Participant's Plan account will be at risk of annual forfeiture assessed against a forfeiture threshold. This holistic assessment will take account of strategic, financial and operational performance.</p> <p>Malus and clawback provisions apply to the PIP.</p> <p>The Committee has discretion to provide dividend equivalents on PIP shares.</p> <p>The Committee will have overriding discretion to change formulaic outcomes (both upwards and downwards) if the outcomes are out of line with the underlying performance of the Company.</p>	<p>The maximum PIP opportunity is 150% of salary for Executive Directors.</p> <p>At threshold 25% of the maximum is payable.</p> <p>At on target 50% of the maximum is payable.</p>	<p>The performance measures for the PIP are set individually by the Committee and are based on a combination of measures, based on the Company's KPIs (the performance conditions for the 2019 financial year will be detailed in the Annual Remuneration Report as will the conditions for 2020 in the section on how the policy will be operated for the future year). The PIP is measured over a period of one financial year.</p> <p>In order for the Company to be successful, the Committee believes Executive Directors should be focused on the delivery of the Company's strategic and operational KPIs which is the basis on which performance conditions are selected for the PIP.</p> <p>The Committee retains discretion in exceptional circumstances to change performance measures and targets for each element and the weightings attached to performance measures part-way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate.</p>

Element/Purpose and Link to Strategy	Operation	Opportunity	Performance Measures
<p>Long-term Incentive Plan (LTIP) Incentivises long-term shareholder value creation.</p> <p>Drives and rewards achievement of key long-term Company objectives aligned with shareholder interests.</p> <p>Contributes towards building a meaningful shareholding aligning interests with wider shareholders.</p>	<p>LTIP Awards will be granted on an annual basis and may be granted as nil-cost options or conditional awards.</p> <p>Awards under the LTIP will vest subject to a three-year performance period whereby specified performance conditions are satisfied, and the Participant must remain employed by the Company.</p> <p>A two-year post-vest holding period will apply to all vested LTIP awards.</p> <p>Malus and clawback provisions will operate over the full 5-year lock in period.</p> <p>The Committee will have overriding discretion to change formulaic outcomes (both upwards and downwards) if the outcomes are out of line with the underlying performance of the Company.</p> <p>The Committee has discretion to provide dividend equivalents on shares awarded under the LTIP.</p>	<p>The maximum LTIP opportunity is capped at 150% salary for Executive Directors.</p> <p>For threshold performance 25% of the maximum award will vest, with straight line vesting between Threshold and Maximum performance.</p>	<p>The performance measures for the LTIP are set individually by the Committee and are based on a combination of measures, based on the Company's KPIs (the performance conditions for the 2020 LTIP will be detailed in the Annual Remuneration Report in the section on how the policy will be operated for the future year). The LTIP is measured over a period of three financial years.</p> <p>The Committee retains discretion in exceptional circumstances to change performance measures and targets for each element and the weightings attached to performance measures part-way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate.</p>
<p>Minimum shareholding requirement Encourages long-term commitment and alignment with shareholder interests.</p>	<p>Executive Directors are expected to build up and retain a significant shareholding. The CEO is required to hold and maintain a shareholding of 250% of salary and the CFO is required to hold and maintain a shareholding of 200% of salary.</p> <p>Any shares beneficially owned, the post-tax value of any vested but unexercised LTIP awards and the post-tax value of in-flight PIP Element B awards will count towards the requirement.</p> <p>Post-employment requirement Post-employment, an Executive Director shall continue to hold shares equivalent to the minimum of their actual shareholding on cessation of employment and their in-employment shareholding requirement for a period of two years following termination of their employment.</p> <p>The Company will establish a Trust or nominee accounts to ensure that it can enforce shareholding requirements.</p>	None.	None.

Strategic report

Corporate governance

Financial statements

Additional information

Remuneration Committee Report continued

Element/Purpose and Link to Strategy	Operation	Opportunity	Performance Measures
Non-Executive Directors (including Non-Executive Chairman and Non-Executive Vice Chairman)			
Fees Provide a level of fees to support recruitment and retention of Non-Executive Directors with the necessary experience to advise and assist with establishing and monitoring the Group's strategic objectives.	Fees are reviewed annually and fixed for 12 months commencing 1 January. The fees are based on equivalent roles in the comparator groups used to review salaries paid to the Executive Directors. Fees are set at a competitive level to the comparator groups. The Committee is responsible for setting the Chairman's fee. The Board as a whole is responsible for setting the remuneration of the Non-Executive Directors. Non-Executive Directors are paid a base fee and additional fees for chairmanship and membership of committees and other specific work outside their role as a Non-Executive Director, including a per day fee for chairmanship of the Workforce Advisory Panel. The Senior Independent Director also receives an additional fee.	Competitive in the range for the Company's comparator groups. Non-Executive Directors do not participate in any variable remuneration. In general, the level of fee increase for the Non-Executive Directors will be set taking account of any change in responsibility and the general rise in salaries across employees. The Company will pay reasonable expenses incurred by the Non-Executive Directors and may settle any tax incurred in relation to these. Other benefits include travel, accommodation and membership subscriptions related to the Company's business.	None.

Approach to recruitment remuneration

The Committee's approach to recruitment remuneration is to pay no more than is necessary to attract candidates of the appropriate calibre and experience needed for the role. The remuneration package for any new recruit would be assessed following the same principles as for the current Executive Directors. The Committee is mindful that it wishes to avoid paying more than it considers necessary to secure the preferred candidate and is aware of guidelines and shareholder sentiment regarding one-off or enhanced short or long-term incentive payments made on recruitment and the appropriateness of any performance conditions associated with an award.

Where an existing employee is promoted to the Board, the Policy would apply from the date of promotion but there would be no retrospective application of the Policy in relation to subsisting incentive awards or remuneration arrangements. Accordingly, prevailing elements of the remuneration package for an existing employee would be honoured and form part of the ongoing remuneration of the employee. These would be disclosed to shareholders in the following year's Annual Report on Remuneration.

The Company's detailed policy when setting remuneration for the appointment of a new director is summarised in the table below:

Remuneration element	Recruitment policy
Base salary and benefits	The salary level will be set taking into account the responsibilities of the individual, experience and the salaries paid to similar roles in comparable companies. The Committee will apply the Policy set out on salaries for the current Executive Directors in the Policy table. The Executive Director shall be eligible to receive benefits in line with the Company's benefits policy as set out in the Policy table.
Pension	The Executive Director will be entitled to receive contributions into a pension plan or alternatively to receive a supplement in lieu of pension contributions in line with Company's pension policy as set out in the Policy table i.e. in line with the wider workforce employer contribution scale that increases with service provided.
PIP Element A	The Executive Director will be eligible to participate in the PIP as set out in the Policy table. The maximum potential opportunity under this Plan is 150% of salary.
LTIP	The Executive Director will be eligible to participate in the LTIP as set out in the Policy table. The maximum potential opportunity under this Plan is 150% of salary.
"Buy Out" of incentives forfeited on cessation of employment	<p>The Company's policy is not to provide buy-outs as a matter of course. However, should the Committee determine that the individual circumstances of recruitment justify the provision of a buy-out, the equivalent value of any incentives to be forfeited on cessation of a previous employment will be calculated taking into account the following:</p> <ul style="list-style-type: none"> ■ the proportion of the performance period completed on the date of the Executive Director's cessation of employment; ■ the performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied; and ■ any other terms and condition having a material effect on their value ("lapsed value"). <p>The Committee may then grant up to the equivalent value as the lapsed value, where possible, under the PIP and/or the LTIP. To the extent that it was not possible or practical to provide the buy-out within the terms of the Company's PIP and LTIP, a bespoke arrangement would be used.</p>
Relocation Policies	<p>Where the new Executive Director is required to relocate from one work-base to another, the Company may provide one-off/ongoing compensation as part of the Director's relocation benefits to reflect the cost of relocation for the Executive Director in cases where they are expected to spend significant time away from their country of domicile.</p> <p>The level of the relocation package will be assessed on a case by case basis but will take into consideration any cost of living differences/housing allowance and schooling.</p> <p>The maximum period for which an allowance will be provided is 2 years from the point of recruitment.</p>

The Company's Policy when setting fees for the appointment of new Non-Executive Directors is to apply the Policy which applies to current Non-Executive Directors.

Remuneration

Remuneration Committee Report continued

Directors' service contracts

Each of the Executive Directors has a service contract of no fixed term. There is no provision in the contracts of Mr Mortstedt, Mr Widlund or Mr Kirkman for contractual termination payments, save for those payments normally due under employment law.

Each non-executive director has a letter of appointment but, in accordance with best practice, none has a service contract. All of the non-executive directors are appointed until such time as they are not re-elected. In compliance with the Code, all Company Directors will face annual re-election at the Company's AGM. If a director fails to be re-elected the terms of their appointment will cease. It is the Company's policy not to offer notice periods of more than 12 months exercisable by either party.

Details of the service contracts or letters of appointment of those who served as Directors during the year are as follows:

Name		Contract Date	Notice Period
Henry Klotz ¹	Executive	10 November 2015	6 months
Fredrik Widlund	Executive	3 November 2014	12 months
Andrew Kirkman	Executive	30 March 2019	12 months
John Whiteley ¹	Executive	1 October 2009	6 months
Sten Mortstedt	Executive	1 January 2005	12 months
Malcolm Cooper	Non-Executive	15 June 2007	3 months
Elizabeth Edwards	Non-Executive	13 May 2014	3 months
Christopher Jarvis	Non-Executive	25 November 2008	3 months
Bengt Mortstedt	Non-Executive	7 March 2017	3 months
Anna Seeley	Non-Executive	11 May 2015	3 months
Lennart Sten	Non-Executive	1 August 2014	3 months
Denise Jagger	Non-Executive	1 August 2019	3 months
Bill Holland	Non-Executive	20 November 2019	3 months

1. Stepped down from the Board during 2019.

Executive Directors are not permitted to hold external directorships or offices without the prior approval of the Board. If approved, they may each retain the fees payable.

Element	Minimum	On Target	Maximum	Maximum (with 50% share price growth)
Fixed	2020 Base Salary Pension is 10% of Base Salary for CEO and CFO.	2020 Base Salary Pension is 10% of Base Salary.	2020 Base Salary Pension is 10% of Base Salary.	2020 Base Salary Pension is 10% of Base Salary.
PIP	No payout under the PIP.	50% of maximum payout under the PIP.	100% of maximum payout under the PIP.	100% of maximum payout under the PIP. + 50% assumed share price growth on 50% of maximum award i.e. deferred proportion.
LTIP	No vesting under the LTIP.	50% of the maximum vesting under the LTIP.	100% of maximum payout under the LTIP.	100% of maximum payout under the LTIP + 50% assumed share price growth on LTIP awards three-year LTIP performance period.

In accordance with the Policy, the Founder Shareholder does not participate in the PIP and the LTIP arrangements.

Policy on malus and clawbacks

Malus provisions apply to the PIP and the LTIP. Malus is the adjustment of PIP contributions or the balance in Participant's Plan Account or unvested LTIP awards because of the occurrence of one or more circumstances. The adjustment may result in the value being reduced to nil.

Clawback is the recovery of payments made under the PIP or vested LTIP awards as a result of the occurrence of one or more circumstances. Clawback may apply to all or part of a participant's payment under the PIP or LTIP awards and may be achieved, among other means, by requiring the transfer of Shares, payment of cash or reduction of awards or bonuses.

The circumstances in which malus and clawback could apply are as follows:

- discovery of a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group company;
- the assessment of any performance condition or condition in respect of a payment or award under the PIP or LTIP was based on error, or inaccurate or misleading information;
- the discovery that any information used to determine the PIP or the LTIP award was based on error, or inaccurate or misleading information;
- action or conduct of a participant which amounts to fraud or gross misconduct;
- events or the behaviour of a participant have led to the censure of a Group company by a regulatory authority or have had a significant detrimental impact on the reputation of any Group company provided that the Board is satisfied that the relevant participant was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to the participant;
- a material failure or risk management; and
- corporate failure (to the extent the Group company believes such a trigger would be broader than those already in use).

The following table sets out the periods during which malus and clawback may be applied:

	PIP	LTIP
Malus	Up to the date of a Payment.	Any time prior to vesting.
Clawback	Three years post the date of any Payment.	Two years from the date of vesting.

The Committee believes it has the necessary powers under the rules of the Plans to enforce malus and clawback provisions.

Policy on payment for loss of office

When determining any loss of office payment for a departing Director the Committee will always seek to minimise the cost to the Company whilst complying with the contractual terms and seeking to reflect the circumstances in place at the time. The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.

Remuneration

Remuneration Committee Report continued

Remuneration element	Approach	Application of Committee discretion
Salary and benefits	<p>In the event of termination by the Company, there will be no compensation for loss of office due to misconduct or normal resignation.</p> <p>In other circumstances, Executive Directors may be entitled to receive compensation for loss of office which will be a maximum of twelve months salary.</p> <p>Such payments will be equivalent to the monthly salary and benefits that the Executive Director would have received if still in employment with the Company. These will be paid over the notice period. Executive Directors will be expected to mitigate their loss within a twelve-month period of their departure from the Company.</p>	The Company has discretion to make a lump sum payment in lieu.
Pension	Pension contributions or payments in lieu of pension contribution will be made during the notice period.	The Company has discretion to make a lump sum payment in lieu.
PIP	<p>For the Year of Cessation <i>Good leavers:</i> Performance conditions will be measured at the normal measurement date. The Company bonus contribution will normally be pro-rated for the period worked during the financial year.</p> <p><i>Other leavers:</i> No Company bonus contribution payable for year of cessation.</p> <p>Deferred Balances in Participant's Plan Account <i>Good leavers:</i> The balance in the Participant's Plan account will be payable on cessation of employment.</p> <p><i>Other leavers:</i> The balance in the Participants' Plan Account will be forfeited on cessation of employment.</p>	<p>For the Year of Cessation <i>Discretion:</i> the Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> ■ to determine that an Executive is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; and ■ to determine whether to pro-rate the Company bonus contribution to time. The Committee's normal policy is that it will pro-rate for time. It is the Committee's intention to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders. <p>Deferred Balances in Participant's Plan Account <i>Discretion:</i> The Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> ■ to determine that an Executive is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; ■ to determine whether the payment of the balance of the Participant's Plan Account should be in cash or shares or a combination of both; and ■ to determine whether to pro-rate the balance of the Participant's Plan account payable on cessation. The Committee's normal policy is that it will not pro-rate. The Committee will determine whether to pro-rate based on the circumstances of the Executive Directors' departure.

Remuneration element	Approach	Application of Committee discretion
LTIP	<p><i>Good leavers:</i> Unvested awards will vest on the normal vesting date subject to:</p> <ul style="list-style-type: none"> ■ the extent any applicable performance targets have been satisfied at the end of the normal performance period; and ■ prorating to reflect the period of time between grant and cessation of employment as a proportion of the vesting period that has elapsed. <p><i>Other leavers:</i> Other leavers will forfeit all unvested awards.</p>	<p><i>Discretion:</i> The Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> ■ to determine that an Executive is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; ■ to determine whether to pro-rate the award to time. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Committee's intention to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders; ■ to determine whether the LTIP award will vest on the date of cessation or the original vesting date. The Committee will make its determination based amongst other factors on the reason for the cessation of employment; and ■ to determine whether the Holding Period will apply in full or in part. The Committee will make its determination based amongst other factors on the reason for the cessation of employment.
Other contractual obligations	There are no other contractual provisions other than those set out above that could impact the quantum of the payment.	None.

