

The return to the office

CLS Holdings plc

Annual Report and Accounts 2023

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Investment case

1 A clear strategy

Key investment tenets

Diversified approach

This approach is across countries (we invest in major cities in Europe's three largest economies), tenants (over 700 tenants spread across most sectors), and financing (loans with 24 different lenders).

2 Active management

Key investment tenets

Experienced in-house capabilities

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

3 Strong 30 year 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 and property by property basis with no set capital allocation across countries. Low yielding assets with limited potential are sold. Our TSR has outperformed the FTSE 350 index over a 30 year period.

4 A focus on sustainability

Key investment tenets

Responsible profit

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

Sole focus on multi-let offices

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

Selected development schemes

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

DELIVERED OUTCOMES

EPRA NTA pence per share

Secure rents and high occupancy

Targeted occupancy levels above 95% with affordable rents and flexible lease terms to meet tenant demand and so create opportunities to capture above market rental growth. On average over 135 lettings executed each year over the past six years.

Interest rate management

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

DELIVERED OUTCOMES

NIY vs cost of debt

Cash-backed progressive dividend

CLS is a total return business using cash flow generated to pay a progressive dividend and also to reinvest in the business to generate further net asset growth. We aim to grow the dividend in line with the growth of the business, targeting the dividend to be covered 1.2 to 1.6 times by EPRA earnings.

Financing headroom

Our aim is to keep at least £100 million of cash and undrawn facilities. This approach gives the ability to move quickly to complete acquisition opportunities as well as the flexibility to secure the optimal financing solution.

DELIVERED OUTCOMES

Distribution of this year's profit (pence per share)

Strong ESG performance

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

Climate risk mitigation

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

DELIVERED OUTCOMES

GRESB (ESG) score/100

Group highlights

Strategic highlights

CONTRACTED RENT WHICH IS
INDEX-LINKED (2022: 55.5%)

55.2%

EPRA VACANCY RATE
(2022: 7.4%)

11.0%

NET RENTAL INCOME £113.0M
(2022: £107.8M)

4.8%

CAPITAL EXPENDITURE
(2022: £58M)

£50m

FOUR DISPOSALS AND ONE EXCHANGE
ABOVE PRE-SALE VALUATIONS
(2022: +2.5%)

+10.0%

SECURED RENT ABOVE ERV FOR
NEW LEASES

+6.9%

ESG highlights

LIKE-FOR-LIKE DECREASE IN LANDLORD
ENERGY CONSUMPTION

8%

GRESB RATING (2022: 4 STARS)

4 Stars

INCREASE IN EQUIVALENT
SOCIAL VALUE GENERATED FROM 2022

37%

NUMBER OF NET ZERO CARBON
PROJECTS COMPLETED

73

Group highlights

Movement

Financial highlights

EPRA EPS

-11.2%

STATUTORY EPS

-311.4%

LOSS BEFORE TAX

-305.0%

EPRA NTA PER SHARE

-23.2%

STATUTORY NAV PER SHARE

-23.9%

PROPERTY PORTFOLIO

-12.3%

Actual

Financial highlights

VALUATION MOVEMENT¹

-12.5%

COST OF DEBT

3.61%

BALANCE SHEET LOAN-TO-VALUE

48.5%

AMOUNT OF GROUP BORROWINGS
AT FIXED RATES (INCLUDING CAPS)

80%

RENTAL INCOME COLLECTION

99.0%

FULL YEAR'S DIVIDEND

7.95p

¹ In local currency
– total property portfolio

CLS Holdings at a glance

Our portfolio is secure and diversified

About CLS Holdings

We are a commercial property investment company. We specialise in office space and our £2.1 billion portfolio comprises 6.4m sq. ft of future-focused workspace in the UK, Germany and France. Through geographical diversification, local expertise and an active management approach, we transform office properties into suitable, modern spaces that help our tenants' businesses to grow.

What we do

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

“We transform office properties into suitable, modern spaces that help our tenants' businesses to grow.”

TENANT DIVERSITY BY CONTRACTED RENT (%)		2023
1	Government	21.5%
2	Commercial and Professional Services	13.2%
3	Information Technology	11.5%
4	Consumer Discretionary	10.0%
5	Communication Services	8.7%
6	Healthcare	7.0%
7	Financials	6.3%
8	Industrials	6.2%
9	Real Estate	5.5%
10	Consumer Staples	4.2%
11	Energy	2.1%
12	Other	3.8%

86

PROPERTIES

£126m

ESTIMATED
RENTAL VALUE

£2.1bn

PROPERTY PORTFOLIO

VALUATION DATA¹

	Market value of property £m	Valuation movement in the year		EPRA net initial yield	EPRA 'topped-up' net initial yield	Reversion	Over-rented	Equivalent yield
		Underlying £m	Foreign exchange £m					
United Kingdom	745.4	(190.4)	–	5.4%	6.1%	8.1%	7.0%	6.1%
Germany	883.8	(89.1)	(20.4)	4.7%	4.8%	6.0%	8.7%	5.2%
France	246.0	(28.2)	(5.7)	4.8%	5.2%	8.0%	4.0%	6.0%
Total office portfolio	1,875.2	(307.7)	(26.1)	5.0%	5.4%	7.2%	7.4%	5.7%

LEASE DATA¹

	Average lease length		Contracted rent of leases expiring in:				ERV of leases expiring in:			
	To break years	To expiry years	Year 1 £m	Year 2 £m	3 to 5 years £m	After 5 years £m	Year 1 £m	Year 2 £m	3 to 5 years £m	After 5 years £m
United Kingdom	2.5	3.5	4.8	12.3	24.7	9.0	4.6	15.0	23.2	8.7
Germany	4.8	4.9	14.5	4.9	14.3	13.8	14.1	4.7	14.0	13.3
France	2.7	5.2	1.3	0.8	4.2	7.9	1.5	0.8	4.4	8.2
Total office portfolio	3.5	4.3	20.6	18.0	43.2	30.7	20.1	20.4	41.6	30.2

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 %	EPRA vacancy rate at year end
United Kingdom	46.4	52.4	172,973	50.8	61.0	32.7	15.8%
Germany	43.2	41.5	345,641	47.5	49.5	65.9	6.8%
France	13.2	13.6	72,495	14.3	15.7	100.0	5.6%
Total office portfolio	102.8	107.5	591,109	112.6	126.3	55.2	11.0%

¹ The above tables comprise data for our offices in investment properties and held for sale (see note 12 and 14). They exclude owner-occupied, land, student accommodation and hotel.

¹ Based on definitions by Companies House.

Chairman's review

Lennart Sten

Non-Executive Chairman

Dear Shareholder,

As a result of recent events and trends, quality has become the greatest differentiator for the office sector. Well-located space with great amenities drive rental growth and ultimately value, particularly when supply is low. With greater calls for employees to return to the office, CLS is ensuring that we supply the best offices in our locations to attract tenants and "earn the commute".

Performance and our property portfolio

CLS again delivered a robust performance. Strong rental growth was achieved through indexation, record student and hotel results and the full-year impact of previous acquisitions, although this was offset by higher interest expense from rate increases leading to overall lower earnings.

The value of our property portfolio fell by 12.3% to £2.06 billion (2022: £2.35 billion) with the portfolio now split 45% in the UK, 43% in Germany and 12% in France. The movement in the property portfolio was as a result of £299.5 million from a net valuation decrease of 12.5% in local currencies, £26.3 million from the strengthening of Sterling by 2.1%, £14.0 million of disposals, and depreciation of £0.2 million, partly offset by £50.1 million of capital expenditure.

“Increasing interest rates meant 2023 was a challenging year for the office sector but CLS has remained committed to its strategy of providing high-quality office space to meet our tenants' needs. In 2024, the Group will celebrate 30 years since its listing on the London Stock Exchange and I am confident that CLS will continue to thrive and deliver for shareholders for many years to come.”

The property valuation decreases resulted in EPRA NTA per share declining by 23.2% to 253.0 pence per share (2022: 329.6 pence per share) and the Total Accounting Return, including the dividends paid in the year, was -20.8% (2022: -3.7%).

Strategic outlook

Whilst the economies of our three markets remain challenging, our priorities have remained steadfast. We will deliver lettings of our quality refurbishments to drive growth, make disposals at the right values to reduce LTV and be highly selective in considering acquisitions or developments, as well as execute our planned refinancings. These are alongside our vision to be a sustainably focused landlord which will be accomplished through executing our 2030 Net Zero Carbon Pathway and supporting our local communities combined with delivering social value.