A good leaver is a person whose cessation of employment is for one of the following reasons:

- death;
- ill-health;
- injury or disability;
- redundancy;
- retirement with the agreement of the employing Group Company;
- employing company ceasing to be a Group company;
- transfer of employment to a company which is not a Group company; and
- where the person is designated a good leaver at the discretion of the Committee (as described above).

A person who ceases employment in circumstances other than those set out above is designated an other leaver.

Remuneration

Remuneration Committee Report continued

Change of control

Remuneration element	Approach	Application of Committee discretion
PIP	<p>For the Year of the Change of Control Performance conditions will be measured at the date of the change of control. The Company bonus contribution will normally be pro-rated to the date of the change of control.</p> <p>Deferred Balances in Participant's Plan Account The balance in the Participant's Plan account will be payable on the change of control.</p>	<p>For the Year of the Change of Control <i>Discretion:</i> The Committee has the following element of discretion:</p> <ul style="list-style-type: none"> ■ to determine whether to pro-rate the Company bonus contribution to time. The Committee's normal policy is that it will pro-rate for time. It is the Committee's intention to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders. <p>Deferred Balances in Participant's Plan Account <i>Discretion:</i> The Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> ■ to determine whether the payment of the balance of the Participant's Plan Account should be in cash or shares or a combination of both; and ■ to determine whether to pro-rate the balance of the Participant's Plan account payable on change of control. The Committee's normal policy is that it will not pro-rate. The Committee will determine whether to pro-rate based on the circumstances of change of control.
LTIP	<p>The awards will vest on the date of the change of control and the Holding Period will fall away.</p> <p>Performance conditions will be measured at the date of the change of control. The award will normally be pro-rated to the date of the change of control.</p> <p>The Committee will determine the level of vesting taking into account:</p> <ul style="list-style-type: none"> ■ the extent that any applicable performance targets have been satisfied at that time; ■ the bid consideration received; and ■ the portion of the vesting period that has then elapsed. 	<p><i>Discretion:</i> The Committee has the following element of discretion:</p> <ul style="list-style-type: none"> ■ to determine whether the satisfaction of LTIP awards should be in cash or shares or a combination of both; ■ to determine whether to pro-rate the LTIP award to time. The Committee's normal policy is that it will pro-rate for time. It is the Committee's intention to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders; and ■ in the event of an internal corporate reorganisation, the Committee may decide to replace unvested awards with equivalent new awards over shares in the acquiring company.

Consideration of employment conditions elsewhere in the Company

As part of our commitment to fairness across the business, and in line with requirements under the UK Corporate Governance Code, we have set out in this report information on the pay conditions of the wider workforce and comparisons with Executives, as well as our diversity policies and statistics. We are committed to transparency internally and externally in relation to developments on these important issues and will continue to consider how our disclosures can be enhanced going forward.

Pay structures across the Group

In making decisions on executive pay, the Committee considers wider workforce remuneration and conditions. We recognise the central importance of all our teams in delivering success.

We aim to provide a remuneration package for our employees which is aligned to our values and remuneration principles across the Group. Our remuneration for employees is market competitive and operates the same core structure as for Executive Directors. This includes employee share and variable pay plans, with pension provision for all Directors and employees.

Each year, prior to reviewing the remuneration outcomes, the Committee considers a report covering key information such as base pay levels, pension and share scheme participation.

Employee engagement

We regularly communicate with our employees on a range of issues, including executive pay. In 2019 our Workforce Advisory Panel met for the first time, chaired by Elizabeth Edwards, who was appointed as the Designated NED. The Committee will continue to use the voice of employees as valuable insight when making wider remuneration decisions.

Diversity and inclusion

The Board recognises the value of the gender pay gap reporting requirements and the opportunity this brings to focus even more on gender diversity. The Board and leadership team recognise that inclusion and diversity in all its forms are vital in achieving diversity of thought, experience and skills within the Group. The Board is committed to promoting diversity throughout the business and is continuing to find effective ways of doing this.

Consideration of shareholder views

The Committee consulted with our top 15 shareholders, representing 86% of the Company's issued share capital, including the main shareholder representative bodies (IA, ISS, Glass Lewis) in respect of the 2020 Remuneration Policy. The Remuneration Committee Chairman attends the Annual General Meeting and is available to answer questions from shareholders.

The Directors present their annual report and the audited financial statements for the year ended 31 December 2019.

The Chairman's Statement, Strategic report and corporate governance report form part of this report and should be read in conjunction with it.

Review of business

- The Group income statement for the year is set out on page 130.
- The Group objective, business model and strategy are set out on pages 14 and 15. KPIs are set out on pages 20 and 21.
- Important events (including post balance sheet events) affecting the Company are set out on pages 6-55.
- The principal and emerging risks and uncertainties are set out on pages 26-30.
- The use of financial instruments are set out on page 44-47, and in note 22 to the Group financial statements.
- The risk management objectives are detailed in note 22 to the Group financial statements. See also pages 24 and 25.
- The Group's likely future developments are set out on pages 7 and 12-13.

Directors

Biographical details of the current Directors of the Company are set out on pages 60-61.

All Directors will be subject to annual re-election at the 2020 Annual General Meeting in accordance with the UK Corporate Governance Code. In his role as independent Non-Executive Chairman, Lennart Sten recommends the election and re-election of the retiring Directors at the 2020 Annual General Meeting, given their experience, performance and continued important contribution to the long-term success of the Company. The Senior Independent Non-Executive Director recommends the re-election of Mr Sten.

Directors remuneration and interests in shares is set out on pages 82-115.

Related party transactions are set out in note 34 to the Group financial statements.

Dividends

An interim dividend of 2.35 pence per share was paid on 27 September 2019. The Directors are proposing a final dividend of 5.05 pence per share making a total dividend for the year ended 31 December 2019 of 7.40 pence per share. The final dividend will be paid on 29 April 2020 to shareholders who are on the register of members on 3 April 2020.

Purchase of the Company's shares

There were no purchases of the Company's own shares during the year. A resolution will be proposed at the 2020 Annual General Meeting to give the Company authority to make market purchases of up to 40,739,576 shares, being 10% of the current issued share capital.

Share capital

Changes in share capital are shown in note 24 to the Group financial statements. At 31 December 2019, and at the date of this report, the Company's issued share capital consisted of 438,777,780 ordinary shares of 2.5 pence each, of which 407,395,760 held voting rights and 31,382,020 shares were held as treasury shares, and all of which ranked pari passu. The rights (including full details relating to voting), obligations and any restrictions on transfer relating to the Company's shares, and the powers of the Directors in that regard, are set out in the Company's Articles of Association.

Major interests in the company's shares

As at 5 March 2020 the Company's top 10 shareholders, including those who have notified the Company of their interests above 3% in the Company's issued share capital, are:

	No. of shares	%
The Sten and Karin Mortstedt Family and Charity Trust	209,348,740	51.39%
Fidelity Worldwide Investments	40,447,108	9.93%
Bengt Mortstedt	26,072,550	6.39%
Invesco	20,133,023	4.94%
Bank of Montreal	18,993,400	4.66%
Schroders	10,103,979	2.48%
AXA SA	6,532,145	1.60%
Janus Henderson Group plc	5,610,839	1.38%
BlackRock Inc	3,930,927	0.96%
JP Morgan Chase & Co	3,690,730	0.91%

Details of the Directors' interests in shares are shown in the Remuneration Committee Report on page 98. There are no shareholders who carry special rights with regard to control of the Company and there are no restrictions on voting rights. The Company knows of no agreements between holders of securities which would result in restrictions on the transfer of securities or on voting rights.

Significant agreements – change of control

A change of control of the Company may cause a number of agreements to which the Company or its active subsidiaries is party, such as commercial trading contracts, banking arrangements, property leases and licence agreements, to alter or terminate or provisions in those agreements to take effect. In the context of the Group as a whole, only the banking arrangements are considered to be significant. There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occur because of a change of control.

Relationship agreement – controlling shareholder

As at 31 December 2019, Creative Value Investment Group Limited ("CVIG"), the investment vehicle for the Sten and Karin Mortstedt Family and Charity Trust, held through its wholly owned subsidiaries 51.39% of the Company's shares in issue and was therefore seen as a controlling shareholder under the Listing Rules.

Pursuant to Listing Rule 9.8.4, the Company has entered into a relationship agreement which shall only be terminated in the event that CVIG ceases to be a controlling shareholder, or if the Company ceases to be admitted to listing on the premium segment of the Official List. Throughout the period under review, the Company has complied with the mandatory independence provisions and procurement obligations in the relationship agreement, and as far as the Company is aware, CVIG has also complied.

Property portfolio

A valuation of all the investment properties and properties held for sale in the Group at 31 December 2019 was carried out by Cushman and Wakefield for the UK, Germany and France, which produced an aggregate market value of £1,971.4 million (2018: £1,892.4 million).

Corporate governance

The Corporate Governance Statement, prepared in accordance with rule 7.2 of the FCA's Disclosure Guidance and Transparency Rules, is set out on pages 58 to 115 and forms part of this report.

Employees, environmental and social issues

The Group's policies on employment, environmental and social issues (including the information required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013), including charitable donations, are summarised in the Corporate, Social and Environmental Responsibility Report on pages 48 to 55. No political donations to any parties, organisations or candidates, or political expenditure were made during 2019. The Group has also published a CSER Report, which is available on line at www.cls Holdings.com.

Charitable donations during the year totalled £39,379 (2018: £28,859). As part of the Group's sustainability strategy, it sponsors charitable events and organisations relating to the real estate industry and, more specifically, assists charities and organisations with donations and staff involvement initiatives in the areas where our properties are located. Further details can be found in our Sustainability Report, available on the Company's website www.cls Holdings.com

Engagement with suppliers, customers and others in a business relationship with the Company

The statement in respect of the Company's engagement with suppliers, customers and others throughout the year is set out in the stakeholder engagement section on page 22-23 and 64-66 and our Prompt Payment Code is detailed in the sustainability section on page 52.

Human rights

The Board ensures the Group upholds and promotes respect for human rights in all its current operating locations and aims to prevent any negative human rights impact. As the Group operates in the UK, Germany and France it is subject to the European Convention on Human Rights and the UK Human Rights Act 1998. The Group respects all human rights and in conducting its business regards those rights relating to non-discrimination and fair treatment to be the most relevant and to have the greatest potential impact on its key stakeholders, which are deemed to be customers, employees and suppliers. The Board has also noted its moral and legal obligations under the Modern Slavery Act 2015. The Board has a zero tolerance approach towards modern slavery, and throughout the year the Company has contacted its first tier contractors and suppliers to ensure their compliance with the Act. Our full statement on Modern Slavery can be found on our website at www.cls Holdings.com. The Group's policies seek to ensure that employees comply with the relevant legislation and regulations in place to promote good practice. The Group's policies are formulated and kept up to date and communicated to all employees through the Group Intranet and, where appropriate, individual presentations. In the year to 31 December 2019, the Group was not aware of any incident in which the organisation's activities have resulted in an abuse of human rights.

Insurance of directors and indemnities

The Company has arranged insurance cover in respect of legal action against its Directors and Officers. The Company has granted indemnities to each of the Directors and other senior management, uncapped in amount but subject to applicable law, in relation to certain losses and liabilities which they may incur in the course of acting as Directors or employees of the Company or one or more of its subsidiaries or associates.

Auditor

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

2020 Annual General Meeting

The 2020 Annual General Meeting will be held on Thursday, 23 April 2020. The notice of meeting, including explanatory notes for the resolutions to be proposed, will be posted to shareholders.

Disclosure of information to the auditor

Each Director has confirmed at the date of this report that:

- so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Directors' Report continued

Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and further details of this analysis are set out together with the Viability Statement on page 31. Therefore, the Directors continue to adopt the going concern basis in preparing the annual report and accounts.

Disclosures under listing rule 9.8.4R

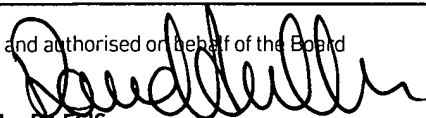
The table below is included to comply with the disclosure requirements under Listing Rule 9.8.4R. The information required by the Listing Rules can be found in the Annual Report at the location stated below.

Listing Rule	Information required	Disclosure
9.8.4(1)	Interest capitalised by the Group	Not applicable
9.8.4(2)	Publication of unaudited financial information	Pages 99 and 170
9.8.4(4)	Long-term incentive schemes with directors	Pages 82-115
9.8.4(5)	Director's waiver of emoluments	None
9.8.4(6)	Director's waiver of future emoluments	None
9.8.4(7)	Non pro rata allotments for cash (issuer)	None
9.8.4(8)	Non pro rata allotments for cash (major subsidiaries)	None
9.8.4(9)	Listed company is subsidiary of another company	None
9.8.4(10)	Contracts of significance with a director	None
9.8.4(11)	Contracts of significance with Controlling Shareholder	None
9.8.4(12)	Dividend waiver	Not applicable
9.8.4(13)	Waiver of future dividends	Not applicable
9.8.4(14)	Relationship Agreement with controlling shareholder	Page 117

The following table is included to comply with the additional disclosure requirements under the Listing Rule 9.8.6

Listing Rule	Information Required	Disclosure
9.8.6(1)	Directors' (and Connected Persons') interests in CLS shares at year end and at not more than one month prior to the date of the AGM notice	Page 98
9.8.6(2)	Interests in CLS shares disclosed under DTR5 at year end and not more than one month prior to the date of AGM notice	Page 116
9.8.6(3)	The going concern statement	Page 118
9.8.6(4)(a)	Amount of authority to purchase own shares available at year end	The Company had the authority to purchase 40,739,576 shares at the year end
9.8.6(4)(b)	Off-market purchases of own shares during the year	None
9.8.6(4)(c)	Off-market purchases of own shares since year end	None
9.8.6(4)(d)	Non-pro rata sales of treasury shares during the year	None
9.8.6(5)	Compliance with the Main Principles of the UK Corporate Governance Code	Page 59
9.8.6(6)(b)	Details of non-compliance with the UK Corporate Governance Code	Pages 58-115
9.8.6(7)	Directors proposed for re-election: the unexpired term of any Director's service contract and a statement about Directors with no service contracts	Pages 60, 61, 110 and 116

Approved and authorised on behalf of the Board



David Fuller BA FCIS
Company Secretary
5 March 2020

Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation, 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.

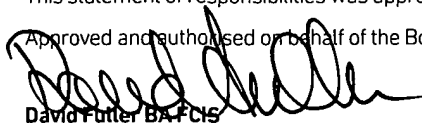
Responsibility statement

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 4 March 2020.

Approved and authorised on behalf of the Board



David Fuller BA FCS
Company Secretary
5 March 2020

In this section:

- 122 Independent auditor's report to the members of CLS Holdings plc
- 130 Group income statement and statement of comprehensive income
- 131 Group statement of comprehensive income
- 132 Group balance sheet
- 133 Group statement of changes in equity
- 134 Group statement of cash flows
- 135 Notes to the Group financial statements
- 164 Company balance sheet
- 165 Company statement of changes in equity
- 166 Notes to the Company financial statements

Independent auditor's report

To the members of CLS Holdings plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of CLS Holdings plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the Group income statement;
- the Group statement of comprehensive income;
- the Group and Company balance sheets;
- the Group and Company statements of changes in equity;
- the Group statement of cash flows;
- the related notes 1 to 34 to the Group financial statements and 1 to 14 to the Company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: <ul style="list-style-type: none"> ■ Valuation of the investment property portfolio. Within this report, key audit matters are identified as follows: <div style="margin-left: 40px;"> <p>Newly identified</p> <p>Increased level of risk</p> <p>Similar level of risk</p> <p>Decreased level of risk</p> </div>
Materiality	The materiality that we used for the group financial statements was £23.9m which was determined on the basis of 2% of net assets. For testing of balances that impacted EPRA adjusted earnings, a lower materiality of £2.2m was used based on 5% of the draft measure.
Scoping	We subject all locations in which CLS operates to full scope audit, this accounts for 100% of the group's net assets, revenue and profit before tax.
Significant changes in our approach	There have been no significant transactions identified in the year and as a result the key audit matter pertaining to this risk reported in the prior year has been removed.

4. Conclusions relating to going concern, principal risks and viability statement

4.1. Going concern

We have reviewed the directors' statement in note 2.1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

4.2. Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 24-30 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 79 that they have carried out a robust assessment of the principal and emerging risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on page 31 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Viability means the ability of the group to continue over the time horizon considered appropriate by the directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Independent auditor's report continued

To the members of CLS Holdings plc

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1 Valuation of the investment property portfolio

Key audit matter description	The assessment of the carrying value of the investment property portfolio, specifically the process, assumptions and judgements used to derive the property valuations.
	<p>The Group's investment properties in the UK, Germany, and France are held at £1,961.0m at 31 December 2019 (31 December 2018: £1,888.1m), see note 13 for full disclosure, making this the most quantitatively material balance in the financial statements.</p> <p>The valuation of the portfolio is a significant judgement area that is underpinned by a number of assumptions including capitalisation yields and future lease income. Our key audit matter in relation to the valuation of the investment property portfolio is pinpointed to the assumptions applied in the determination of the valuation, including property yields and estimated future rental income, where these fall outside of a range which we would expect to be applied.</p> <p>We also consider the inputs used in the data supplied to the Group's valuers for the valuation process and the accuracy and completeness of this information in the context of the risk of potential manipulation of this by management in order to fraudulently misstate the valuation. Refer to the audit committee report on page 80 where this is included as a significant issue. The relevant accounting policy for the Group is presented in note 2.5 on page 136 and further details in note 13 to the financial statements on page 147.</p>
How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of the relevant controls in respect of this business process.</p> <p>We assessed management's process for reviewing the valuations of the property portfolio.</p> <p>We obtained the external valuation reports and met with the external valuers of the property portfolio to understand and challenge the valuation process, to discuss performance of the portfolio, and for a sample of properties discuss significant assumptions and critical judgement areas, including estimated rental values, yields and occupancy rates.</p> <p>We utilised the expertise of a real estate specialist, a chartered surveyor, for our challenge of the investment property valuations, in particular to analyse those assumptions applied in the valuation performed by the Group's valuers as well as the inputs used in the data supplied to the Group's valuers for the valuation process.</p> <p>As part of our meeting with the external valuers we assessed their competence, independence and integrity.</p> <p>Our real estate specialist provided relevant industry data for the UK and drew on local expertise in the European markets in which CLS operates. This was used to benchmark the portfolio performance and key assumptions used to assess whether the external evidence supported the assumptions used by the valuers.</p> <p>Finally, we assessed, on a sample basis, the integrity of information provided to the valuer, relating to rental income, to evaluate whether it was consistent with the relevant leases.</p>
Key observations	<p>We concluded that the assumptions applied in arriving at the fair value of the Group's property portfolio were appropriate, as well as the inputs to the valuation.</p>

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£23.9m (2018: £22.5m) for balance sheet items £2.2m (2018: £3.5m) for income statement items	£10.9m (2018: £9.2m)
Basis for determining materiality	<p>We have determined materiality for the Group based on:</p> <ul style="list-style-type: none"> ■ 2% (2018: 2%) of net assets for testing of balance sheet items. ■ 5% (2018: 5%) of draft EPRA adjusted earnings for testing of balances that impact the measure. <p>We have determined materiality for the Parent Company based on 2% (2018: 2%) of total assets for testing of balance sheet items.</p>	
Rationale for the benchmark applied	<p>As an investment property company, the main focus of management is to generate long-term capital value from the investment property portfolio and, therefore, we consider net assets to be the most appropriate basis for materiality to be applied for testing of Group balance sheet items. The increase in materiality from the prior year reflects the increase in net assets driven primarily by the uplift in the valuation of the investment property portfolio.</p> <p>Total assets is an appropriate basis for the Parent Company as it holds investments in underlying subsidiary undertakings. It does not hold external debt and has no direct property holdings.</p> <p>We continue to consider EPRA adjusted earnings to be a critical performance measure for the Group and we therefore calculated and applied a lower materiality to testing of those items impacting EPRA adjusted earnings. The decrease in materiality from the prior year reflects lower EPRA earnings as a result of increased costs and tax charges.</p>	

Independent auditor's report continued

To the members of CLS Holdings plc

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

- (a) our risk assessment, including our understanding of the Group's overall control environment which we consider appropriate for the size and nature of the Group;
- (b) changes in management and directors during the year, including appointment of a new CFO;
- (c) our past experience of the audit, which has indicated a low number of uncorrected misstatements identified in prior periods.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.2m (2018: £1.1m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risk of material misstatement at the Group level. Based on that assessment, and consistent with our conclusion on scoping in the prior year, we focused our Group audit scope on the audit work at each of the Group's principal business units, being the UK, France and Germany. These locations represent the principal business units of the group and are considered by us to be the significant components. These components, together with the audit work performed directly by the Group audit team, account for 100% (2018: 100%) of the Group's net assets, revenue and profit before tax. All business units were subject to specific audit procedures. This approach provides an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

7.2. Working with other auditors

Our audit work at each of the three business units has been executed by Deloitte component auditors at levels of materiality applicable to each individual business unit which were lower than Group materiality and ranged from £8.3m to £12.5m (2018: £6.7m to £16.8m) with lower materialities being used for those items impacting EPRA adjusted earnings ranging from £0.9m to £1.1m (2018: £0.7m to £2.6m), consistent with the Group audit approach.

The audit work on the key audit matters has been led by the Group audit team, supplemented by specific procedures by the component auditors to gain assurance over the information provided to the valuers only. The component auditors' work has been reviewed by the Group team on site for the French component and remotely for the German component in the current year and, where necessary, component auditors carried out further testing at our request. The UK component is audited directly by the Group audit team.

At the Group level we tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

All component audit partners are included in our team briefing where their risk assessment is discussed and there is frequent two-way communication between the Group and component teams. In the year, we visited our component team in France to perform our file review and attend the local close meeting, and we attended the German close meeting via a teleconference call.

8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditor's report continued

To the members of CLS Holdings plc

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams and involving relevant internal specialists, including tax, real estate and financial instruments specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the information sent to the valuers for use in valuing the group's investment property portfolio. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. The key laws and regulation we considered in this context included the Landlord and Tenant Act, Employment Laws and Health and Safety Act.

11.2. Audit response to risks identified

As a result of performing the above, we identified the valuation of the investment property portfolio as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14. Other matters

14.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by The Board of CLS Holdings plc on 23 May 2007 to audit the financial statements for the year ending 31 December 2007 and subsequent financial periods. Following a competitive tender process, we were reappointed as auditor for the period ending 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is thirteen years, covering the years ending 31 December 2007 to 31 December 2019.

14.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Georgina Robb FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

5 March 2020

Group income statement

for the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Continuing operations			
Group revenue	4	138.3	133.0
Net rental income	4	110.6	107.3
Administration expenses	5	(19.9)	(17.8)
Other expenses		(13.7)	(13.2)
Group revenue less costs		77.0	76.3
Net movements on revaluation of investment properties	13	57.4	62.8
Gain on sale of other financial investments, net of impairments		40.4	1.7
Net movements on revaluation of equity investments	15	–	22.2
Net profit on sale of properties		8.6	2.3
Operating profit		183.4	165.3
Finance income	8	5.0	6.1
Finance costs	9	(29.4)	(26.5)
Share of result of associates after tax		–	–
Profit before tax		159.0	144.9
Taxation	10	(23.8)	(12.1)
Profit for the year from continuing operations	6	135.2	132.8
Discontinued operations			
Loss for the year from discontinued operations	23	(0.5)	(14.9)
Profit for the year		134.7	117.9
Attributable to:			
Owners of the Company		135.5	124.3
Non-controlling interests		(0.8)	(6.4)
		134.7	117.9
Earnings per share (expressed in pence per share)			
Basic and diluted earnings per share from continuing operations		33.2	32.6
Basic and diluted earnings/(loss) per share from discontinued operations		0.1	(2.1)
Basic and diluted earnings per share	11	33.3	30.5

The notes on pages 135 to 163 are an integral part of these Group financial statements.

Group statement of comprehensive income

for the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Profit for the year		134.7	117.9
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Foreign exchange differences		(28.8)	3.6
Items that may be reclassified to profit or loss			
Fair value (loss) on corporate bonds and other financial investments	15	–	(7.4)
Fair value loss/(gain) taken to gain on sale of other financial investments, net of impairments		2.5	(0.4)
Revaluation of property, plant and equipment	14	(0.1)	(0.4)
Deferred tax on net fair value gains	19	(0.3)	0.6
Discontinued operations		(0.9)	1.5
Total items that may be reclassified to profit or loss		1.2	(6.1)
Total other comprehensive income		(27.6)	(2.5)
Total comprehensive income for the year		107.1	115.4
Total comprehensive income attributable to:			
Owners of the Company		107.9	121.4
Non-controlling interests		(0.8)	(6.0)
		107.1	115.4

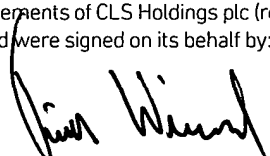
The notes on pages 135 to 163 are an integral part of these Group financial statements.

Group balance sheet


at 31 December 2019

	Notes	2019 £m	2018 £m
Non-current assets			
Investment properties	13	1,961.0	1,888.1
Property, plant and equipment	14	43.1	33.7
Goodwill and intangibles		1.4	1.4
Investments in associates	33	–	–
Other financial investments	15	–	107.8
Deferred tax	19	4.7	3.5
		2,010.2	2,034.5
Current assets			
Trade and other receivables	16	25.3	12.3
Properties held for sale		10.4	4.3
Derivative financial instruments	21	0.3	–
Cash and cash equivalents	17	259.4	100.3
Assets of discontinued operations	23	–	56.1
		295.4	173.0
Total assets		2,305.6	2,207.5
Current liabilities			
Trade and other payables	18	(54.7)	(51.9)
Current tax		(11.9)	(7.0)
Derivative financial instruments	21	–	(0.5)
Borrowings	20	(132.3)	(66.3)
Liabilities of discontinued operations	23	–	(44.3)
		(198.9)	(170.0)
Non-current liabilities			
Deferred tax	19	(140.8)	(139.3)
Borrowings	20	(759.4)	(770.6)
Derivative financial instruments	21	(4.1)	(4.6)
		(904.3)	(914.5)
Total liabilities		(1,103.2)	(1,084.5)
Net assets		1,202.4	1,123.0
Equity			
Share capital	24	11.0	11.0
Share premium	26	83.1	83.1
Other reserves	27	96.4	123.0
Retained earnings		1,011.9	905.1
Equity attributable to owners of the Company		1,202.4	1,122.2
Non-controlling interests		–	0.8
Total equity		1,202.4	1,123.0

The financial statements of CLS Holdings plc (registered number: 02714781) were approved by the Board of Directors and authorised for issue on 5 March 2020 and were signed on its behalf by:



Mr F Widlund
Chief Executive Officer



Mr A Kirkman
Chief Financial Officer

The notes on pages 135 to 163 are an integral part of these Group financial statements.

Group statement of changes in equity

for the year ended 31 December 2019

133

	Share capital £m Note 24	Share premium £m Note 26	Other reserves £m Note 27	Retained earnings £m	Total £m	Non- controlling interest £m	Total equity £m
Arising in 2019:							
Total comprehensive income for the year	–	–	(27.6)	135.5	107.9	(0.8)	107.1
Employee Performance Incentive							
Plan charge	–	–	1.0	–	1.0	–	1.0
Dividends to shareholders	–	–	–	(28.7)	(28.7)	–	(28.7)
Total changes arising in 2019	–	–	(26.6)	106.8	80.2	(0.8)	79.4
At 1 January 2019	11.0	83.1	123.0	905.1	1,122.2	0.8	1,123.0
At 31 December 2019	11.0	83.1	96.4	1,011.9	1,202.4	–	1,202.4
	Share capital £m Note 24	Share premium £m Note 26	Other reserves £m Note 27	Retained earnings £m	Total £m	Non- controlling interest £m	Total equity £m
Arising in 2018:							
Total comprehensive income for the year	–	–	(2.9)	124.3	121.4	(6.0)	115.4
Employee Performance Incentive							
Plan charge	–	–	0.8	–	0.8	–	0.8
Reclassify fair value movements on equity investments (implementation of IFRS 9)	–	–	(17.9)	17.9	–	–	–
Dividends to shareholders	–	–	–	(26.5)	(26.5)	–	(26.5)
Total changes arising in 2018	–	–	(20.0)	115.7	95.7	(6.0)	89.7
At 1 January 2018	11.0	83.1	143.0	789.4	1,026.5	6.8	1,033.3
At 31 December 2018	11.0	83.1	123.0	905.1	1,122.2	0.8	1,123.0

The notes on pages 135 to 163 are an integral part of these Group financial statements.