CLS has pursued a highly successful, focused strategy over the last 30 years concentrated on high-quality offices in Europe's three largest economies whilst delivering shareholder value through our long-term approach. Our core strategy and business model remain unchanged but we will continue to evolve to meet market opportunities.

Dividends

Given the economic conditions, the Board has decided to propose a flat final 2023 dividend which results in a flat full year dividend. The dividend, which is 1.30x covered by EPRA earnings, is in-line with our policy of having the dividend covered 1.2x-1.6x by EPRA earnings.

Our staff and our culture

Since 2020 it has been a volatile period for the office sector and for CLS, with the pandemic followed by higher interest rates and a challenging economy. Gratifyingly our staff have coped magnificently with all that has been thrown at them and, on behalf of the Board, I want to thank them for their dedication and hard work. CLS' positive culture has been maintained throughout all the challenges and as interest rates fall and the cycle turns, I am confident that CLS will thrive and deliver for shareholders for many years to come.

Lennart Sten

Non-Executive Chairman

8 March 2024

Chief Executive's review

Fredrik Widlund
Chief Executive Officer

The return to the office

Since 2020, due to the disruption caused by the pandemic, working patterns have significantly changed and continue to evolve. The initial response was a wholesale shift to home working followed by many different hybrid working arrangements once the pandemic subsided.

Since the adoption of hybrid working, the last two years have seen office occupancy levels increasing in the UK and Europe, albeit it has been a slow recovery and attendance is much more concentrated around the middle of the week. However, ongoing company policy changes and surveys show that the return to the office trend is only likely to increase.

Recent surveys* showed that levels of flexible or home working look to have peaked and some are predicting a full return to in-office working by 2026. Whilst this may prove ambitious, the driver is that there is a growing recognition that the office is a marketplace of knowledge and so much more than an overhead cost: it has a decisive influence on productivity, employee retention, corporate culture, innovation, and thus long-term business results.

“CLS performed well during the period and made progress on its strategic objectives. Our high-quality estate underpinned strong leasing momentum and pricing with new leases nearly 7% above ERV. As a result, we held our underlying vacancy rates steady, and delivered net rental income growth of close to 5%. ”

Our view is that hybrid working will continue for at least the short-to medium-term but that the actual reduction in space will be less than predicted. This is because tenants need to cope with peak worker occupancy, which determines the minimum amount of office space an occupier needs, and that sustainability requirements across all countries are reducing supply. This explains why the occupancy market continues to do well and we see a growing number of companies planning to lease more space.

All of this means that to bring employees back to the office, appropriate incentives must be created. Demand continues to intensify for well-connected, good-quality office space in mixed-use locations, and amid construction delays and shortage of good stock, occupiers will have to compete for the best space, supporting rental growth.

Delivering on our strategy

In response to these trends, CLS has focused on improving the quality of its properties and driving operational performance. With an uncertain market in 2023, CLS did not make any acquisitions and instead focussed on investing in our properties. In 2023, we finished the enhanced capital expenditure programme that we commenced in 2022 to deliver the higher quality offices demanded by tenants with capital expenditure of £50.1 million (2022: £58.3 million). The three largest schemes in this programme: Artesian, Prescot St, London; The Coade, Vauxhall, London; and Park Avenue, Lyon, were completed in 2023 or early 2024 and accounted for c. 40% of the capex spent this year. These buildings now offer a total of over 200,000 sq. ft of the highest quality space with excellent amenities and market-leading sustainability credentials.

As set out last year, we expected to be a net seller and in 2023 we disposed of five smaller properties (four completed and one unconditionally exchanged) across our three geographies at a net initial yield of 6.0% for £25.4 million at 10.0% above the properties' latest valuations. We sold smaller properties in 2023 because there was a more liquid market for properties at this lot size. In addition, we are seeking to increase the average size of our properties as smaller properties usually consume a disproportionate amount of asset and property management time and are less economic to equip with the best amenities. Our LTV increased in 2023 as a result of valuation reductions, with net debt little changed year-on-year, and thus in 2024 we will again target to be a net seller to reduce LTV to below 45% in the short-term and 40% in the medium-term.

* KPMG global CEO and Deloitte UK CFO 2023 surveys

Chief Executive's review continued

The other major focus in 2023 was ensuring that we delivered on our financing activity to ensure that we maintain sufficient liquidity and flexibility. This target was successfully executed with all 2023 refinancings completed and, as at the end of February 2024, we have already completed over 70% of 2024 refinancings. More details on our progress in 2023 with capital expenditure, disposals, and refinancings, as well as lettings are set out in the strategy in action section on pages 18 to 21.

Asset and property management

Active asset management is a key part of CLS' culture and business model with "our tenants, our focus" being one of our four values. Therefore, whilst the market remains challenging it is critical to drive asset management to create long-term value from our property portfolio. In 2023, the investment market remained subdued but the letting market was more buoyant and CLS signed 89% more leases by rent in 2023 (130 leases for £15.5 million) than in 2022 (106 leases for £8.2 million). The new leases were signed on average at 6.9% above ERV.

As a result of this leasing activity and also expiries, like-for-like vacancy was relatively flat at 7.6%, however the overall Group EPRA vacancy rate increased to 11.0% (2022: 7.4%) due to the impact of our three large refurbishments at Artesian, The Coade and Park Avenue. This vacancy rate is above our long-term target of 5% and we are expecting vacancy to remain elevated in the short-term until we let this newly refurbished, high-quality space.

Reflecting these refurbishments, the vacancy position was mixed across the Group with considerable differences between countries. In France, the vacancy rate has risen to 5.6% (2022: 2.6%) as a result of refurbished space at Park Avenue being available to let. Demand remains good for smaller units (below 1,000 sqm) which fits with CLS France's space offering, and we would expect vacancy to remain at this level in 2024. In Germany, the vacancy rate increased to 6.8% (2022: 6.1%) as the rate of lettings was slightly behind the rate of expiries. We have one big upcoming vacancy in Dortmund in 2024 which we are working hard to fill and, subject to this, we would expect vacancy to fall in 2024. With the completion of Artesian in Q4 2023 and Q1 2024, and little time to let the space, vacancy in the UK understandably rose significantly to 15.8% from 10.0% in 2022. The letting market improved during the year, with far more lettings completed since September, and we are cautiously optimistic that UK vacancy will reduce, and rental income increase, in 2024.

Overall, our properties are multi-let with over 700 tenants, of which 21% are government agencies, 40% are large corporations and 16% are medium-sized companies. Reflecting the strength of our tenant base, CLS' rent collection has remained in excess of 99% before, during and after the pandemic.

In 2023, the value of the portfolio was down by 12.3% over the year as a result of our revaluation declines of 12.5% in local currencies with the investment in the portfolio almost exactly offset by foreign exchange losses and property disposals. There were decreases in all countries with the UK down 16.7%, Germany down 9.1% and France down 9.1% in local currencies. It is worth noting that the shortening lease at Spring Gardens, the largest asset in the Group, leased by the National Crime Agency contributed c.16% of the UK reduction as the site is valued as a standing office investment and not as a development site. Across all countries, the increase in interest rates and the risk-off nature of investors impacted valuations. As ERVs were up in all three countries, the valuation declines were mainly a result of interest rate driven yield shifts, although, as always, there were also some regional and property specific differences.

Financial results

With the economic backdrop remaining challenging in 2023, CLS again delivered on its strategic objectives. Property valuations were down, but outperformed relative to the market, and whilst net rental income grew by 4.8% finance costs rose more quickly such that EPRA earnings were lower.

EPRA earnings per share fell 11.2% from 11.6p in 2022 to 10.3p in 2023 (IFRS loss per share 2023: £(62.9)p, 2022: (20.2)p) as improved rental income from indexation, record hotel and student performance and the full-year impact of previous acquisitions, was more than offset by increased finance costs as CLS' cost of debt rose from 2.69% to 3.61% due to the impact of higher central bank rates on floating rate loans and refinanced debt. Operating loss for the year was £223.4 million (2022: loss £63.9 million).

EPRA NTA decreased by 23.2% (2022: 6.0% decrease) to 253.0 pence per share (IFRS net assets 2023: £929.2 million, 2022: £1,220.8 million), reflecting revaluation reductions of 12.5% in local currency, foreign exchange losses of £26.3m from the 2.1% strengthening of sterling against the euro (2022: £33.6 million gain) and the payment of the dividend, which was partly offset by EPRA earnings.