Group statement of cash flows

for the year ended 31 December 2019

	Notes	2019 £m	2018 £m
Cash flows from operating activities			
Cash generated from operations	29	75.3	72.9
Interest received		2.8	4.4
Interest paid		(22.8)	(24.2)
Income tax paid on operating activities		(6.4)	(5.1)
Net cash inflow from operating activities		48.9	48.0
Cash flows from investing activities			
Purchase of investment properties		(237.2)	(70.9)
Capital expenditure on investment properties		(16.7)	(15.8)
Proceeds from sale of properties		171.6	48.8
Income tax paid on sale of properties		(6.6)	(7.9)
Purchases of property, plant and equipment		(0.5)	(2.0)
Purchase of corporate bonds		–	(39.7)
Proceeds from sale of corporate bonds		34.5	68.7
Proceeds from sale of equity investments		113.1	1.0
Dividends received from equity investments		2.2	1.7
Proceeds from sale of subsidiaries		4.5	–
Purchase of intangibles		–	(0.1)
Net cash flow from discontinued operations		–	1.0
Costs on foreign currency transactions		(1.2)	(0.9)
Net cash inflow/(outflow) from investing activities		63.7	(16.1)
Cash flows from financing activities			
Dividends paid		(28.7)	(26.5)
New loans		292.4	137.7
Issue costs of new loans		(3.6)	(1.8)
Repayment of loans		(209.5)	(181.7)
Net cash inflow/(outflow) from financing activities		50.6	(72.3)
Cash flow element of net increase/(decrease) in cash and cash equivalents		163.2	(40.4)
Foreign exchange (loss)/gain		(4.1)	0.2
Net increase/(decrease) in cash and cash equivalents		159.1	(40.2)
Cash and cash equivalents at the beginning of the year		100.3	140.5
Cash and cash equivalents at the end of the year	18	259.4	100.3

The notes on pages 135 to 163 are an integral part of these Group financial statements.

1. General information

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

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

2. Significant accounting policies

The principal accounting policies applied in the preparation of these Group financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared on a going concern basis as explained in the Directors' Report on page 118 and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, International Financial Reporting Interpretations Committee ("IFRIC") interpretations, and the provisions of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell the asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

The consolidated financial statements, including the results and financial position, are presented in sterling, which is the functional and presentation currency of the Group.

New standards and interpretations

In the current year, the Group has applied a number of new standards and amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements. These new standards and amendments are listed below:

- IFRS 16 Leases
- IFRS 9 (amendments) Prepayment features with negative compensation
- IAS 28 (amendments) Long-term interests in associates and joint ventures
- Annual Improvements to IFRSs: 2015-2017 Cycle
- IFRIC 23 Uncertainty over income tax treatments

In relation to IFRS 16, as the Group is predominantly a lessor, this standard has not had a material impact on adoption. Where the Group is currently a lessee, this relates to immaterial contracts.

At the date of authorisation of these financial statements, The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

- IFRS 17 Insurance contracts
- IFRS 10 and IAS 28 (amendments) Sale or contribution of assets between an investor and its associate or joint venture
- IFRS 3 (amendments) Definition of a business
- IAS 1 and IAS 8 (amendments) Definition of material
- Conceptual framework amendments to references to the conceptual framework in IFRS standards
- IFRS 9, IAS 39 and IFRS 7 (amendments) Interest rate benchmark reform

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods.

2.2 Business Combinations

(I) Subsidiary undertakings

Subsidiary undertakings are those entities controlled by the Group. Control is assumed when the Group has the power to govern the financial and operating policies of an entity or business to benefit from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date control ceases. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

(II) Associates

Associates are those entities over which the Group has significant influence but which are not subsidiary undertakings or joint ventures. The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Notes to the Group financial statements continued

31 December 2019

2. Significant accounting policies continued

(III) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of identifiable assets and liabilities of a subsidiary or associate at the date of acquisition. It is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually.

2.3 Non current assets held for sale

Non current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after sale.

2.4 Foreign currency

(I) Foreign currency transactions

Transactions in foreign currencies are translated into sterling using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the exchange rate ruling at that date, and differences arising on translation are recognised in profit before tax.

In relation to financial assets measured at fair value through other comprehensive income, exchange differences on the amortised cost of the financial assets are recognised in profit or loss in the 'finance costs or finance income' line item. Other exchange differences are recognised in other comprehensive income in the fair value reserve. For financial assets measured at fair value through profit and loss, exchange differences are recognised in profit or loss in the 'finance costs or finance income' line item.

(II) Consolidation of foreign entities

The results and financial position of all Group entities which have a functional currency different from sterling are translated into sterling as follows:

- (a) assets and liabilities are translated at the closing rate at the date of the balance sheet;
- (b) income and expenses for each income statement are translated at the average exchange rates; and
- (c) all resulting exchange differences are recognised directly in equity in the cumulative translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to the cumulative translation reserve. When a foreign operation is sold, such exchange differences are recognised as part of the gain or loss on sale in profit before tax.

2.5 Investment properties

Investment properties are those properties held for long-term rental yields or for capital appreciation or both. Investment properties are measured initially at cost, including related transaction costs. Additions to investment properties comprise costs of a capital nature; in the case of investment properties under development, these include capitalised interest and certain staff costs directly attributable to the management of the development. Capitalised interest is calculated at the rate on associated borrowings applied to direct expenditure between the date of gaining planning consent and the date of practical completion. The acquisition of an investment property is recognised when the risks and rewards of ownership have been transferred to the Group, typically on unconditional exchange of contracts or when legal title passes. Profit on sale of an investment property is recognised when the risks and rewards of ownership have been transferred to the buyer, typically on unconditional exchange of contracts or when legal title passes.

Investment properties are carried at fair value, based on market value as determined by professional external valuers at the balance sheet date. Investment properties being redeveloped for continuing use as investment properties, or for which the market has become less active, continue to be classified as investment properties and measured at fair value. Changes in fair values are recognised in profit before tax.

2.6 Property, plant and equipment

Property, plant and equipment is carried at fair value, based on market value as determined by professional external valuers at the balance sheet date, except for fixtures and fittings and head office fit-out which are stated at historical cost less accumulated depreciation and any recognised impairment loss.

Any increase arising on the revaluation of land and buildings held as property, plant and equipment is credited to the fair value reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase in value is credited to the profit or loss to the extent the decrease was previously expensed.

Land is not depreciated. Depreciation on property, plant and equipment is calculated using the straight-line method to allocate cost less estimated residual values over the estimated useful lives, as follows:

Fixtures and fittings	4–5 years
Freehold property	6 years
Head Office fit-out	10 years
Hotel	20 years

2. Significant accounting policies continued

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit before tax.

2.7 Financial instruments

(I) Derivative financial instruments

The Group uses derivative financial instruments, including swaps and interest rate caps, to help manage its interest rate and foreign exchange rate risks. Derivative financial instruments are recorded, and subsequently revalued, at fair value. Revaluation gains and losses are recognised in finance income or finance cost in the income statement, except for derivatives which qualify as effective cash flow hedges, the gains and losses relating to which are recognised in other comprehensive income.

(II) Financial assets classified as fair value through other comprehensive income ('FVTOCI')

Financial assets classified as at FVTOCI are initially measured at cost, and are subsequently revalued to fair value. Revaluation gains and losses are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary assets which are recognised in the income statement. On disposal, the cumulative gain or loss previously recognised in other comprehensive income is recycled through profit before tax.

The Group's corporate bond portfolio was held with the dual objective of holding those bonds to earn interest and selling those bonds before their maturity in order to generate cash for investment or liquidity purposes.

(III) Financial assets at fair value through profit and loss ('FVTPL')

Financial assets at FVTPL are revalued to fair value. Revaluation gains and losses are recognised in profit or loss.

(IV) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(V) Trade and other receivables and payables

Trade and other receivables are recognised initially at fair value. Subsequently they are measured at amortised cost with a recognised loss allowance for expected credit losses which is measured at an amount equal to the lifetime expected credit loss. Trade and other payables are stated at cost, which equates to fair value.

(VI) Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequently, borrowings are stated at amortised cost with any difference between the amount initially recognised and the redemption value being recognised in profit before tax over the period of the borrowings, using the effective interest rate method.

2.8 Revenue

(I) Rental income

Rental income from operating leases is recognised on a straight-line basis over the lease term. The cost of incentives is recognised over the lease term, on a straight-line basis, as a reduction of rental income.

(II) Service charge income

Service charge income is recognised on a gross basis in the accounting period in which the services are rendered.

2.9 Income tax

Current tax is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the balance sheet liability method on temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the values used for tax purposes. Temporary differences are not provided for when they arise from initial recognition of goodwill or from the initial recognition of assets and liabilities in a transaction that does not affect accounting or taxable profit.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, and is calculated using rates that are expected to apply in the period when the liability is settled or the asset is realised, in the tax jurisdiction in which the temporary differences arise. Deferred tax is charged or credited in arriving at profit after tax, except when it relates to items recognised in other comprehensive income, in which case the deferred tax is also recognised in other comprehensive income.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be used. The deferred tax assets and liabilities are only offset if they relate to income taxes levied by the same taxation authority, there is a legally enforceable right of set-off and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or equity respectively.

Notes to the Group financial statements continued

31 December 2019

3. Critical accounting judgements and key sources of estimation uncertainty

Critical accounting judgements

In accordance with IAS 1, the Directors have considered the judgements that have been made in the process of applying the Group's accounting policies, which are described in note 2, and which of those judgements have the most significant effect on amounts recognised in the financial statements.

In the opinion of the Directors, for the year ended 31 December 2019 there are no accounting judgements that are material to the financial statements.

Key sources of estimation uncertainty

The Group uses the valuations performed by its independent external valuers as the fair value of its investment properties and those properties held at valuation and classified as property, plant and equipment. The valuations are based upon assumptions including future rental income, anticipated maintenance costs, future development costs and an appropriate discount rate (see note 13 for more detail). The valuers also make reference to market evidence of transaction prices for similar properties.

4. Segment information

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

Investment Property: United Kingdom
 Germany
 France

Other Investments

The Group's results for the year ended 31 December 2019 by operating segment were as follows:

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

4. Segment information continued

The Group's results for the year ended 31 December 2018 by operating segment were as follows:

	Investment Property			Other Investments £m	Central Administration £m	Total £m
	United Kingdom £m	Germany £m	France £m			
Rental income	56.7	31.1	15.2	–	–	103.0
Other property-related income	2.0	0.1	0.4	4.4	–	6.9
Service charge income	8.2	9.5	5.4	–	–	23.1
Revenue	66.9	40.7	21.0	4.4	–	133.0
Service charges and similar expenses	(10.3)	(9.9)	(5.5)	–	–	(25.7)
Net rental income	56.6	30.8	15.5	4.4	–	107.3
Administration expenses	(6.7)	(3.0)	(1.9)	(0.6)	(5.6)	(17.8)
Other expenses	(5.7)	(3.5)	(1.0)	(3.0)	–	(13.2)
Group revenue less costs	44.2	24.3	12.6	0.8	(5.6)	76.3
Net movements on revaluation of investment properties	4.0	48.0	10.8	–	–	62.8
Gain on revaluation of equity investments	–	–	–	22.2	–	22.2
Profit on sale of investment property	1.9	0.3	0.1	–	–	2.3
Gain on sale of other financial investments	–	–	–	1.7	–	1.7
Segment operating profit/(loss)	50.1	72.6	23.5	24.7	(5.6)	165.3
Finance income	–	–	–	6.1	–	6.1
Finance costs	(18.3)	(4.9)	(2.7)	(0.6)	–	(26.5)
Segment profit/(loss) before tax	31.8	67.7	20.8	30.2	(5.6)	144.9

Other segment information

	Assets		Liabilities		Capital expenditure	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Investment Property						
United Kingdom	1,064.7	981.0	532.4	463.5	5.9	82.0
Germany	679.1	643.4	357.1	347.5	7.4	2.3
France	290.7	315.9	205.2	218.4	1.6	5.7
Other Investments	271.1	211.1	8.5	10.9	0.1	–
	2,305.6	2,151.4	1,103.2	1,040.3	15.0	90.0

5. Alternative Performance Measures ("APMs")

APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

Introduction

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

Overview of our use of APMs

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

APMs are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including peers in the real estate industry.

Notes to the Group financial statements continued

31 December 2019

5. Alternative Performance Measures ("APMs") continued

There are essentially two sets of APMs which we utilise, and which are reconciled where possible to statutory measures below:

1. Existing 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. The two key APMs for CLS, which are in accordance with the November 2016 EPRA guidelines, are:

- EPRA Net Asset Value which excludes certain items not expected to crystallise in a long-term investment property business model, such as CLS; and
- 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.

Whilst CLS primarily uses these two measures, we have also disclosed other EPRA metrics as well as disclosing the measures that CLS prefers for certain categories.

New EPRA Net Asset Value metrics were published by EPRA in October 2019 which come into force from 1 January 2020, at which point CLS will start using them. From 2020 CLS will start utilising EPRA Net Replacement Value ("NRV") instead of EPRA NAV as a key APM as we believe that this will continue to reflect the long-term nature of our property investments most accurately.

2. Other APMs

CLS uses a number of other APMs, many of which are commonly used by other industry peers, for example Loan to Value, and these APMs are reconciled below.

Changes to APMs

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.

Reconciliation of APMs

Set out below is a reconciliation of the APMs used in these results to the statutory measures.

1. Existing EPRA APMs and similar CLS APMs

i) Earnings – EPRA Earnings

	Notes	2019 £m	2018 £m
Profit/(loss) for the year		135.5	124.3
(Loss)/Profit from discontinued operations	23	(0.3)	8.5
Net (uplift)/deficit on revaluation of investment properties	13	(57.4)	(62.8)
Net (uplift)/deficit on revaluation of equities		–	(22.2)
FX on equities		–	0.6
(Profit)/loss from sale of investment properties		(8.6)	(2.3)
Current tax on disposals		13.4	2.4
Gain/(loss) from sale of corporate bonds and equities	15	(40.4)	(1.7)
Tax thereon		0.1	0.4
Finance costs – exceptional	9	–	3.7
Tax thereon		–	(0.7)
Change in FV of interest derivatives	9	0.5	(2.3)
Change in FV of FX derivatives		0.4	2.0
Deferred taxation thereon	19	5.7	3.6
EPRA Earnings		48.9	53.5
EPRA Earnings Per Share (pence)		12.0p	13.1p

5. Alternative Performance Measures ("APMs") continued

ii) Net asset value – EPRA NAV and EPRA NNNAV

	Notes	2019 £m	2018 £m
Net assets		1,202.4	1,122.2
Goodwill as a result of deferred tax on acquisitions		(1.1)	(1.1)
Fair value of debt adjustment		(9.9)	(6.4)
Fair value of debt adjustment – tax thereon		1.9	1.1
EPRA NNNAV		1,193.3	1,115.8
Deferred tax	19	136.1	135.8
FV of financial instruments	21	3.8	5.1
Fair value of debt adjustment		9.9	6.4
Fair value of debt adjustment – tax thereon		(1.9)	(1.1)
EPRA NAV		1,341.2	1,262.0
EPRA NNNAV Per Share (pence)		292.9p	273.9p
EPRA NAV Per Share (pence)		329.2p	309.8p

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).