“As expected, valuations reduced in the period. However, our outperformance relative to the markets we operate in and the embedded rental growth potential in our portfolio give us confidence in our ability to deliver long-term growth. We remain focused on optimising our portfolio and reducing LTV through the course of 2024, with nearly three-quarters of the loans expiring in 2024 already refinanced, and over £270m of assets targeted for disposal.”

At the year end, we had cash and cash equivalents of £70.6 million (2022: £113.9 million), as a result of the completion of the heightened investment in the portfolio, as well as £50.0 million of new, longer-term, committed credit facilities (2022: £50.0 million). To give more liquidity and flexibility, we have also secured an additional £10 million overdraft in January 2024 and are actively considering options for our 2025 refinancings.

In 2023, we generated £45.9 million net cash from operating activities (2022: £43.0 million) compared with EPRA earnings of £40.9 million (2022: £47.0 million) showing the continued strong cash generation of our business model. Of this cash, £31.6 million (2022: £32.4 million) was paid as a dividend to shareholders. Overall, we balance the use of the cash generated between dividends and reinvestment in the business to drive the Total Accounting Return to shareholders, which was -20.8% in 2023 (2022: -3.7%) due to the negative property revaluations.

Sustainability

We continue to make progress against our Sustainability Strategy and improve our assets in line with our Net Zero Carbon Pathway. We completed 73 energy efficiency and PV projects (28% more than last year) saving an estimated 741 tonnes of CO₂e (2022: 612 CO₂e), equivalent to taking over 165 cars off our roads for one year (<https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator>) and we have exceeded our energy usage target of 4% year-on-year reduction with an 8% reduction in 2023.

CLS reports under various national regulations as well as regional and international frameworks. Our EPRA sBPR Gold award demonstrates our commitment to transparency and maintaining our GRESB 4 star rating reflects our achievements across the whole business. At an asset level, we are compliant with MEES in the UK, Décret Tertiaire in France and maintained our ratings in BREEAM In-use, despite the tightening of the rules.

“We firmly believe the outlook for high-quality offices is bright and we are seeing a clear trend of companies thinking strategically about the return to the office as a value driver for their businesses. The investments we have made and continue to make across our portfolio mean we are well placed to thrive.”

2024 and beyond

As in the previous two years, we have again included our rent progression waterfall chart which has been updated to show the changes and progress made in the year. In summary, it shows the more than 20% rental upside that exists within the portfolio, with a large proportion of it able to be captured quickly following the completion of major refurbishments/developments in 2023. Securing these rental increases is critical to drive rental growth in excess of rising financing costs and thus achieve higher profits.

In addition to these increases up to 2026, there is further potential from indexation, with over half the portfolio having contractual increases, and ongoing investment to focus the portfolio on faster growing properties. Post 2026, we have significant opportunities, in Zone 1 in London at New Printing House Square and Spring Gardens.

Despite the challenging market, CLS' long-term strategy and our focus on the three largest countries in Europe, with the cities with the highest growth prospects such as London, Paris, Berlin and Munich, remains unchanged. And, in the medium term, we will again pursue acquisitive growth. Operationally the key objective for 2024 is to reduce vacancy to capture the substantial rental upside within the portfolio. Regarding capital and the balance sheet, the focus is on executing upcoming refinancings and reducing LTV through selective disposals and one of the actions we are taking is the marketing for sale of our Spring Mews student property in Vauxhall.

We remain confident that in responding to the demands to return to the office by having some of the best properties in our locations, alongside an expectation of more favourable monetary policies and an improving macro-economic environment, CLS is well placed to capitalise on these trends and remain successful in the future.

Fredrik Widlund
Chief Executive Officer

8 March 2024

Market review

VALUE OF PROPERTY PORTFOLIO

£919.9m

NUMBER OF TENANTS

221

GOVERNMENT AND
LARGE COMPANIES

72.1%

PERCENTAGE OF GROUP'S
PROPERTY INTERESTS

45%

EPRA VACANCY RATE

15.8%

YEARS WEIGHTED AVERAGE
LEASE LENGTH TO END

3.5

NUMBER OF PROPERTIES

37

LETTABLE SPACE

1.9m^{sq. ft}

LEASES SUBJECT TO INDEXATION

32.7%

United Kingdom

Market overview

The UK economy continued to grow over the course of 2023 albeit at a modest 0.3% due the higher interest rates policies being used to reduce inflation. Unemployment increased slightly to 4.0% but compared well to other major European economies. UK inflation fell to 7.4%.

The 2023 UK property investment market had a volume of c.£34bn, which was 39% down on the previous year reflecting on-going uncertainty as property investors worried about valuations and re-financing risks.

Office take-up in central London was 16% down compared to 2022 although the latter part of the year showed encouraging signs of recovery with Q4 growing over 20% compared to the previous quarter. The wider Greater London and South-East office market was down 17% for the year but also saw take-up increase in Q4 compared to the previous quarter. Consequently, year-end vacancy in the London market was up from 8.7% to 9.1% while the South-East market was flat at 11.8%.

Source: Cushman & Wakefield

Portfolio movement and valuation summary

In 2023, the value of the UK portfolio decreased by £150.8 million as a result of a revaluation decline of £184.5 million or 16.7% in local currency and disposals of £3.9 million, partly offset by net capital expenditure of £37.6 million (including depreciation of £0.1 million).

The 16.7% valuation decline was as a result of equivalent yields expanding by 79 basis points on a like-for-like basis and increased vacancy from completed refurbishments, with some offset from ERVs increasing by 1.1% on a like-for-like basis and some lease indexation. CLS' valuation decline was in-line with the UK office market valuation decline but if the valuation of Spring Gardens, which was significantly impacted by the shortening lease, is excluded then CLS was ahead with a 14.0% valuation decline.

Asset management

The EPRA vacancy rate increased to 15.8% as at 31 December 23 (2022: 10.0%) as result of a number of significant refurbishments and developments, particularly the Coade and Artesian, being completed in 2023 and the start of 2024. However, given greater letting activity in the second half of the year, like-for-like vacancy reduced from 10.0% to 9.8%. Most encouragingly we saw a growing trend among our UK occupiers to return to the office and in a number of cases they have taken additional space to create a more attractive and vibrant environment for their staff.

In 2023, we let or renewed leases on 417,494 sq. ft and lost 430,183 sq. ft of space from expiries. Excluding rent reviews, 60 lease extensions and new leases secured £7.4 million of rent at an average of 4.6% above ERV. The most significant transactions included a new 10-year lease with Hays Recruitment for 9,673 sq. ft of space at the newly refurbished Apex Tower in New Malden and the lease renewal with Honda Motor Europe for their European HQ (57,436 sq. ft) at Reflex in Bracknell for 10 years.

In 2023, we agreed the surrender of the head lease with the Secretary of State for New Printing House Square which is a prominent building of c.200,000 sq. ft on Grays Inn Road in Central London. The head lease was due to expire in June 2025 and the building was fully sub-let on co-terminus leases to a variety of private sector occupiers. As a result, we now benefit from an additional rent roll of c.£1m above the previous rent received as well as having a direct relationship with the occupiers which presents opportunities for retaining them from June 2025 onwards.

Both our student and hotel operations achieved record breaking years, surpassing the previous records set in 2022. The student accommodation was fully let for the 2023/24 academic year and sales for 2024/25 are significantly ahead of expectations. Due to some refurbishment, occupancy at the hotel averaged 87% for 2023, the same as 2022, however average daily rates rose by 12% which significantly increased profitability.

UNITED KINGDOM
LONDON
SOUTH EAST
BIRMINGHAM

37
27
9
1

In 2023, in conjunction with Savills, we carried out a review of all of our UK properties in response to nationwide concerns regarding Reinforced Autoclaved Aerated Concrete ("RAAC") and found no issues.

Developments and refurbishments

Total capital expenditure was £37.7 million with The Coade and Artesian being our largest schemes. The construction of The Coade, our 27,700 sq. ft new office development in Vauxhall, completed in Q2 2023. In Q4 2023, we also completed the first phase (Basement to 3rd floor) of "Artesian", a 96,000 sq. ft refurbishment at 9 Prescott Street, London with the final phase 4th to 6th floor being fully completed in Q1 2024. Successful agents' launches for each building were held shortly after completion of the refurbishments.

At Spring Gardens, which is let to the National Crime Agency until February 2026, we are working up the planning application for a major mixed-use development of the two and a half-acre plot assuming the NCA were to leave.

Disposals

During 2023, we continued with our strategy of disposing of some of our smaller assets. This included the sale of St Cloud Gate in Maidenhead, a 9,700 sq. ft office building as well as The Rose pub in Vauxhall. The total consideration received for these assets was £4.3 million, which was 16.4% above the latest valuations.

The sale of Westminster Tower, which has planning consent for conversion to residential use, exchanged unconditionally in June 2023 with a completion date of 30 November 2023. However, the buyer failed to complete in 2023 and thus the deposit was called in 2024, and the property is now being re-marketed for sale. As a result, this was not recognised as a disposal in the 2023 financial statements.

Outlook

The consensus forecast for the UK economy is to grow at around 0.4% but with higher growth in the latter part of the year as the economy improves. Unemployment is forecast to increase marginally to 4.6%.

The investment market is likely to remain sluggish for the first half of the year but with improvements in the occupational market and strong rental growth, the attractiveness of commercial real estate as an asset class should improve, especially once financing costs begin to fall.

The recent improvements in the occupational market together with increased office requirements, means that we expect good opportunities to let our recent developments while our UK vacancy should reduce on the back of our recent capex upgrade programme alongside more occupiers returning to the office.

“Most encouragingly we saw a growing trend among our UK occupiers to return to the office and in a number of cases they have taken additional space to create a more attractive and vibrant environment for their staff.”

Dan Howson
Head of UK

Market review continued

VALUE OF PROPERTY PORTFOLIO

£885.5m

NUMBER OF TENANTS

368

GOVERNMENT AND
LARGE COMPANIES

55.6%

PERCENTAGE OF GROUP'S
PROPERTY INTERESTS

43%

EPRA VACANCY RATE

6.8%

YEARS WEIGHTED AVERAGE
LEASE LENGTH TO END

4.9

NUMBER OF PROPERTIES

32

LETTABLE SPACE

3.8m^{sq. ft}

LEASES SUBJECT TO INDEXATION

65.9%

Germany

Market overview

Germany had a tumultuous year in 2023 with Europe's biggest economy contracting 0.3% because of low business confidence, budgetary pressures and higher energy prices. Unemployment held up well at 5.7% while higher interest rates had the desired impact on inflation which shrank to 6.1%.

The German property investment market had a challenging year and investment volumes were down by 56% to c.€23 billion in 2023 reflecting hesitant buyers due to the interest rate trajectory and concerns about the development of the economy.

In the occupational market, leasing transactional volumes were down over 20% with less space let across the seven largest cities with only Dusseldorf and Frankfurt showing single-figure reductions. Vacancy increased to 5.7% for the seven largest cities ranging from 3.3% in Cologne to 9.7% in Dusseldorf. The majority of CLS properties are located in Hamburg, Munich, Berlin and Dusseldorf which saw strong rental growth for quality space.

Portfolio movement and valuation summary

In 2023, the value of the German portfolio decreased by £110.5 million as a result of a revaluation decline of £89.1 million or 9.1% in local currency; a foreign exchange decrease of £20.4 million; and disposals of £10.2 million, partly offset by net capital expenditure of £9.2 million (including depreciation of £0.1 million).

The 9.1% valuation decline resulted from equivalent yields expanding by 36 basis points on a like-for-like basis and marginally increased vacancy, with some offset from ERVs increasing by 2.4% on a like-for-like basis and the majority of leases being indexed.

According to the VDP banking association, office property values in Germany fell by 13.3% which compares to the fall in CLS' property values of 9.1%. This outperformance of CLS' German properties can be partly explained by our focus on government agencies and "Mittelstand" companies.

Asset management

The EPRA vacancy rate increased from 6.1% in 2022 to 6.8% at the end of 2023. This increase was despite some significant letting successes during the year with expiries in excess of lettings.

In 2023, we let or renewed leases on 17,008 sqm and lost 25,123 sqm of space from expiries. Excluding those arising from contractual indexation uplifts, 36 lease extensions and new leases secured £5.2 million of rent at an average of 14.8% above ERV (£2.6 million at 6.6% above ERV excluding Essen as described below). Leases subject to indexation increased by an average of 7.1%.

The largest transaction in 2023 was a 30-year, index-linked lease signed in June 2023 with the City of Essen for £2.6 million of rent at 24.3% above ERV. The significant refurbishment will start in mid-2024, following which the interior department will take occupation in July 2025 at which point the building will be fully occupied. Further details are in the strategy in action case study on page 20.

Developments and refurbishments

No significant individual property refurbishments or extensions were carried out in 2023. However, in advance of potential future development, the planning permissions for the roof top extension at Adlershofer Tor, Berlin and the new building at Lichthof, Stuttgart were extended for a further three years to allow for market conditions to improve.

GERMANY
HAMBURG
MUNICH
BERLIN
DÜSSELDORF
STUTTGART
DORTMUND
COLOGNE
NUREMBERG
BOCHUM
ESSEN

32
8
6
4
4
3
3
1
1
1
1

Smaller refurbishments continued with £9.3 million spent across our portfolio to improve the quality of our properties to meet tenants' needs and enhance their sustainability credentials.

A good example is at Fleethaus in Hamburg, where we carried out a refurbishment of the façade to improve its energy efficiency and to maintain the architectural and cultural heritage of the City of Hamburg. In 2024, in addition to our investment in Essen, we are also targeting to start a major refurbishment for half of the building at Bismarkstrasse in Berlin with the aim of driving rents from the previous passing level of €11 sqm to €30 sqm.

Disposals

In 2023, we disposed of a small property in Germany in Germering, Munich for €5.9 million and one piece of land in Sweden for SEK80.0 million in Hyllinge, which is included in the German segment for ease of disclosure and as it was our last property in Sweden. On a combined basis, the two properties sold for 19.5% above the latest valuations. There were no acquisitions in the year.

Outlook

The consensus forecast is for German GDP to grow 0.2% in 2024 and unemployment to remain at current levels. Germany has now successfully reduced its dependence on Russian gas which will help lower inflation and support the strong export industry that is the backbone of German industrial success.

The investment market is expected to be even more nuanced with small- to medium-sized buildings below €50 million, with good sustainability credentials and transportation links, selling whilst other properties, especially in out-of-town business park areas or large lot sizes, will continue to struggle.

Office take-up is expected to be patchy with larger corporates still grappling with the changing economic landscape while demand from small- to medium-sized companies and public bodies, which plays to CLS' strengths, remains resilient. We have only one big upcoming vacancy in 2024, which is at Gotic Haus in Dortmund. Discussions with potential tenants are ongoing, and subject to a successful outcome, and in combination with a general market reduction in development activity, we would expect vacancy to fall in our German portfolio in 2024.

“Office take-up is expected to be patchy with larger corporates still grappling with the changing economic landscape while demand from small- to medium-sized companies and public bodies, which plays to CLS' strengths, remains resilient.”

Rolf Mensing
Head of Germany

Market review continued

VALUE OF PROPERTY PORTFOLIO

£257.5m

NUMBER OF TENANTS

155

GOVERNMENT AND
LARGE COMPANIES

49.0%

PERCENTAGE OF GROUP'S
PROPERTY INTERESTS

12%

EPRA VACANCY RATE

5.6%

YEARS WEIGHTED AVERAGE
LEASE LENGTH TO END

5.2

NUMBER OF PROPERTIES

17

LETTABLE SPACE

0.8m^{sq. ft}

LEASES SUBJECT TO INDEXATION

100.0%

France

Market overview

The French economy achieved GDP growth of 0.9% in 2023 with unemployment steady at around 7.3%. Inflation in France, which started the year lower than many other European countries, fell to 5.7%. All of this was against a backdrop of increasing ECB base rates which went from 2.5% at the start of 2023 to 4.5% by the end of the year.

In 2023, transaction volumes in the French property market fell by 53% to c. €12 billion. This was not only as a result of a decrease in the number of transactions but also the average value, reflecting our experience that investors are less willing to commit to larger purchases.

In the occupational market, after a strong year in 2022, office take-up in Greater Paris in 2023 was down by double digit percentages, although vacancy was only up slightly at 8.5% from 7.9% but with continuing large variances between the districts. Vacancy in the Paris CBD was 2.5% but higher in the outer districts with 15% in La Défense. CLS' properties are located in the West and South side of Paris, straddling both areas. The Lyon market continued to perform comparably well but even here market vacancy rose from 4.4% to 4.9%.

Portfolio movement and valuation summary

In 2023, the value of the French portfolio decreased by £28.6 million as a result of a revaluation decline of £25.8 million or 9.1% (2022: 5.3%) in local currency, and a foreign exchange decrease of £5.9 million, partly offset by capital expenditure of £3.1 million. The 9.1% valuation decline was as a result of equivalent yields expanding by 82 basis points on a like-for-like basis and increased vacancy, with some offset from ERVs increasing by 1.3% on a like-for-like basis and all leases being indexed. CLS outperformed the market and peers whose offices fell in value by over 12%.