	2019				2018			
	United Kingdom £m	Germany £m	France £m	Total £m	United Kingdom £m	Germany £m	France £m	Total £m
Rent passing	56.7	32.8	14.1	103.6	52.4	33.5	15.2	101.1
Adjusted for development stock	(1.4)	–	–	(1.4)	(1.4)	–	–	(1.4)
Forecast non recoverable service charge	(2.2)	–	–	(2.2)	(2.6)	–	–	(2.7)
Annualised net rents (A)	53.1	32.8	14.1	100.0	48.3	33.5	15.2	97.0
Property portfolio	1,024.3	663.6	283.4	1,971.3	954.9	629.4	308.1	1,892.4
Adjusted for development stock	(52.4)	(8.2)	–	(60.6)	(61.6)	(9.8)	(2.2)	(73.6)
Purchasers' costs at 6.8%	66.1	44.5	19.3	129.9	60.7	42.1	20.8	123.6
Property portfolio valuation including purchasers' costs (B)	1,038.0	699.9	302.7	2,040.6	954.0	661.7	326.7	1,942.4
EPRA NIY (A/B)	5.1%	4.8%	4.7%	4.9%	5.1%	5.1%	4.7%	5.0%

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).

	2019				2018			
	United Kingdom £m	Germany £m	France £m	Total £m	United Kingdom £m	Germany £m	France £m	Total £m
Contracted rent	59.2	34.3	15.8	109.3	57.2	35.3	17.1	109.6
Adjusted for development stock	(1.5)	–	–	(1.5)	(1.5)	–	–	(1.5)
Forecast non recoverable service charge	(2.2)	–	–	(2.2)	(2.6)	–	–	(2.6)
"Topped Up" annualised net rents (A)	55.5	34.3	15.8	105.6	53.1	35.3	17.1	105.5
Property portfolio	1,024.3	663.6	283.5	1,971.4	954.9	629.4	308.1	1,892.4
Adjusted for development stock	(52.4)	(8.2)	–	(60.6)	(61.6)	(9.8)	(2.2)	(73.6)
Purchasers' costs (6.8%)	66.1	44.5	19.3	129.9	60.7	42.1	20.8	123.6
Property portfolio valuation including purchasers' costs (B)	1,038.0	699.9	302.7	2,040.6	954.0	661.7	326.7	1,942.4
EPRA "Topped Up" NIY (A/B)	5.4%	5.0%	5.2%	5.2%	5.6%	5.3%	5.3%	5.4%

Notes to the Group financial statements continued

31 December 2019

5. Alternative Performance Measures ("APMs") continued

iv) Vacancy

CLS Vacancy

CLS has historically opted to use our own KPI regarding vacancy as we believe that this provide a more accurate reflection of occupancy levels in our portfolio and provides a more prudent KPI as a large proportion of our portfolio is under rented.

	Notes	2019 £m	2018 £m
ERV of vacant space (A)		4.6	4.4
Contracted rent		109.3	109.6
ERV of vacant space plus contracted rent (B)		113.9	114.0
CLS vacancy rate (A/B)		4.0%	3.8%

v) 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	2019 £m	2018 £m
Administration expenses	4	19.9	17.8
Less: Investment segment and First Camp	4	(0.3)	(0.6)
Underlying admin costs (A)	4	19.6	17.2
Net rental income from investment property (B)	4	110.6	107.3
Admin cost ratio (A/B)		17.7%	16.0%

2. Other APMs

i) Total Accounting Return

	Notes	2019 £m	2018 £m
EPRA closing net assets	5	1,341.2	1,262.0
Distribution – prior year final	25	19.1	17.5
Distribution – current year interim	25	9.6	9.0
Less: EPRA opening net assets (A)	5	(1,262.0)	(1,163.4)
Return before dividends (B)		107.9	125.1
Total Accounting Return (B/A)		8.6%	10.8%

ii) Net borrowings and gearing

	Notes	2019 £m	2018 £m
Borrowings short-term	20	132.3	66.3
Borrowings long-term	20	759.4	770.6
add back: unamortised issue costs	20	5.5	5.4
Gross debt	20	897.2	842.3
Cash	17	(259.4)	(100.3)
Net borrowings		637.8	742.0
Net assets		1,202.4	1,122.2
Net gearing (before corporate bonds)		53.0%	66.1%
Net borrowings		637.8	742.0
Corporate bonds		–	(30.3)
Net borrowings after corporate bonds		637.8	711.7
Net gearing (after corporate bonds)		53.0%	63.4%

5. Alternative Performance Measures ("APMs") continued

iii) Balance sheet loan to value

	Notes	2019 £m	2018 £m
Borrowings short-term		132.3	66.3
Borrowings long-term		759.4	770.6
Less: cash		(259.4)	(100.3)
Less: corporate bonds		–	(30.3)
		632.3	706.3
Investment properties		1,961.0	1,888.1
Properties in PPE		40.8	30.9
Held for sale		10.4	4.3
Total property portfolio		2,012.2	1,923.3
Balance sheet loan to value		31.4%	36.7%

iv) Dividend cover

	Notes	2019 £m	2018 £m
ERPA EPS (A)	5	48.9	53.5
Interim dividend	25	9.6	9.0
Final dividend	25	20.5	19.1
Total dividend (B)		30.1	28.1
Dividend cover (A/B)		1.62	1.90

iv) Interest cover

	Notes	2019 £m	2018 £m
Net rental income	4	110.6	107.3
Administration expenses	4	(19.9)	(17.8)
Other expenses	4	(13.7)	(13.2)
Group revenue less costs (A)	4	77.0	76.3
Finance income (excluding dividend income)		2.8	4.4
Finance costs (excluding FX, derivatives and exceptionals)	9	(25.3)	(24.5)
Net interest (B)		(22.5)	(20.1)
Interest cover (-B/A)		3.42	3.80

Notes to the Group financial statements continued

31 December 2019

6. Profit for the year

Profit for the year has been arrived at after charging:

	2019 £m	2018 £m
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Parent Company and Group accounts	0.4	0.3
Fees payable to the Company's auditor for:		
Audit of the Company's subsidiaries pursuant to legislation	0.1	0.1
Other services to the Group (interim review and tax services)	–	0.1
Depreciation of property, plant and equipment (note 14)	0.9	1.0
Employee benefits expense (note 7)	14.1	12.2
Net foreign exchange loss (note 9)	3.6	0.6
Provision against trade receivables	0.3	0.3

Other services provided to the Group by the Company's auditor consisted of the 2019 interim review of £37k (2018: £32k) and tax services of £nil (2018: £20k).

7. Employee benefits expense

	2019 £m	2018 £m
Wages and salaries	9.3	8.9
Social security costs	1.2	0.9
Pension costs – defined contribution plans	0.4	0.5
Performance incentive plan	1.1	0.8
Other employee-related expenses	2.1	1.1
	14.1	12.2

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

Information on Directors' emoluments, share options and interests in the Company's shares is given in the Directors' Remuneration Report on pages 82 to 115.

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

	2019				2018			
	Property number	Hotel number	Other operations number	Total number	Property number	Hotel number	Other operations number	Total number
Male	46	8	1	55	50	8	1	59
Female	49	9	–	58	48	10	–	58
	95	17	1	113	98	18	1	117

8. Finance income

	2019 £m	2018 £m
Interest income		
Financial instruments carried at amortised cost	0.7	0.2
Financial instruments carried at fair value through other comprehensive income	2.1	4.2
Other finance income	2.2	1.7
	5.0	6.1

9. Finance costs

	2019 £m	2018 £m
Interest expense		
Bank loans	20.6	17.9
Secured notes	2.4	2.6
Unsecured bonds	–	2.0
Amortisation of loan issue costs	2.3	2.0
Total interest costs	25.3	24.5
Less interest capitalised on development projects	–	–
	25.3	24.5
Loss on early redemption of debt	–	3.7
Movement in fair value of derivative financial instruments		
Interest rate swaps: transactions not qualifying as hedges	0.5	(2.3)
Foreign exchange variances	3.6	0.6
	29.4	26.5

10. Taxation

	2019 £m	2018 £m
Corporation income tax		
Current tax		
Current year charge	20.5	10.0
Adjustments in respect of prior years	(2.4)	(1.5)
	18.1	8.5
Deferred tax (note 19)		
Origination and reversal of temporary differences	5.7	11.4
Effect of changes in tax rates	–	(7.8)
	5.7	3.6
	23.8	12.1

A deferred tax charge of £0.4 million (2018: credit £0.6 million) was recognised directly in equity (note 19).

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:

	2019 £m	2018 £m
Profit before tax	159.0	144.9
Tax calculated at domestic tax rates applicable to profits in the respective countries	31.4	28.3
Expenses not deductible for tax purposes	2.4	0.1
Tax effect of fair value movements on investments	–	(4.8)
Change in tax basis of United Kingdom properties, including indexation uplift	0.3	(0.6)
Change in tax rate	–	(7.8)
Non-taxable income	(0.5)	(0.7)
Deferred tax on losses not recognised/(recognised)	0.4	(0.9)
Non-taxable gain on sale of investments	(7.8)	–
Adjustment in respect of prior periods	(2.4)	(1.5)
Tax charge for the year	23.8	12.1

The weighted average applicable tax rate of 19.8% (2018: 19.5%) 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% (2018: 19.0%).

Notes to the Group financial statements continued

31 December 2019

11. Earnings per share

Earnings	2019 £m	2018 £m
Profit for the year attributable to owners of the Company	135.5	124.3
Weighted average number of ordinary shares	2019 Number	2018 Number
Weighted average number of ordinary shares in circulation	407,395,760	407,395,760
Earnings per share	2019 Pence	2018 Pence
Basic and diluted	33.3	30.5

12. Net assets per share

Net assets	2019 £m	2018 £m
Basic net assets attributable to owners of the Company	1,202.4	1,122.2
Number of ordinary shares	2019 Number	2018 Number
Number of ordinary shares in circulation	407,395,760	407,395,760
Net assets per share	2019 Pence	2018 Pence
Basic	295.1	275.5

13. Investment properties

	United Kingdom £m	Germany £m	France £m	Total £m
At 1 January 2019	954.1	625.9	308.1	1,888.1
Acquisitions	161.3	58.3	13.3	232.9
Capital expenditure	5.9	9.1	1.6	16.6
Disposals	(86.1)	(42.3)	(30.4)	(158.8)
Reclassification to owner-occupied property	(7.5)	(1.0)	(1.8)	(10.3)
Net movement on revaluation of investment properties	(3.4)	50.7	10.1	57.4
Lease incentive debtor adjustments	–	2.9	0.8	3.7
Exchange rate variances	–	(40.0)	(18.2)	(58.2)
Transfer to properties held for sale	(9.6)	–	(0.8)	(10.4)
At 31 December 2019	1,014.7	663.6	282.7	1,961.0
	United Kingdom £m	Germany £m	France £m	Total £m
At 1 January 2018	895.0	568.4	290.0	1,753.4
Acquisitions	67.6	–	2.4	70.0
Capital expenditure	12.4	2.3	3.3	18.0
Disposals	(27.2)	(1.6)	(2.4)	(31.2)
Net movement on revaluation of investment properties	3.9	48.1	10.8	62.8
Lease incentive debtor adjustments	0.4	4.4	0.2	5.0
Exchange rate variances	–	7.8	3.8	11.6
Transfer from/(to) properties held for sale	2.0	(3.5)	–	(1.5)
At 31 December 2018	954.1	625.9	308.1	1,888.1

The investment properties, properties held for sale and the hotel and landholding detailed in note 14 were revalued at 31 December 2019 to their fair value. Valuations were based on current prices in an active market for all properties. The property valuations were carried out by external independent, professionally qualified valuers, Cushman and Wakefield. The total fees, including the fees for this assignment, earned by Cushman and Wakefield from the Group is less than 5% of their total revenues in each jurisdiction.

Property valuations are complex and require a degree of judgement and are based on data which is not publicly available. We have classified the valuations of our property portfolio as level 3 as defined by IFRS 13 *Fair Value Measurement*. Inputs into the valuations include equivalent yields and rental income and are 'unobservable' under the definition in IFRS 13. These inputs are analysed by segment in the property portfolio information on the inside front cover. All other factors remaining constant, an increase in rental income would increase valuations, whilst an increase in the true equivalent yield would result in a fall in value, and vice versa.

Key inputs to the valuation

	ERV		True equivalent yield	
	Average £ per sq ft	Range per sq ft	Average %	Range %
UK	29.53	10.00-66.43	5.58%	2.36%-10.75%
Germany	14.30	7.16-22.81	4.93%	4.00%-5.88%
France	22.34	12.59-43.57	5.43%	4.50%-6.75%

A decrease in the true equivalent yield by 25 basis points would result in an increase in the fair value of the Group's investment property by £99.3 million whilst a 25 basis point increase would reduce the fair value by £109.2 million. A decrease in the ERV by 5% would result in a decrease in the fair value of the Group's investment property by £84.4 million whilst an increase in the ERV by 5% would result in an increase in the fair value of the Group's investment property by £65.1 million.

Investment properties included leasehold properties with a carrying amount of £29.8 million (2018: £73.3 million).

Interest capitalised within capital expenditure in the year amounted to £nil (2018: £nil).

Where the Group leases out its investment property under operating leases the duration is typically three years or more. No contingent rents have been recognised in either the current or the comparative year.

Around 92% of investment properties (and the hotel detailed in note 14) are secured against debt.

Notes to the Group financial statements continued

31 December 2019

14. Property, plant and equipment

	Hotel £m	Land and buildings £m	Owner- occupied property £m	Fixtures and fittings £m	Total £m
Cost or valuation					
At 1 January 2018	27.6	4.6	–	4.8	37.0
Additions	–	–	–	2.0	2.0
Disposals	–	–	–	(1.1)	(1.1)
Revaluation	0.6	(1.0)	–	–	(0.4)
Exchange rate variances	–	(0.1)	–	–	(0.1)
At 31 December 2018	28.2	3.5	–	5.7	37.4
Additions	0.1	–	–	0.4	0.5
Disposals	–	–	–	(0.1)	(0.1)
Reclassification from investment property	–	–	10.3	–	10.3
Revaluation	0.7	(0.8)	–	–	(0.1)
Exchange rate variances	–	(0.3)	–	–	(0.3)
At 31 December 2019	29.0	2.4	10.3	6.0	47.7
Comprising:					
At cost	–	–	–	6.0	6.0
At valuation	29.0	2.4	10.3	–	41.7
	29.0	2.4	10.3	6.0	47.7
Accumulated depreciation and impairment					
At 1 January 2018	(0.6)	–	–	(3.0)	(3.6)
Disposals	–	–	–	0.9	0.9
Depreciation charge	(0.2)	–	–	(0.8)	(1.0)
At 31 December 2018	(0.8)	–	–	(2.9)	(3.7)
Disposals	–	–	–	–	–
Depreciation charge	(0.2)	–	–	(0.7)	(0.9)
At 31 December 2019	(1.0)	–	–	(3.6)	(4.6)
Net book value					
At 31 December 2019	28.0	2.4	10.3	2.4	43.1
At 31 December 2018	27.4	3.5	–	2.8	33.7

The hotel and a landholding were revalued at each balance sheet date based on the external valuation performed by Cushman and Wakefield and L Fällström AB, respectively.