Asset management

EPRA vacancy in the French portfolio increased to 5.6% as at 31 December 2023 (2022: 2.6%) with the increase exclusively driven by the completion of Park Avenue in Lyon for which two and half floors (c.3,100 sqm) were vacant at the year end.

In 2023, we let or renewed leases on 13,245 sqm and lost 15,130 sqm of space from expiries. Excluding contractual indexation uplifts, 34 lease extensions and new leases secured £2.9 million of rent at an average of 0.1% above ERV. The most significant transactions during this year were Pole Emploi at Les Reflets in Lille for 2,499 sqm and Exalog at Bellevue in Paris for 1,039 sqm. On a like-for-like basis, ERVs increased by 1.3%, with index-linked rental increases at an average of 5.6%.

Developments and refurbishments

In 2023, we completed the elevated level of capital expenditure spend across the French portfolio, incurring £3.1 million, with the completion of the major refurbishment of Park Avenue in Lyon. The refurbishment was finished in the middle of the year with the final €0.9 million spent in 2023 out of a total project cost of €9.1 million.

The works involved refurbishing common areas such as reception, lifts, landings, toilets, and a replacement of the façade with stone, new windows and electric shades. The outside works also included a green roof, new ground floor landscaping, the painting of the car park and the creation of new common terraces through the extension of existing landings. These works have not only improved tenants' amenities but have also resulted in an a significant improvement in the building's sustainability credentials (increasing from DPE G to DPE B).

FRANCE
PARIS
LYON
LILLE

17
11
5
1

Tenants for five of the ten floors were decanted to a nearby building whilst the works were carried out. Following a successful building launch at the start of 2023, a further three floors have been let. There is good interest in the remaining two and half floors and we are confident of letting these in 2024.

Disposals

In 2023, we unconditionally exchanged on Quatuor, a building located in the Montrouge area in Paris. The 2,500 sqm office building was originally acquired for €4.6m in 2002 and is located in front of the future Grand Paris metro station. The building is therefore strategic for the City of Montrouge, which agreed to buy the property for €11.3 million, 2.8% ahead of the June 2023 valuation. In December 2023, we received 10% of the purchase price with the remaining 90% to be received by June 2024; until then CLS manages and collects the rent for the property.

Some more details on the Quatuor sale and the Park Avenue refurbishment are included in the strategy in action case studies on pages 18 to 21.

Outlook

GDP consensus forecast is for France to grow around 0.7% which, although modest, is above both the UK and German consensus, and for unemployment to stay at current levels.

With Anglo-Saxon investors notably absent, the investment market has been driven by domestic and other European investors. Whether this will change in 2024 remains to be seen but we do expect a gradual return to mainland Europe's second largest economy as markets and the interest rate stabilises.

Office take-up has been volatile in the last two years but smaller floorplates below 1,000 sqm have consistently performed better which has benefitted CLS' portfolio due to the size and layout characteristics of our properties.

We expect CLS vacancy to remain around 5% in 2024 with the newly refurbished space in Park Avenue let being offset by expiries in Front de Parc, located close to Park Avenue in the Villeurbanne-Tonkin district of Lyon, which will be available in the second half of the year following refurbishment.

In the wider market, we expect to see continued varied markets across Paris, driven by different supply dynamics, and Lyon continuing to perform well due to a much tighter market and restrictive policies for new developments.

“Office take-up has been volatile in the last two years but smaller floorplates below 1,000 sqm have consistently performed better which has benefitted CLS' portfolio due to the size and layout characteristics of our properties.”

Philippe Alexis
Head of France

Strategy and business model

Realising value and reinvesting for the future

We acquire the right properties

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

We look to acquire high quality properties with good transport links located in key European cities.

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

The cost of buying investment properties is met partly from the Group's liquid resources and partly from external financing. Liquid

resources are supplemented by disposal proceeds from selling assets which present limited future opportunities to add value.

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

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

KPIs/OPIs

- TSR – Relative
- Total accounting return

Link to principal risks

- Property risk
- Sustainability risk

► For more information see page 18

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 enhance 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.

KPIs/OPIs

- TSR – Relative
- Total accounting return

Link to principal risks

- Business interruption risk
- People risk

► For more information see page 21

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, ring-fenced 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,

usually 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 over 25 lenders around Europe, which spreads our risk.

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

KPIs/OPIs

- Cost of debt

Link to principal risks

- Financing risk

➤ For more information see page 19

We deliver value through active management and cost control

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

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

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

This approach also allows us to develop and embed positive environmental behaviours across our managed landscape which supports our impact on climate change.

All of the above gives our shareholders confidence in our day-to-day management.

KPIs/OPIs

- Vacancy rate
- Administration cost ratios

Link to principal risks

- Sustainability risk
- Political and economic risk

➤ For more information see page 20

We reward shareholders, customers and employees

We aim to grow the dividend in line with the growth of the business, targeting the dividend to be covered 1.2 to 1.6 times by EPRA earnings. The proposed full year dividend represents £31.6 million of the £40.9 million of EPRA earnings in 2023.

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 only CLS' UK business is a REIT, we have flexibility in the amount we are required to distribute to shareholders, which

benefits the business in the longer term.

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

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

KPIs/OPIs

- Dividend cover
- Staff turnover

Link to principal risks

- People risk

➤ For more information see pages 22 to 23

Strategy in action

We acquire the right properties

Strategy

We invest in high-yielding properties, predominantly offices, with a focus on cash returns. We diversify market risk by investing in geographical areas with differing characteristics and also seek to diversify the tenant base.

Strategy implementation

We target modern, high quality properties with good asset management opportunities in larger cities in the UK, German and France. In addition to geographic diversity, we have a wide variety of tenants in many different sectors and we invest in Sterling and Euros.

Our performance in 2023

- As previously announced, CLS was not targeting acquisitions in 2023 but instead was focussed on reducing LTV through disposals
- We did though continue to invest in our portfolio to improve its quality and meet tenant needs as well as finishing our three major refurbishments/development
- In 2023, we spent £50.1 million of capital expenditure which included £19.6 million on the refurbishments at Prescott St, London and Park Avenue, Lyon as well as the development at The Coade, London

Priorities for 2024

- We will continue to invest in our property portfolio to improve its quality which also includes sustainability enhancements as per our Net Zero Carbon Pathway. Capital expenditure will return to historical levels of around £30 million in 2024
- As in 2023, CLS will be selective in considering acquisitions or developments in 2024 and instead focus on reducing LTV through disposals

“The investment CLS has made in improving its portfolio is exemplified by the outstanding quality of Prescott Street, which has been awarded an EPC A and is now available to let to tenants.”

Helen Pilcher
Head of UK
Development

CASE STUDY

Providing high-quality offices Prescott Street, London, United Kingdom

- In 2019, CLS purchased 9 Prescott Street which was an Art Deco era 96,000 sq. ft office building
- In 2022 and 2023 we carried out a £31 million full building refurbishment to deliver outstanding quality space
- Key areas of improvement include: amenities (new 4,000 sq. ft roof terrace); sustainability (Cyclescore Platinum); health & wellbeing (increased fresh air rates); flexibility (different space configurations); and digital (Wiredscore Platinum)
- Rents of £50-£60/sq. ft are targeted across the six floors

Strategy in action

We secure the right finance

Strategy

Whilst CLS has several financing strategic objectives, the key ones are to: target a low cost of debt whilst maintaining an appropriate LTV; to maintain a high proportion of fixed rate debt; to utilise diversified sources of finance to reduce risk; and to maintain a high level of liquid resources.

Strategy implementation

To meet CLS' strategic objectives, we: aim to keep cost of debt at least 200 basis points below net initial yield albeit this depends on market conditions; execute fixed rate debt loans or use interest rate caps and hedges; have strong relationships with over 25 lending institutions which each have less than 20% of our total loan exposure and own properties in special purpose vehicles financed individually or in small portfolios by non-recourse debt in the currency used to purchase the asset; and keep at least £100 million in cash and undrawn facilities.

As noted in the Going Concern assessment on page 54, CLS' business model relies upon the refinancing of loans annually, as well as disposals, for which we have a successful track record.