15. Other financial investments

	Investment type	Destination of investment	2019 £m	2018 £m
Carried at fair value through other comprehensive income ¹	Listed corporate bonds	UK	–	7.1
		Other	–	23.2
			–	30.3
Carried at fair value through profit and loss ¹	Listed equity securities	Sweden	–	77.5
			–	107.8

The movement of other financial investments, analysed based on the methods used to measure their fair value, was as follows:

	Level 1 Quoted market prices £m	Level 2 Observable market data £m	Level 3 Other valuation methods £m	Total £m
At 1 January 2019	77.5	30.3	–	107.8
Additions	–	–	–	–
Disposals	(77.5)	(30.3)	–	(107.8)
Fair value movements recognised in other comprehensive income	–	–	–	–
Fair value movements recognised in profit before tax	–	–	–	–
Exchange rate variations	–	–	–	–
At 31 December 2019	–	–	–	–

	Level 1 Quoted market prices £m	Level 2 Observable market data £m	Level 3 Other valuation methods £m	Total £m
At 1 January 2018	55.9	65.5	0.2	121.6
Additions	–	39.7	–	39.7
Disposals	–	(67.8)	(0.2)	(68.0)
Fair value movements recognised in other comprehensive income	–	(7.4)	–	(7.4)
Fair value movements recognised in profit before tax	22.2	(0.4)	–	21.8
Exchange rate variations	(0.6)	0.7	–	0.1
At 31 December 2018	77.5	30.3	–	107.8

1. The adoption of IFRS9 from 1 January 2018 resulted in Other Financial Investments previously disclosed as Available for Sale Financial Assets being reclassified to either carried at fair value through other comprehensive income or carried at fair value through profit and loss.

Notes to the Group financial statements continued

31 December 2019

16. Trade and other receivables

	2019 £m	2018 £m
Current		
Trade receivables	5.6	4.2
Prepayments	2.5	2.0
Accrued income	1.7	2.1
Other debtors	15.5	4.0
	25.3	12.3

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

There were no material trade and other receivables classified as past due but not impaired (2018: nil). No trade and other receivables were interest-bearing.

Management have concluded that there is no material difference between the expected credit loss model as prescribed by IFRS 9 and the previously used provisioning method based on past evidence of default.

17. Cash and cash equivalents

	2019 £m	2018 £m
Cash at bank and in hand	259.4	100.3
	259.4	100.3

At 31 December 2019, Group cash at bank and in hand included £12.9 million (2018: £21.8 million) which was restricted by a third-party charge.

18. Trade and other payables

	2019 £m	2018 £m
Current		
Trade payables	2.5	6.1
Social security and other taxes	2.3	1.8
Other payables	13.9	11.4
Accruals	18.4	17.9
Deferred income	17.6	14.7
	54.7	51.9

19. Deferred tax

	2019 £m	2018 £m
Deferred tax assets:		
– after more than 12 months	(4.7)	(3.5)
Deferred tax liabilities:		
– after more than 12 months	140.8	139.3
	136.1	135.8

19. Deferred tax continued

The movement in deferred tax was as follows:

	2019 £m	2018 £m
At 1 January	135.8	131.8
Charged in arriving at profit after tax	5.7	3.6
Charged/(credited) to other comprehensive income	0.3	(0.6)
Exchange rate variances	(5.7)	1.0
At 31 December	136.1	135.8

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

Deferred tax assets	Other £m	Total £m
At 1 January 2019	(3.5)	(3.5)
Charged in arriving at profit after tax	(1.6)	(1.6)
Credited to other comprehensive income	0.4	0.4
At 31 December 2019	(4.7)	(4.7)

Deferred tax assets	Other £m	Total £m
At 1 January 2018	(3.3)	(3.3)
Charged in arriving at profit after tax	0.1	0.1
Credited to other comprehensive income	(0.3)	(0.3)
At 31 December 2018	(3.5)	(3.5)

Deferred tax liabilities	UK capital allowances £m	Fair value adjustments to properties £m	Other £m	Total £m
At 1 January 2019	11.0	126.6	1.7	139.3
Charged/(credited) in arriving at profit after tax	0.2	7.3	(0.2)	7.3
(Credited) to other comprehensive income	–	(0.1)	–	(0.1)
Exchange rate variances	–	(5.6)	(0.1)	(5.7)
At 31 December 2019	11.2	128.2	1.4	140.8

Deferred tax liabilities	UK capital allowances £m	Fair value adjustments to properties £m	Other £m	Total £m
At 1 January 2018	10.4	122.0	2.7	135.1
Charged/(credited) in arriving at profit after tax	0.6	3.3	(0.4)	3.5
Charged/(credited) to other comprehensive income	–	0.3	(0.6)	(0.3)
Exchange rate variances	–	1.0	–	1.0
At 31 December 2018	11.0	126.6	1.7	139.3

Deferred tax has been calculated at a weighted average across the Group of 16.5% (2018: 18.2%), 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 2019 the Group did not recognise deferred tax assets of £1.4 million (2018: £1.1 million) in respect of losses amounting to £8.3 million (2018: £6.0 million) which can be carried forward against future taxable income or gains. The majority of deferred tax assets recognised within the "other" category relate either to deferred tax on swaps with a negative book value or in 2018 to corporate bonds carried at below cost. Losses recognised as deferred tax assets can be carried forward without restriction.

Notes to the Group financial statements continued

31 December 2019

20. Borrowings

	At 31 December 2019			At 31 December 2018		
	Current £m	Non-current £m	Total borrowings £m	Current £m	Non-current £m	Total borrowings £m
Bank loans	128.2	708.9	837.1	62.2	716.0	778.2
Secured notes	4.1	50.5	54.6	4.1	54.6	58.7
	132.3	759.4	891.7	66.3	770.6	836.9

Arrangement fees of £5.5 million (2018: £5.4 million) have been offset in arriving at the balances in the above tables.

Bank loans

Interest on bank loans is charged at fixed rates ranging between 0.8% and 5.5% including margin (2018: 0.8% and 5.5%) and at floating rates of typically LIBOR or EURIBOR plus a margin. Floating rate margins range between 1.0% and 2.5% (2018: 1.0% and 2.5%). All bank loans are secured by legal charges over the respective properties, and in most cases a floating charge over the remainder of the assets held in the company which owns the property. In addition, the share capital of some of the subsidiaries within the Group has been charged.

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, the balance of which is repayable in December 2022.

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

At 31 December 2019	Bank loans £m	Secured notes £m	Total £m
Within one year or on demand	129.8	4.2	134.0
More than one but not more than two years	88.5	4.2	92.7
More than two but not more than five years	492.8	46.5	539.3
More than five years	131.2	–	131.2
	842.3	54.9	897.2
Unamortised issue costs	(5.2)	(0.3)	(5.5)
Borrowings	837.1	54.6	891.7
Less amount due for settlement within 12 months	(128.2)	(4.1)	(132.3)
Amounts due for settlement after 12 months	708.9	50.5	759.4
At 31 December 2018	Bank loans £m	Secured notes £m	Total £m
Within one year or on demand	64.0	4.2	68.2
More than one but not more than two years	132.1	4.2	136.3
More than two but not more than five years	443.0	50.7	493.7
More than five years	144.1	–	144.1
	783.2	59.1	842.3
Unamortised issue costs	(5.0)	(0.4)	(5.4)
Borrowings	778.2	58.7	836.9
Less amount due for settlement within 12 months	(62.2)	(4.1)	(66.3)
Amounts due for settlement after 12 months	716.0	54.6	770.6

20. Borrowings continued

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

	At 31 December 2019		At 31 December 2018	
	Weighted average fixed rate of financial liabilities %	Weighted average period for which rate is fixed Years	Weighted average fixed rate of financial liabilities %	Weighted average period for which rate is fixed Years
Sterling	3.6	2.7	3.9	3.7
Euro	1.6	4.2	1.5	4.4

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

	At 31 December 2019			At 31 December 2018		
	% of net floating rate loans capped	Average capped interest rate %	Average tenure Years	% of net floating rate loans capped	Average capped interest rate %	Average tenure Years
Sterling	–	–	–	–	–	–
Euro	25	0.75	1.8	9	2.4	1.9

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

	At 31 December 2019			At 31 December 2018		
	Sterling £m	Euro £m	Total £m	Sterling £m	Euro £m	Total £m
Fixed rate financial liabilities	168.7	382.1	550.8	173.2	89.1	262.3
Floating rate financial liabilities – hedged	123.8	18.1	141.9	113.8	289.0	402.8
	292.5	400.2	692.7	287.0	378.1	665.1
Floating rate financial liabilities – capped	–	11.4	11.4	–	25.5	25.5
Floating rate financial liabilities – unhedged	154.5	38.6	193.1	94.9	56.8	151.7
	154.5	50.0	204.5	94.9	82.3	177.2
	447.0	450.2	897.2	381.9	460.4	842.3
Unamortised issue costs	(3.0)	(2.5)	(5.5)	(2.2)	(3.2)	(5.4)
Borrowings	440.0	447.7	891.7	379.7	457.2	836.9

Of the Group's total borrowings, 77% (2018: 79%) are considered fixed rate borrowings.

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

	Carrying amounts		Fair values	
	2019 £m	2018 £m	2019 £m	2018 £m
Current borrowings	132.3	66.3	132.3	66.3
Non-current borrowings	759.4	770.6	769.3	777.0
	891.7	836.9	901.6	843.3

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

Arrangement fees of £5.5 million (2018: £5.4 million) have been offset in arriving at the balances in the above table.

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

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

	2019 £m	2018 £m
Floating rate:		
– expiring within one year	30.0	7.6
– expiring after one year	–	30.0
	30.0	37.6

Notes to the Group financial statements continued

31 December 2019

21. Derivative financial instruments

	2019 Assets £m	2019 Liabilities £m	2018 Assets £m	2018 Liabilities £m
Non-current				
Interest rate caps and swaps	–	(4.1)	–	(4.6)
Current				
Forward foreign exchange contracts	0.3	–	–	(0.5)
	0.3	(4.1)	–	(5.1)

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

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

Interest rate swaps

The aggregate notional principal of interest rate swap contracts at 31 December 2019 was £163.4 million (2018: £154.9 million). The average period to maturity of these interest rate swaps was 3.2 years (2018: 2.9 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 2019 the Group had £26.4 million of outstanding net foreign exchange contracts (2018: £15.6 million).

22. Financial instruments

Categories of financial instruments

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

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

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

- Interest rate swaps and caps are measured at the present value of future cash flows based on applicable yield curves derived from quoted interest rates;
- Foreign currency options and forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts;
- The fair values of non-derivative financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. Financial assets in this category include financial assets at fair value through other comprehensive income or fair value through profit and loss such as listed corporate bonds and equity investments;
- In more illiquid conditions, non-derivative financial assets are valued using multiple quotes obtained from market makers and from pricing specialists. Where the spread of prices is tightly clustered the consensus price is deemed to be fair value. Where prices become more dispersed or there is a lack of available quoted data, further procedures are undertaken such as evidence from the last non-forced trade; and
- The fair values of other non-derivative financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices from observable current market transactions and dealer quotes for similar instruments.

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

Capital risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity balances. The capital structure of the Group consists of debt, cash and cash equivalents, other investments and equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings. Management perform "stress tests" of the Group's business model to ensure that the Group's objectives can be met. The objectives have been met in the year.

22. Financial instruments continued

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

The gearing ratio at the year end was as follows:

	2019 £m	2018 £m
Debt	897.2	842.3
Liquid resources	(259.4)	(130.6)
Net debt	637.8	711.7
Equity	1,202.4	1,123.0
Net debt to equity ratio	53%	63%

Debt is defined as long-term and short-term borrowings before unamortised issue costs as detailed in note 20. Liquid resources are cash and short-term deposits and listed corporate bonds. 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
- 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.

(l) 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	2019 Income statement £m	2018 Income statement £m
Cash +50 basis points	1.3	0.5
Variable borrowings (including caps) +50 basis points	(1.9)	(1.7)
Cash -50 basis points	(1.3)	(0.5)
Variable borrowings (including caps) -50 basis points	1.4	1.1

Notes to the Group financial statements continued

31 December 2019

22. Financial instruments continued

(II) Foreign exchange risk

The Group does not have any regular transactional foreign exchange exposure. However, it has operations in Europe which transact business denominated in euros and, to a lesser 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 exposures are in respect of the euro and the Swedish krona. If the value of sterling were to increase or decrease in strength the Group's net assets and profit for the year would be affected. The impact of a reasonably likely movement in exchange rates, based on historic trends, is set out below:

Scenario	2019 Net assets £m	2019 Profit before tax £m	2018 Net assets £m	2018 Profit before tax £m
1% increase in value of sterling against the euro	(5.0)	(0.8)	(4.5)	(0.8)
1% increase in value of sterling against the Swedish krona	(0.1)	–	(0.3)	–
1% fall in value of sterling against the euro	5.1	0.8	4.5	0.8
1% fall in value of sterling against the Swedish krona	0.1	–	0.3	–

(b) Credit risk

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

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

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

At 31 December 2019 the Group held £0.3 million (2018: £107.8 million) 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.

22. Financial instruments continued

The table below shows the external Standard & Poor's credit banding on the financial assets at fair value through other comprehensive income or fair value through profit and loss held by the Group:

S&P credit rating at balance sheet date	2019 £m	2018 £m
Investment grade	–	5.0
Non-investment grade	–	24.6
Not rated	–	78.2
Total	–	107.8

(c) Liquidity risk

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

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

The table below analyses the Group's contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities at the balance sheet date, into relevant maturity groupings based on the period remaining to the contractual maturity date. Amounts due within one year are equivalent to the carrying values in the balance sheet as the impact of discounting is not significant.

At 31 December 2019	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m
Non-derivative financial liabilities:				
Borrowings	134.0	92.7	539.3	131.2
Interest payments on borrowings¹	16.8	14.1	25.9	1.3
Trade and other payables	37.1	–	–	–
Forward foreign exchange contracts:				
– Outflow	–	–	–	–
– Inflow	0.3	–	–	–
At 31 December 2018				
Non-derivative financial liabilities:				
Borrowings	68.2	136.3	493.7	144.1
Interest payments on borrowings¹	20.5	18.8	22.7	3.8
Trade and other payables	37.2	–	–	–
Forward foreign exchange contracts:				
– Outflow	(0.5)	–	–	–
– Inflow	–	–	–	–

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.

Notes to the Group financial statements continued

31 December 2019

23. Discontinued operations

On 12 November 2018, the Board resolved to dispose of First Camp Sverige Holdings AB. As at 31 December 2018 the First Camp sub-group was therefore classified as a disposal group held for sale in accordance with IFRS 5, *Non Current Assets Held for Sale and Discontinued Operations*, and presented separately on the Group balance sheet as discontinued operations. On 19 January 2019 contracts were exchanged and completion occurred on 7 March 2019.

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

	2019 £m	2018 £m
Revenue	0.6	15.8
Expenses	(2.4)	(12.7)
(Loss)/profit before tax	(1.8)	3.1
Measurement to fair value less costs to sell	1.3	(17.9)
Attributable tax expense	–	(0.1)
Loss from discontinued operations	(0.5)	(14.9)
Attributable to:		
Owners of the Company	0.3	(8.5)
Non-controlling interests	(0.8)	(6.4)
	(0.5)	(14.9)

During the year, First Camp Sverige Holdings AB contributed £nil (2018: £1.0 million) to the Group's net operating cash flows.

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2019 £m	2018 £m
Property, plant and equipment	–	54.0
Cash and cash equivalents	–	1.1
Other assets	–	1.0
Total assets of discontinued operations	–	56.1
Trade and other payables	–	(5.3)
Borrowings	–	(35.6)
Deferred income tax liabilities	–	(3.4)
Total liabilities of discontinued operations	–	(44.3)
Net assets of discontinued operations classified as held for sale	–	11.8

24. Share capital

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

	Number			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
At 1 January 2018 and 31 December 2018	407,395,760	31,382,020	438,777,780	10.2	0.8	11.0

Shares issued and authorised are as set out in the table above. 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.

25. Distributions to shareholders

An interim dividend for 2019 of 2.35 pence (2018: 2.20 pence) per ordinary share of 2.50 pence, or £9.6 million (2018: £9.0 million), was paid on 27 September 2019. The proposed final dividend of 5.05 pence per ordinary share (2018: 4.70 pence) was recommended by the Board on 4 March 2020 and, subject to approval by shareholders, is payable on 29 April 2020 to shareholders on the register at the close of business on 3 April 2020. The aggregate amount of the 2019 final dividend of £20.6 million (2018: £19.1 million) has been calculated using the total number of eligible shares outstanding at 31 December 2019. The total dividend for the year would be 7.40 pence (2018: 6.90 pence) per ordinary share of 2.50 pence comprising £30.2 million (2018: £28.1 million).

26. Share premium

	2019 £m	2018 £m
At 1 January and 31 December	83.1	83.1

27. Other reserves

	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Share- based payment reserve £m	Other reserves £m	Total £m
At 1 January 2019	22.7	68.6	2.4	1.2	28.1	123.0
Exchange rate variances	–	(28.8)	–	–	–	(28.8)
Property, plant and equipment						
– net fair value deficits in the year	–	–	(0.1)	–	–	(0.1)
– deferred tax thereon	–	–	0.1	–	–	0.1
Other financial investments:						
– realised fair value gains	–	–	2.5	–	–	2.5
– deferred tax thereon	–	–	(0.4)	–	–	(0.4)
Discontinued operations	–	–	(0.9)	–	–	(0.9)
Share-based payment charge	–	–	–	1.0	–	1.0
At 31 December 2019	22.7	39.8	3.6	2.2	28.1	96.4
	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 2018	22.7	64.7	27.1	0.4	28.1	143.0
Exchange rate variances	–	3.9	–	–	–	3.9
Property, plant and equipment						
– net fair value deficits in the year	–	–	(0.4)	–	–	(0.4)
– deferred tax thereon	–	–	(0.4)	–	–	(0.4)
Other financial investments:						
– fair value losses in the year	–	–	(7.4)	–	–	(7.4)
– realised fair value gains	–	–	(0.4)	–	–	(0.4)
– deferred tax thereon	–	–	1.0	–	–	1.0
Reclassify fair value movements on equity investments	–	–	(17.9)	–	–	(17.9)
Discontinued operations	–	–	0.8	–	–	0.8
Share-based payment charge	–	–	–	0.8	–	0.8
At 31 December 2018	22.7	68.6	2.4	1.2	28.1	123.0

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.

Notes to the Group financial statements continued

31 December 2019

28. Notes to the cash flow

	2019 £m	2018 £m
Cash generated from operations		
Operating profit	183.4	165.3
Adjustments for:		
Net movements on revaluation of investment properties	(57.4)	(62.8)
Net movements on revaluation of equities	–	(22.2)
Depreciation and amortisation	1.0	1.0
Profit on sale of investment property	(8.6)	(2.3)
Gain on sale of other financial investments, net of impairments	(40.4)	(1.7)
Non-cash rental income	(3.7)	(5.0)
Share-based payment expense	1.0	0.8
Changes in working capital:		
Increase in receivables	(3.4)	(2.6)
Increase in payables	3.4	2.4
Cash generated from operations	75.3	72.9

At 31 December 2019		1 January 2019 £m	Financing cash flows £m	Amortisation of loan issue costs £m	Fair value adjustments £m	Foreign exchange £m	31 December 2019 £m
Changes in liabilities arising from financing activities	Notes						
Borrowings	20	836.9	80.3	2.3	–	(27.8)	891.7
Interest rate swaps	21	4.6	(1.0)	–	0.5	–	4.1
Forward foreign exchange contracts	21	0.5	(1.2)	–	–	0.4	(0.3)
		842.0	78.1	2.3	0.5	(27.4)	895.5

At 31 December 2018		1 January 2018 £m	Financing cash flows £m	Amortisation of loan issue costs £m	Fair value adjustments £m	Foreign exchange £m	31 December 2018 £m
Changes in liabilities arising from financing activities	Notes						
Borrowings	20	871.3	(41.9)	1.8	–	5.7	836.9
Interest rate swaps	21	6.9	–	–	(2.3)	–	4.6
Interest rate caps	21	(0.1)	0.1	–	–	–	–
Forward foreign exchange contracts	21	(0.6)	(0.9)	–	–	2.0	0.5
		877.5	(42.7)	1.8	(2.3)	7.7	842.0

29. Contingencies

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

30. Commitments

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

	2019 £m	2018 £m
Operating lease commitments – where the Group is lessor		
Within one year	100.2	104.2
More than one but not more than five years	274.8	307.8
More than five years	115.0	149.4
	490.0	561.4

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 2019 the Group had contracted capital expenditure of £5.3 million (2018: £2.9 million). At the balance sheet date, the Group had exchanged contracts to acquire investment properties for £32.8 million (2018: £10.0 million). There were no authorised financial commitments which were yet to be contracted with third parties (2018: nil).

31. Post balance sheet events

There were no material events after the 31 December 2019 which have a bearing on the understanding of the financial statements and require disclosure.

32. Subsidiaries

The group financial statements include the financial statements of CLS Holdings plc and all of its subsidiaries, which are listed below. All are 100% owned unless otherwise stated.

United Kingdom

Registered Office: 16 Tinworth Street, London SE11 5AL

16 Tinworth Street (Residential) Limited	CLS Holdings UK Limited	Great West House Limited	Spring Gardens III Limited
401 King Street Limited	CLS London Limited	GWH Birkenhead Limited	Spring Mews (Block D) Limited
Apex Tower Limited	CLS London Properties Limited	Harman House Limited	Spring Mews (Hotel) Limited
Brent House Limited	CLS Lloyds Avenue Limited	Hygeia Harrow Limited	Spring Mews (Student) Limited
Buspace Studios Limited	CLS Northern Properties Limited	Ingrove Limited	Spring Mews Limited
Cassini Pascal Limited	CLS One Limited	Instant Office Limited	Three Albert Embankment Limited
Centenary Court Limited	CLS Pacific House Limited	Kennington Road Limited	Vauxhall Square Limited
Central London Securities Limited	CLS Harrow Limited	Larkhall Lane Limited	Vauxhall Square (Nominee 2) Limited
Chancel House Limited	CLS Prescott Limited	Maidenhead Cloud Gate Limited	Vauxhall Square (Nominee 3) Limited
Citadel Finance Limited	CLS Residential Investments Limited	Mirenwest Limited	Vauxhall Square One Limited
Citadel Holdings plc	CLS South London Limited	New Printing House Square Limited	Vauxhall Square (Student) Limited
CI Tower Investments Limited	CLS Spring Gardens Limited	NYK Investments Limited	Vauxhall Square (Wandsworth Road) Limited
CLS Capital Partners Limited	CLS UK Properties plc	One Elmfield Park Limited	Wandsworth Road Limited
CLS Chancery House Limited	CLSH Management Limited	Prescot Street Leasco Limited	
CLS Cliffords Inn Limited	Columbia Bracknell Limited	Quayside Lodge Limited	
CLS Clockwork Limited	Coventry House Limited	Rayman Finance Limited	
CLS Crawley Limited	Crosspoint House Limited	Reflex Bracknell Limited	
CLS England and Wales Limited	Dukes Road Limited	Sentinel House Limited	
CLS Gateway House Limited	Elmfield Road Limited	Shard of Glass Limited	
CLS Germany Limited	Falcon Quest Limited	Southern House Limited	
CLS Gresham Limited	Fetter Lane Apartments Limited		
	Fetter Lane Leasehold Limited		

United Kingdom

Registered Office: 15 Atholl Crescent, Edinburgh EH3 8HA

CLS Aberdeen Limited
CLS Scotland Limited
Ladywell House Limited
Sidlaw House Limited

France

Registered Office: 36 Rue Jules Verne, 92300 Levallois-Perret, Paris

120 Jean Jaures Sàrl	De Musset Sàrl	Immobilière 12 Sàrl	Petits Champs Sàrl
Avenue du Park SCI	Forum France SCI	Jean Walters Sàrl	Petits Hotels Sàrl
BV France Sàrl	Foch SCI	Le D'Aubigny SCI	Rhone Alpes Sàrl
Capitaine Guynemer Sàrl	Georges Clemenceau Sàrl	Le Quatuor SCI	Rue Stephenson Sàrl
Chorus Sàrl	Immobilière V SA	Le Sigma Sàrl	Scala Sàrl
CLS Management Sàrl	Immobilière 6 Sàrl	Leclerc SCI	SCI Frères Peugeot
CLS France Sàrl	Immobilière 8 Sàrl	Mission Marchand Sàrl	SCI Pierre Valette
Debussy SCI	Immobilière 10 Sàrl	Panten Sàrl	Sego Sàrl
		Parc SCI	Solferino SCI

Germany

Registered Office: Nagelsweg 37, 20097 Hamburg

CLS Germany GmbH
Jarrestrasse Immobilien GmbH CLS Green Energy GmbH

Notes to the Group financial statements continued

31 December 2019

32. Subsidiaries continued

Luxembourg

Registered Office: 55 Avenue de la Gare, L-1611 Luxembourg

Adlershofer Sàrl	CLS Metropolis Sàrl	Grossglockner Sàrl	Rock Harman House Sàrl
Albertina Sàrl	CLS Palisade Sàrl	Hermalux Sàrl	Salisbury Hill Sàrl
Cavernet Sàrl	CLS Tangentis Sàrl	Kapellen Sàrl	Satimood Sàrl
Chronotron Sàrl	Freepost Sàrl	Landstrasse Sàrl	Schönbrunn Sàrl
CLS Immobilien Stuttgart Sàrl	Frohbösestrasse Sàrl	Naropere Sàrl	Zillertal Sàrl
CLS Investments Sàrl	Garivet Sàrl	Network Perlach Sàrl	
CLS Investments 2 Sàrl	Gotic Haus Sàrl	Prater Sàrl	
CLS Luxembourg Sàrl			

Netherlands

Registered Office: Burgemeester van Reenensingel 101, 2803 DA Gouda

Chorus BV	Hamersley International BV	Portapert Properties UK BV
CLS Management BV	Malmros Property BV	Rasstaf BV
	Petits Champs BV	
	Portapert Properties III BV	

Jersey

Registered Office: PO Box 167, 3rd Floor, 2 Hill Street, St Helier JE4 8RY

Hawkswell Limited
Hawkswell One Limited
Hawkswell Two Limited

Sweden

Registered Office: Skönabäck 122, SE-274 91 Skurup

Jarrestrasse Holding AB	Rasstaf Sweden AB	Wyatt Sales AB
Museion Förvaltning AB	Wyatt Media Group AB (98.87%)	Xtraworks AB
Endicott Sweden AB		

33. Associates

The Group financial statements include the Group's share of the results and net assets of the following associates:

Name	Registered office	Country of incorporation	Holding
24 Media Network AB	Skeppargatan 65, SE- 114 59 Stockholm, Sweden	Sweden	24.2%
Lociloci AB	Hasselbacken 1, SE- 139 33 Värmdö, Sweden	Sweden	24.6%

These were fully impaired in 2017.

34. Related party transactions

Transactions with directors

Distributions totalling £16,685,205 (2018: £15,866,671) were made through dividend payments in the year in respect of ordinary shares held by the Directors.

During the year the following transactions occurred with companies associated to Sten Mortstedt:

- a Group company, Museion Forvaltning AB, has an agreement with Skonaback Forvaltnings AB to lease office space. The current lease commenced 1 October 2018 and the total cost for the year was SEK 120,000 (2018: SEK 330,000). No balances were outstanding at the balance sheet date (2018: SEK nil).
- the Group charged a management fee in relation to providing property management and administration services. A Group company, CLSH Management Limited, invoiced fees totalling £12,894 (2018: £21,457). At the balance sheet date £12,112 was outstanding (2018: £21,457).
- the Group recharged salary costs in relation to providing administration services. CLS Holdings plc, invoiced costs totalling £60,429 (2018: £68,673). At the balance sheet date £60,429 was outstanding (2018: £31,036).
- the Group provided periodic use of a company-owned flat. A Group company, CLSH Management Limited, invoiced costs totalling £nil (2018: £200). No balances were outstanding at the balance sheet date (2018: £nil).
- CLS Holdings plc was charged £nil in relation to administration costs during the year (2018: £4,566). No balances were outstanding at the balance sheet date (2018: £nil).

During the year, the Group recharged costs to Catena AB, a company with a common Director, in relation to costs incurred by the Group. CLS Holdings plc, invoiced costs totalling £833 (2018: £4,447). At the balance sheet date £421 was outstanding (2018: £1,118).

During the year, the Group invoiced rental related charges of £38,479 (2018: £nil) to IKEA Limited, a company in a group of companies with a common Director. At the balance sheet date £nil was outstanding (2018: £nil).

Directors' remuneration

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Information about the remuneration of individual directors is provided in the audited part of the Remuneration Committee Report on pages 82 to 115.

	2019 £000	2018 £000
Short-term employee benefits	3,016	2,430
Post-employment benefits	13	7
Other long-term benefits	112	610
	3,141	3,047

Company balance sheet

at 31 December 2019

	Notes	2019 £m	2018 £m
Non-current assets			
Investment in subsidiary undertakings	6	441.0	461.1
Intangible assets		0.4	0.3
Current assets			
Trade and other receivables	7	106.1	2.4
Total assets		547.5	463.8
Current liabilities			
Trade and other payables	8	(190.9)	(171.3)
Total liabilities		(190.9)	(171.3)
Net assets		356.6	292.5
Equity			
Share capital	9	11.0	11.0
Share premium	10	83.1	83.1
Other reserves	11	28.7	28.1
Profit and loss account	11	233.8	170.3
Shareholders' funds		356.6	292.5

The Company reported a profit for the financial year ended 31 December 2019 of £92.2 million (2018: £42.8 million).

The notes on pages 166 to 169 are an integral part of these financial statements.