Our performance in 2023

- Financed, refinanced or extended eleven loans for £330.6 million
- These loans were at a weighted average duration of 3.0 years and at a weighted all-in rate of 5.27%
- These loans encompassed all of 2023 and over 50% of 2024 expiring financings (now over 70%)
- In addition, we replaced £50 million of expiring RCFs and overdraft facilities with a 3+1+1 year £30 million RCF and a 2+1 year £20 million RCF

Priorities for 2024

- To complete five or six refinancings across Germany and France for £68.0 million or £98.3 million depending on sales
- To execute one financing for a recent refurbishment and two capex facilities for upcoming refurbishments
- To progress 2025 refinancings of £399.2 million

“The strength of CLS' lending relationship allowed CLS to complete all of its 2023 refinancings successfully and make significant progress with 2024 refinancings.”

Alain Millet
Group Treasurer

CASE STUDY

Key 2023 refinancing Adlershofer Tor, Berlin, Germany

- Our 20,000 sqm mixed use building has minimal vacancy with a major food retailer occupying over 40% of the space and the rest offices
- The existing loan of €25.2 million with PBB was expiring at the end April 2023
- At the end of March 2023, we secured a 5-year loan for €45.0 million with Berliner Sparkasse
- The 4.61% fixed rate interest-only loan is at 52% LTV and has no amortisation and no financial covenants

Strategy in action

We deliver value through active management and cost control

Strategy

Our overall objective is to maintain a high occupancy for our properties alongside a diversified customer base which is underpinned by a strong core income stream. In conjunction with driving letting performance, we maintain strict cost control.

Strategy implementation

In order to deliver on high occupancy and cost control, we use in-house staff wherever appropriate. Consequently, we use in-house local asset and property managers who maintain close links with occupiers to understand their needs. Our focus is on the quality of service and accommodation for our customers. On the cost side, we perform as many back-office functions as possible in-house and monitor our performance against our peer group.

Our performance in 2023

- Completed 130 lease events securing £15.5 million of annual rent at 6.9% above ERV with like-for-like contracted rent increasing by 5.1%
- Underlying vacancy was essentially flat at 7.6% but the overall vacancy rate increased to 11.0%. The increase was due to completion of developments currently being marketed to prospective tenants
- The bad debt provision reduced by £0.9 million due to better recovery of old debts and rent collection remained at the same, consistently high level of 99%

Priorities for 2024

- Increase letting activity, particularly in the UK and for recently completed refurbishments
- Reduce vacancy levels below 11.0% and over time bring down to our historic target level of 5.0%
- Maintain rent collection levels and actively manage bad debts as well as continue cost control measures

“The long-term lease with the City of Essen allows CLS to invest in a comprehensive refurbishment programme to offer modern and sustainable offices of the highest quality.”

Einar Osterhage
Head of German
Asset Management

CASE STUDY

One of CLS Germany's largest-ever leases The Brix, Essen, Germany

- The Brix in Essen is a 17,400 sqm office which was bought in 2021 with 28% vacancy
- In June 2023, CLS signed a 30-year lease with the City of Essen. The lease also benefits from being index-linked. Servicing local government agencies is one of CLS' specialisms and they are our largest tenant segment
- Over the next two years, CLS will spend c.€20 million to substantially improve the building with a host of energy efficiency, sustainability and wellbeing initiatives to provide high-quality and flexible workspace
- It is expected that the works will complete in mid-2025 and be part-funded from a new capex facility

We continually assess whether to hold or sell properties

Strategy

Our focus is to hold those properties with the potential to add value through active asset management. We dispose of those properties; which are too small or too low yielding; for which the risk/reward balance is unfavourable; or for which the acquisition business plan has been executed and there is limited active asset management potential.

Strategy implementation

We have an asset management plan for every property which we flex to capture rental and capital growth via leasing and refurbishment activity. We will also assess whether greater value can be captured through a change of use. If a decision to dispose of a property is made, we will seek to optimise the timing of sales depending on market conditions, the characteristics of the property and the overall portfolio composition.

Our performance in 2023

- Disposed of five properties (four completions and one unconditional exchange) across all of our geographies for £25.4 million, 10.0% ahead of the pre-sale valuations. Deferred consideration of £10.2 million on one sale is due before June 2024, see case study.
- The sale of Westminster Tower unconditionally exchanged in June 2023 with a completion date of 30 November 2023. However, the buyer failed to complete and therefore we have called on the deposit.

Priorities for 2024

- We are targeting to sell up to 6 properties with a book value of £172.7 million, as set out in our assets held for sale. In addition, we are starting to market for sale our Spring Mews student property.
- We are targeting to reduce LTV to 45% in the short-term and below 40% in the medium term. The disposal of all the properties which are held for sale plus the student building would reduce proforma LTV to 40.8%

“The unconditional exchange of Quatuor allows CLS to exit a small property at above book value through identifying the right strategic buyer to maximise the value of the asset.”

Ly David
Asset Manager, France

CASE STUDY

Transaction with strategic buyer Quatuor, Paris, France

- Our property is a 2,500 sqm office, with a small amount of vacancy, located in front of one of the new Grand Paris Metro extension stations
- CLS engaged with the City of Montrouge, which had a pre-emption right over the property, to determine the best possible price as it was the most likely buyer
- The sale price of €11.31 million was 2.8% above the 30 June 2023 valuation
- In December 2023, unconditional exchange occurred and 10% of the purchase price was received. The remaining 90% of the purchase price will be received before June 2024 when the remainder of the loan will be repaid and the sale recognised. CLS will receive the rent from the building until that time

Key performance indicators

Measuring the performance of our strategy

EPRA EARNINGS PER SHARE (P)

Definition

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

Why this is important to CLS

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

Our target

We will seek to grow the earnings of the business alongside net asset value.

Progress

EPRA earnings per share for 2023 was 10.3 pence.

TOTAL ACCOUNTING RETURN (%)

Definition

Total Accounting Return is the aggregate of the change in EPRA NTA plus the dividends paid, as a percentage of the opening EPRA NTA.

Why this is important to CLS

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

Our target

Our target Total Accounting Return is between 3% and 9%.

Progress

In 2023, the Total Accounting Return was -20.8%.

EPRA VACANCY RATE (%)

Definition

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

Why this is important to CLS

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

Our target

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

Progress

At 31 December 2023, the EPRA vacancy rate was 11.0%.

➤ More detail is provided in the Chief Financial Officer's review on pages 24 to 27 and in note 5.

➤ More detail is provided in the Chief Financial Officer's review on pages 24 to 27 and 161 to 165.

➤ More detail is provided in the Country business reviews on pages 10 to 15 and 161 to 165.

Other performance indicators

In addition to these key performance indicators, the Group also has a number of other performance indicators by which it measures its progress. These are regularly reviewed. Three are shown here but others are summarised on pages 2, 161 to 164 and in note 5 and are discussed in this strategic report. Our environmental and social indicators (including health and safety) are discussed in the ESG section on pages 32 to 47.

TOTAL SHAREHOLDER RETURN – RELATIVE (%)

Definition

The annual movement in capital in purchasing a share in CLS, assuming dividends are reinvested in the shares when paid, compared to the TSR of the 23 companies in the FTSE 350 Real Estate Super Sector Index.

Why this is important to CLS

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

Our target

Our target Total Shareholder Return (relative) is between the median and upper quartile.

Progress

The TSR was -31.7%, making CLS the 23rd ranked share of the FTSE 350 Real Estate Super Sector Index of 23 companies.

CLS' share price performed below expectations in 2023 as property, particularly offices, is out of favour with investors and the lower liquidity of CLS' shares given one major shareholder.

NET INITIAL YIELD VS COST OF DEBT (%)

We seek to maintain a cost of debt at least 200 bps below the Group's net initial yield. At 31 December 2023, the cost of debt of 3.61% was 175 bps below the net initial yield of 5.36%.

➤ More detail is provided in the Chief Financial Officer's review on pages 24 to 27.

GRESB (ESG) SCORE/100

Our main sustainability indicator is the Group's GRESB rating as this is an industry standard measure and also due to the difficulty in drawing conclusions from carbon-related measures due to the variability in occupancy of our buildings during the pandemic. In 2023 we achieved a GRESB rating of 84 and four green stars.

➤ More detail is provided in the ESG section on pages 32 to 47.

ADMINISTRATION COST RATIOS (%)

These measure the administration cost of running the core property business by reference to the net rental income that it generates, and provides a direct comparative to most of our peer group. We aim to maintain the CLS ratio between 15% and 17%. The administration cost ratio for 2023 was 16.0%.

CFO review

Summary

Given valuation declines, EPRA net tangible assets ('NTA') per share fell by 23.2% to 253.0 pence (2022: 329.6 pence) and basic net assets per share by 23.9% to 233.8 pence (2022: 307.3 pence). EPRA earnings per share were 10.3 pence (2022: 11.6 pence) whilst the loss after tax of £249.8 million (2022: £81.9 million loss) generated basic earnings per share of -62.9 pence (2022: -20.2 pence). EPRA EPS provided 1.30x cover of the full year dividend of 7.95 pence per share.