These financial statements of CLS Holdings plc (registered number: 02714781) were approved by the Board of Directors and authorised for issue on 5 March 2020 and were signed on its behalf by:


Mr F Widlund

Chief Executive Officer


Mr A Kirkman

Chief Financial Officer

Company statement of changes in equity

for the year ended 31 December 2019

	Notes	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Arising in 2019:						
Profit for the year	12	–	–	–	92.2	92.2
Employee Performance Incentive Plan charge	12	–	–	0.6	–	0.6
Dividends	12	–	–	–	(28.7)	(28.7)
Total changes arising in 2019		–	–	0.6	63.5	64.1
At 1 January 2019		11.0	83.1	28.1	170.3	292.5
At 31 December 2019		11.0	83.1	28.7	233.8	356.6

	Notes	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Arising in 2018:						
Profit for the year	12	–	–	–	42.8	42.8
Employee Performance Incentive Plan charge	12	–	–	0.4	–	0.4
Dividends	12	–	–	–	(26.5)	(26.5)
Total changes arising in 2018		–	–	0.4	16.3	16.7
At 1 January 2018		11.0	83.1	27.7	154.0	275.8
At 31 December 2018		11.0	83.1	28.1	170.3	292.5

The notes on pages 166 to 169 are an integral part of these financial statements.

Notes to the Company financial statements

31 December 2019

1. General information

These separate financial statements are presented as required by the Companies Act 2006 and prepared on the historical cost basis.

The Company has applied UK GAAP Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") incorporating the Amendments to FRS 101 issued by the FRC in July 2015 other than those relating to legal changes and has not applied the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 that are effective for accounting periods beginning on or after 1 January 2016.

CLS Holdings plc is the ultimate parent company of the CLS Holdings Group registered and incorporated in the United Kingdom under Companies Act 2006. Its primary activity (which occurs exclusively within the United Kingdom) is to hold shares in subsidiary companies.

2. Basis of accounting

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to capital management, presentation of a cash flow statement, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets and related party transactions. The Company is not a financial institution and is therefore able to take advantage of exemption from all requirements of IFRS 7 'Financial Instruments: Disclosures' and from the disclosure requirement of IFRS 13 'Fair Value Measurements'.

Where required, equivalent disclosures are given in the Group financial statements.

3. Significant accounting policies

The principal accounting policies are summarised below.

3.1 Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the Annual Report and Accounts as detailed in the Director's Report on page 118.

3.2 Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less, where appropriate, provisions for impairment. Dividend income is recognised when received.

3.3 Pension costs

The Company operates a defined contribution pension scheme for all eligible employees. The pension costs charged represent the contributions payable. Differences between contributions payable in the year and contributions paid are shown as either accruals or prepayments in the balance sheet.

3.4 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds, net of tax.

Where a Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the Company until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Company.

3.5 Foreign currencies

The financial statements are presented in sterling, which is the currency of the primary economic environment in which the Company operates, known as its functional currency. Transactions in currencies other than the Company's functional currency are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in other currencies are translated into sterling at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in other currencies are translated into sterling at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not translated.

4. Profit for financial year

As permitted by s408 Companies Act 2006, the Company's profit and loss account has not been presented in these financial statements. The Company's profit for the financial year was £92.2 million (2018: £42.8 million).

Audit fees for the Company were £0.1 million (2018: £0.1 million).

Details of the Directors employed during the year and of their remuneration is included in the Remuneration Committee Report on pages 82 to 115.

5. Distributions to shareholders

An interim dividend for 2019 of 2.35 pence (2018: 2.20 pence) per ordinary share of 2.50 pence, or £9.6 million (2018: £9.0 million), was paid on 27 September 2019. The proposed final dividend of 5.05 pence per ordinary share (2018: 4.70 pence) was recommended by the Board on 4 March 2020 and, subject to approval by shareholders, is payable on 29 April 2020 to shareholders on the register at the close of business on 3 April 2020. The aggregate amount of the 2019 final dividend of £20.6 million (2018: £19.1 million) has been calculated using the total number of eligible shares outstanding at 31 December 2019. The total dividend for the year would be 7.40 pence (2018: 6.90 pence) per ordinary share of 2.50 pence comprising £30.2 million (2018: £28.1 million).

6. Investment in subsidiary undertakings

	2019 £m	2018 £m
At 1 January	461.1	361.1
Additions	50.0	99.0
Disposals	(20.3)	–
(Provision for)/reversal of impairment	(49.8)	1.0
At 31 December	441.0	461.1

7. Trade and other receivables

	2019 £m	2018 £m
Current		
Amounts owed by subsidiary undertakings	102.1	0.1
Prepayments and accrued income	1.6	0.3
Other debtors	2.4	2.0
	106.1	2.4

8. Trade and other payables

	2019 £m	2018 £m
Current		
Trade payables	–	0.1
Amounts owed to subsidiary undertakings	188.7	169.4
Accruals	2.2	1.8
	190.9	171.3

Notes to the Company financial statements continued

31 December 2019

9. Share capital

	Number			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
At 1 January 2019 and 31 December 2019	407,395,760	31,382,020	438,777,780	10.2	0.8	11.0
	Number			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
At 1 January 2018 and 31 December 2018	407,395,760	31,382,020	438,777,780	10.2	0.8	11.0

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

10. Share premium

	2019 £m	2018 £m
At 1 January and 31 December	83.1	83.1

11. Profit and loss account and other reserves

	Other reserves				Profit and loss account £m
	Capital redemption reserve £m	Share-based payment reserve £m	Other £m	Total £m	
At 1 January 2019	22.7	0.8	4.6	28.1	170.3
Share-based payment charge	–	0.6	–	0.6	–
Profit for the year	–	–	–	–	92.2
Dividends to shareholders	–	–	–	–	(28.7)
At 31 December 2019	22.7	1.4	4.6	28.7	233.8
	Other reserves				Profit and loss account £m
	Capital redemption reserve £m	Share-based payment reserve £m	Other £m	Total £m	
At 1 January 2018	22.7	0.4	4.6	27.7	154.0
Share-based payment charge	–	0.4	–	0.4	–
Profit for the year	–	–	–	–	42.8
Dividends to shareholders	–	–	–	–	(26.5)
At 31 December 2018	22.7	0.8	4.6	28.1	170.3

12. Reconciliation of movements in shareholders' funds

	2019 £m	2018 £m
At 1 January	292.5	275.8
Profit for the year	92.2	42.8
Dividends to shareholders	(28.7)	(26.5)
Share-based payment charge	0.6	0.4
At 31 December	356.6	292.5

13. Contingencies

At 31 December 2019 CLS Holdings plc had guaranteed certain liabilities of Group companies, primarily in relation to Group borrowings and covering interest and amortisation payments. No cross-guarantees had been given in relation to the principal amounts of these borrowings. Since the possibility of payment by the Company under any of these guarantees and warranties is considered remote, no provisions in relation to these have been made in the Company's financial statements and no reportable contingent liability exists.

14. Commitments

At 31 December 2019, the Company had no contracted capital expenditure (2018: £nil) and no authorised financial commitments which were yet to be contracted with third parties (2018: £nil).

31 December 2019

	2019 £m	2018 £m	Restated 2017 £m	2016 £m	2015 £m
Continuing Operations					
Group revenue	138.3	133.0	120.3	128.5	118.9
Net rental income	110.6	107.3	100.0	107.1	99.0
Administration expenses	(19.9)	(17.8)	(14.6)	(21.3)	(19.5)
Other expenses	(13.7)	(13.2)	(12.2)	(14.0)	(13.8)
Group revenue less costs	77.0	76.3	73.2	71.8	65.7
Net movements on revaluation of investment properties	57.4	62.8	94.2	36.1	98.0
Net profit on sale of properties	8.6	2.3	43.7	9.1	4.3
Gain on sale of other financial investments, net of impairments	40.4	1.7	2.5	3.2	0.7
Net movement on revaluation of equity investments	–	22.2	–	–	–
Operating profit	183.4	165.3	213.6	120.2	168.7
Finance income	5.0	6.1	10.0	13.6	10.0
Finance costs	(29.4)	(26.5)	(32.4)	(32.7)	(27.5)
Share of loss of associates after tax	–	–	(0.7)	(1.0)	–
Profit before tax	159.0	144.9	190.5	100.1	151.2
Taxation	(23.8)	(12.1)	(33.5)	(1.8)	(19.1)
Profit for the year from continuing operations	135.2	132.8	157.0	98.3	132.1
Discontinued Operations					
(Loss)/profit for the year from discontinued operations	(0.5)	(14.9)	0.9	–	–
Profit for the year	134.7	117.9	157.9	98.3	132.1
Distributions paid and proposed	30.2	28.1	25.9	23.5	19.1
Net Assets Employed					
Non-current assets	2,010.2	2,034.5	1,913.1	1,763.9	1,572.6
Current assets	295.4	173.0	174.7	159.4	173.3
	2,305.6	2,207.5	2,157.4	1,923.3	1,745.9
Current liabilities	(198.9)	(170.0)	(177.5)	(186.2)	(282.2)
Non-current liabilities	(904.3)	(914.5)	(946.6)	(854.6)	(695.7)
Net assets	1,202.4	1,123.0	1,033.3	882.5	768.0
Ratios	2019	2018	2017	2016	2015
Net assets per share (pence)	295.1	275.5	252.0	215.1	181.0
EPRA net assets per share (pence)	329.2	309.8	285.6	245.6	208.3
Earnings per share (pence)	33.3	30.5	38.7	23.6	30.6
EPRA earnings per share (pence)	12.0	13.1	12.6	12.3	8.5
Net gearing (%)	52.9	63.4	65.2	78.8	82.0
Balance sheet loan-to-value (%)	31.4	36.7	36.9	43.7	42.6
Interest cover (times)	3.42	3.80	3.89	3.37	3.19

2017 was restated to separate the individual line items in the profit and loss account that related to the operations of First Camp Sverige Holdings AB which was classified as discontinued as at 31 December 2018, as disclosed in note 23 to the financial statements. Accordingly, the assets and liabilities were disclosed in current assets and current liabilities on the Group balance sheet as the First Camp sub-group was classified as a disposal group held for sale. On 7 March 2019, the disposal of the First Camp sub-group completed and accordingly the assets and liabilities of the sub-group were de-recognised from the Group balance sheet. The 2015-2016 comparative periods were not restated to reflect this reclassification.

Administration cost ratio

Recurring administration expenses of the Investment Property operating segment expressed as a percentage of net rental income

Balance sheet loan-to-value

Net debt expressed as a percentage of property assets

CDP

CDP, formerly known as the Carbon Disclosure Project, assesses the ESG performance of all major companies worldwide and aids comparability between organisations to allow the investor community to assess the carbon and climate change risk of each company.

Contracted rent

Annual contracted rental income after any rent-free periods have expired

Diluted earnings per share

Profit for the year attributable to the owners of the Company divided by the diluted weighted average number of ordinary shares

Diluted number of ordinary shares

Number of ordinary shares in circulation at the balance sheet date adjusted to include the effect of potential dilutive shares issuable under employee share schemes

Diluted weighted average number of ordinary shares

Weighted average number of ordinary shares in issue during the period adjusted to include the effect of potential weighted average dilutive shares issuable under employee share schemes

Earnings per share

Profit for the year attributable to the owners of the Company divided by the weighted average number of ordinary shares in issue in the period

EPRA

European Public Real Estate Association

EPRA earnings per share

Profit for the year attributable to the owners of the Company, but excluding net gains or losses from fair value adjustments on investment properties and on equity investments, profits or losses on disposal of investment properties and other non-current investment interests, profits or losses of discontinued operations, profits or losses on early redemption of debt, impairment of goodwill and intangible assets, movements in fair value of derivative financial instruments and their related current and deferred tax

EPRA net assets

Net assets attributable to the owners of the Company excluding the fair value of financial derivatives, deferred tax on revaluations, and goodwill arising as a result of deferred tax

EPRA net assets per share or EPRA NAV

EPRA net assets divided by the diluted number of ordinary shares

EPRA net initial yield

Passing rent less net service charge costs on investment properties and properties held for sale, expressed as a percentage of the valuation of those properties after adding purchasers' costs

EPRA net reinstatement value (EPRA NRV)

Net assets attributable to the owners of the Company excluding the fair value of financial derivatives, deferred tax on revaluations and goodwill arising as a result of deferred tax and including real estate transfer tax

EPRA topped up net initial yield

Contracted rent less net service charge costs on investment properties and properties held for sale, expressed as a percentage of the valuation of those properties after adding purchasers' costs

EPRA triple net assets

EPRA net assets adjusted to reflect the fair value of debt and derivatives and to include the fair value of deferred tax on property revaluations

EPRA triple net assets per share

EPRA triple net assets divided by the diluted number of ordinary shares

Estimated rental value (ERV)

The market rental value of lettable space as estimated by the Group's valuers

GRESB

GRESB assesses and benchmarks the Environmental, Social and Governance (ESG) performance of real assets, providing standardized and validated data to the capital markets.

Interest cover

The aggregate of group revenue less costs, divided by the aggregate of interest expense and amortisation of loan issue costs, less interest income

Liquid resources

Cash and short-term deposits and listed corporate bonds

Net assets per share or net asset value (NAV)

Equity attributable to the owners of the Company divided by the diluted number of ordinary shares

Net debt

Total borrowings less liquid resources

Net gearing

Net debt expressed as a percentage of net assets attributable to the owners of the Company

Net initial yield

Net rent on investment properties and properties held for sale expressed as a percentage of the valuation of those properties

Net rent

Passing rent less net service charge costs

Occupancy rate

Contracted rent expressed as a percentage of the aggregate of contracted rent and the ERV of vacant space

Over-rented

The amount by which ERV falls short of the aggregate of contracted rent

Passing rent

Contracted rent before any rent-free periods have expired

Property loan to value

Property borrowings expressed as a percentage of the market value of the property portfolio

Rent roll

Contracted rent

Return on equity

The aggregate of the change in equity attributable to the owners of the Company plus the amounts paid to the shareholders dividends and the purchase of shares in the market, divided by the opening equity attributable to the owners of the Company

Reversionary

The amount by which ERV exceeds contracted rent

Total accounting return

The change in EPRA NAV before the payment of dividends

Total shareholder return

The growth in capital from purchasing a share, assuming that dividends are reinvested every time they are received

True equivalent yield

The capitalisation rate applied to future cash flows to calculate the gross property value, as determined by the Group's external valuers

Vacancy rate

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

Directors, officers and advisers

Directors

Lennart Sten [‡]	(Non-Executive Chairman)
Anna Seeley [‡]	(Non-Executive Vice Chairman)
Fredrik Widlund	(Chief Executive Officer)
Andrew Kirkman	(Chief Financial Officer)
Sten Mortstedt [‡]	(Executive Director)
Malcolm Cooper ^{*†}	(Non-Executive Director)
Elizabeth Edwards [‡]	(Non-Executive Director)
Bill Holland ^{*†}	(Non-Executive Director)
Denise Jagger ^{*†}	(Non-Executive Director)
Christopher Jarvis ^{*†}	(Non-Executive Director)
Bengt Mortstedt	(Non-Executive Director)

- [‡] Senior Independent Director
^{*} Member of Remuneration Committee
[†] Member of Audit Committee
[‡] Member of Nomination Committee

Company Secretary

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