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 and our Supplementary disclosures give a full description and reconciliation of our APMs.

Income statement

Net rental income in 2023 of £113.0 million, as set out in graph A, was up 4.8% from 2022 (£107.8 million). The increase arose mainly from three areas: rental indexation increases of £2.8 million as the majority of our properties have index-linked rent; another record year for our student and hotel operations, up £1.2 million; and the full-year impact of two previous acquisitions in Germany of £2.3 million. Disposals reduced rental income by £2.0 million and the movement of properties into refurbishments and net lease expiries lowered rental income by £0.5 million and £0.1 million respectively. Higher vacancy, mainly in the UK, resulted in higher net service charge expenses of £1.0 million. Dilapidation payments on lease expiries were £1.1 million higher and other, including FX, increased rents by £1.4 million.

CLS' tenant relationships remain strong and the quality and diversity of our tenant base has continued to be reflected in our rent collection, and, as in previous years, we collected over 99% of rent. Rent collection for the first quarter of 2024 is over 97% as is customary at this point in time.

Overall administration and property expenses increased by £1.9 million to £33.8 million (2022: £31.9 million) primarily as a result of higher personnel and other administrative costs given inflationary increases. The proportion of index-linked rent remained steady at 55.2% (2022: 55.5%) of the total contracted rent of the portfolio. This high level of indexation continues to be a significant benefit in a time of higher inflation and interest rates.

Due to the higher level of costs, CLS' administration cost ratio increased to 16.0% (2022: 14.4%) whereas our EPRA cost ratio reduced to 25.1% (2022: 25.8%) as certain vacancy costs are excluded from this measure.

Given market weakness from higher interest rates and economic uncertainty, the valuation of CLS' properties fell, although the reduction was lower than wider market movements. The reduction in the value of investment properties, excluding lease incentive movements, was £302.7 million (2022: £136.5 million fall) with falls in the UK of 16.7%, Germany 9.1% and France 9.1% in local currencies.

Four properties were sold in 2023 for an aggregate consideration of £15.6 million. This was 15.2% above the pre-sale book value which, after costs, resulted in a profit on sale of properties before tax of £1.4 million (2022: £0.5 million). In addition, a further property unconditionally exchanged for £9.8 million, 2.8% above the pre-sale book value. Since the year-end, we have had strong expressions of interest on two sales for over £70.0 million at a small discount to valuations. Operating loss for the year was £223.4 million (2022: loss £63.9 million).

Finance income of £1.6 million (2022: £1.3 million excluding unrealised gains on derivative financial instruments of £8.8 million) increased given higher interest rates on cash deposits. Derivative financial instruments fell in value by £4.2 million (2022: £8.8 million gain) as they are now close to maturity. Finance costs, excluding the movement on derivative financial instruments, increased to £37.1 million (2022: £26.8 million) as a result of higher interest costs on floating rate, and recently refinanced, loans given wider market interest rate increases.

Approximately 51% of the Group's sales are conducted in the reporting currency of Sterling and 49% in Euros. Whilst the year-end Sterling rate against the Euro strengthened by 2.1%, the average Sterling rate weakened by 2.0% resulting in a similar level of foreign exchange losses of £0.3 million in the income statement compared to last year (2022: £0.3 million).

Exchange rates to the £	EUR
At 31 December 2021	1.1893
2022 average rate	1.1732
At 31 December 2022	1.1295
2023 average rate	1.1500
At 31 December 2023	1.1535

The effective tax rate of 5.2% (2022: 0.0%) was below the weighted average rate of the countries in which we operate principally as a result of the conversion of CLS' UK operations to a REIT at the start of 2022 and thus minimal tax is now paid in the UK.

Overall, as set out in graph C, EPRA earnings were lower than last year at £40.9 million (2022: £47.0 million) and generated EPRA earnings per share of 10.3 pence (2022: 11.6 pence). The decrease of 1.3 pence in EPRA EPS was primarily due to the increase in net rental income of 1.3p being more than offset by the increase in finance expense of 2.5p and inflationary cost increases of 0.4p.

EPRA net tangible assets and gearing.

At 31 December 2023, EPRA net tangible assets per share were 253.0 pence (2022: 329.6 pence), a fall of 23.2%, or 76.6 pence per share. As set out in graph B, the main reasons for the decrease were: property valuation decreases of 12.5% or 75.6 pence per share; dividends of 7.95 pence per share paid in the year and foreign exchange declines on our European business of 3.6 pence per share; partly offset by EPRA earnings per share of 10.3 pence per share and other movements of 0.3 pence per share.

Balance sheet loan-to-value (net debt to property assets) at 31 December 2023 increased to 48.5% (2022: 42.2%) which was as a result of property valuation reductions with net debt little changed. The value of properties not secured against debt decreased to £74.1 million (2022: £105.1 million). In 2024, CLS is intending to be a net disposer of property to reduce LTV below 45% in the short-term and 40% in the medium-term.

“In 2023 CLS delivered solid results with lower valuation falls relative to the market and we have made significant progress with the planned refinancing activity for 2024.”

CFO review continued

Cash flow and net debt

As at 31 December 2023, the Group's cash balance was £70.6 million (2022: £113.9 million) as set out in graph D. Net cash flow from operating activities, after payment of £37.3 million for financing costs and tax, generated £45.9 million, an increase of £2.9 million from 2022. From this net cash flow, £31.6 million was distributed as dividends with the remainder reinvested in the business to grow net tangible assets. Capital expenditure of £46.4 million was partly funded by proceeds after tax from property disposals of £15.2 million. In addition, there was a net repayment of loans of £24.6 million. The net result of property and financing transactions, being the investment of £43.3 million in our property portfolio.

Gross debt decreased by £35.3 million to £1,070.6 million (2022: £1,105.9 million) due to: the net repayment of loans of £24.6 million; the decrease of £12.2 million due to the strengthening of Sterling against the Euro; and the amortisation of loan issue costs of £1.5 million. In the year, £330.6 million (£329.5 million net of capitalised fees) of new or replacement loans were taken out, loans of £336.2 million were repaid and £17.9 million of contractual periodic or partial repayments were made. Year-end net debt rose slightly to £1,000 million (2022: £992.1 million). At the year end, CLS' additional facilities remained unchanged comprising two undrawn revolving credit facilities totalling £50.0 million, both of which are committed. After the year-end, a new £10 million overdraft was agreed.

The weighted average cost of debt at 31 December 2023 was 3.61%, 92 basis points ('bps') higher than 12 months earlier. The movement was as a result of: an increase in the reference rates on floating rate loans (47 bps increase); new higher cost debt drawn for various refinancings completed (46 bps increase); and the weakening of the Euro against the pound (1 bps reduction). In 2023, interest cover at 2.2 times (2022: 3.0 times) gave comfortable covenant headroom.

“The focus for 2024 is on sales and refinancing to lower LTV and keep the balance sheet strong”

PORTFOLIO VALUE BY COUNTRY £M

+6.9%
SECURED RENT ABOVE
ERV FOR NEW LEASES

Financing strategy and covenants

In 2023, we refinanced the remaining expiring loans which had not already been refinanced in 2022. We also made significant progress with the refinancing activity for 2024 such that of the £350.0 million expiring in 2024 at the start of 2023, £178.2 million was refinanced in 2023. Subsequent to the year-end, two of those loans for £82.5 million have been extended until 2025. As a consequence, only £98.3 million across six loans in Germany and France with an LTV of 45% remain to be refinanced in 2024.

The Group's strategic financing priorities remain to keep the cost of debt low whilst: keeping an appropriate LTV; maintaining a high proportion of fixed debt; increasing the amount of green loans; and seeking to match the Group's weighted average debt maturity against the Group's WAULT. At a tactical level, the priorities for this year are to complete the remaining refinancings for 2024 and advance as much of the 2025 refinancing activity as practical.

As noted, CLS' objective remains to keep a high proportion of fixed rate debt. However, in 2023 just as in 2022 more floating rate loans and extensions than usual were executed given that: some properties are to be sold and thus wanting to avoid break costs; the letting profile for some properties needs to be improved in advance of securing a longer-term fixed rate loan; and a belief that interest rates were peaking and that lower rates could be secured in the future once the floating rate loan expired.

99%
RENT COLLECTION

In 2023, the Group refinanced or extended 11 loans to a value of £330.6 million for a weighted average duration of 3.0 years and at a weighted average all-in rate of 5.27%, and of these £196.7 million were fixed at a weighted average all-in rate of 4.76%. Consequently, at 31 December 2023, 75.9% of the Group's borrowings were at fixed rates or subject to interest rate swaps, 3.8% were subject to caps which had been hit and 20.3% of loans were unhedged. The fixed rate debt had a weighted average maturity of 3.9 years and the floating rate 2.2 years. The overall weighted average unexpired term of the Group's debt was 3.5 years (2022: 3.8 years). The Group's debt maturity at the start and end of 2023 is set out in graph F.

The Group's financial derivatives, predominantly interest rate swaps, are marked to market at each balance sheet date. At 31 December 2023 they represented a net asset of £4.3 million (2022: £8.5 million asset).

At 31 December 2023, the Group had 43 loans (33 SPVs, eight portfolios and two facilities) from 24 lenders. The loans vary in terms of the number of covenants with the three main covenants being ratios relating to loan-to-value, interest cover and debt service cover. However, some loans only have one or two of these covenants, some have other covenants, and some have none. The loans also vary in terms of the level of these covenants and the headroom to these covenants.

On average, across the 43 loans, CLS has between 13% and 30% headroom for these three main covenants. In the event of an actual or forecast covenant breach, all of the loans have equity cure mechanisms to repair the breach which allow CLS to either repay part of the loan, substitute property or deposit cash for the period the loan is in breach, after which the cash can be released.

Distributions to shareholders and Total Accounting Return

The final dividend for 2022 of 5.35 pence per share (£21.3 million) was paid in May 2023 and in October 2023, CLS paid an interim dividend of 2.60 pence per share (£10.3 million).

Given ongoing uncertainty and challenging economic conditions, the proposed final dividend for 2023 is maintained at 5.35 pence per share (£21.3 million), the same level as 2022. This would result in a full year distribution of 7.95 pence per share (£31.6 million), covered 1.30 times by EPRA earnings per share. The Total Accounting Return, being the reduction in EPRA NTA plus the dividends paid in the year, was -20.8% (2022: -3.7%).

As a result of the conversion of our UK operations to a REIT in 2022, shareholders receive dividends comprising two elements. The dividends comprise a Property Income Distribution ('PID') from the UK REIT operations and a second element from CLS' remaining operations. For the 2023 interim dividend of 2.60 pence per share, the PID was 1.70 pence per share and for the proposed final dividend of 5.35 pence per share, the PID will be 1.50 pence per share giving a full year dividend of 7.95 pence per share of which 3.20 pence per share is the PID. The split between the PID and the dividend from our remaining operations is likely to fluctuate over time and will depend on the level of capital allowances and inter-company interest, amongst other things.

Andrew Kirkman
Chief Financial Officer

8 March 2024

Stakeholder engagement

Engaging with our stakeholders

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

Our stakeholders

Why are they important?

We believe 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 on the people with whom we do business. Positive engagement and collaboration with our stakeholders supports the implementation of our long-term strategy for growth.

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

	Tenants	Suppliers	Communities
PRIORITIES IN 2023	- Improvements to communal areas to meet tenants' needs - Input into tenants' refurbishments - Implementation of sustainability initiatives and data platform	- Working towards sustainable practices - Support fair tendering processes with feedback from suppliers	- Improvements in public realms - Financial and in-kind support for local charities and other organisations - Implementing CSR programme
HOW WE ENGAGED	- Tenant meetings - Tenant surveys - Pilot implementation of building specific "Tenant CLS App"	- Quarterly review meetings with principal suppliers - Fair tendering process to ensure we work in partnership with suppliers	- Supporting local organisations in the areas in which we invest - Working closely with communities and councils on refurbishment and development projects
OUTCOMES AND OPPORTUNITIES	- Programme of refurbishments and modern design fit out - Active asset, property and facilities management to deal with issues quickly - Enhancing communications through online portals	- Obtain commitments from relevant suppliers in line with requirements from the living wage foundation - Ensure communication of Group objectives to enable collaborative approach	- Increase in funding for local charities and organisations - Adapted refurbishments/ redevelopments in light of feedback - Commitment to the Group's policy of prompt payment of invoices
LINK TO BUSINESS MODEL AND STRATEGY			

	Employees	Investors	Financial institutions
PRIORITIES IN 2023	• Monitor staff engagement • Enhance CLS culture through wellbeing measures	• Highlight quality and future readiness of portfolio • Address the disparity between share price and NTA • Long-term growth strategy • Impact of rising interest rates and inflation	• Ongoing compliance with loan covenants • Economic and market research and trends • Sustainability initiatives
HOW WE ENGAGED	• Open door policy for raising issues • Our Workforce Advisory Panel • Operation of anonymous whistleblowing hotline • Staff survey	• Q&A session at analyst presentations • Regular meetings with investors • Feedback through our key advisors	• Frequent meetings with all lenders • Presentations to and from institutions • Invitations to property tours
OUTCOMES AND OPPORTUNITIES	• More all staff meetings hosted by the CEO and SLT to maintain open lines of communication • CSR initiatives including group volunteering days and social events • Act upon outcomes of staff survey	• Continued review of portfolio • Development of new website highlighting quality and future readiness of portfolio	• Communication of Group strategy at individual meetings • Regular updates on portfolio changes • Ensuring best practice in compliance reporting
LINK TO BUSINESS MODEL AND STRATEGY			

Section 172 statement

Our approach to Section 172

Overview

The Board recognises the importance of the views of key stakeholders in its decision-making process and the execution of its strategy. It believes these to be crucial in maintaining a reputation for high standards of business conduct, and a Group that people want to work for and to do business with. Our key stakeholders are set out on pages 28 to 29 and illustrate how the Group has engaged and consulted with them. This approach is reflected in the Board's decision-making process and examples of key decisions are set out in this section.

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

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

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

The Board undertook two property tours in Paris and London in 2023, where Board members were able to interact with employees below Board level and external advisors. They were able to see the locations of our buildings and understand the changing needs of tenants through different styles of fit out and design. They also met with a number of tenants which enabled them to receive first hand feedback.

RELEVANT DISCLOSURES

The likely consequences of any decision in the long term

The interests of the Company's employees

The need to foster business relationships with suppliers, customers and others

RELEVANT DISCLOSURES

➤ page 30
Company Purpose

➤ page 82
Dividend Policy

➤ pages 16-21
Our Business Model

➤ pages 10-23
Performance Review

➤ page 32
Sustainability

➤ page 66
Company Culture

➤ page 40
Diversity and Inclusion

➤ Sustainability Report
Employee Engagement

➤ Sustainability Report
Our People

➤ pages 10-23
Performance Review

➤ page 77
Whistleblowing

➤ page 101
Modern Slavery

➤ pages 16-21
Our Business Model

➤ pages 10-23
Performance Review

➤ Sustainability Report
Responsible Payment Practices

➤ page 32
Sustainability

➤ page 77
Whistleblowing

RELEVANT DISCLOSURES

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

The need to act fairly as between members of the Company

RELEVANT DISCLOSURES

➤ page 30
Purpose and vision

➤ page 32
Sustainability

➤ page 41
TCFD

➤ page 77
Internal Controls

➤ page 30
Purpose and vision

➤ page 32
Sustainability

➤ page 77
Whistleblowing

➤ page 64
Annual General Meeting

➤ page 82
Dividend Policy

➤ pages 28-29
Stakeholder Engagement

➤ page 32
Sustainability

Purpose-led considerations

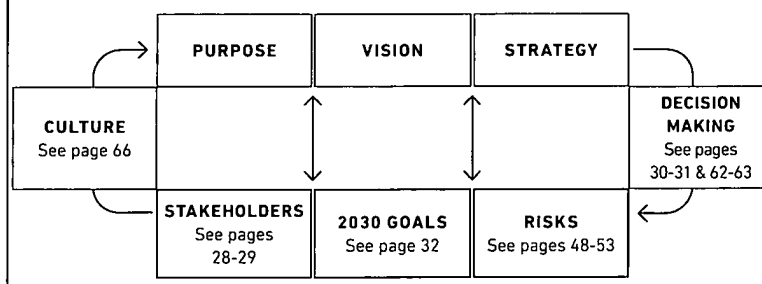
Our purpose is to transform office properties into sustainable, modern spaces that help businesses to grow. Our investments are based on long-term vision, continually modernising our portfolio into viable, future focused and sustainable properties.

Our vision is to be a leading office space specialist and a supportive, progressive and sustainably focused landlord. We achieve this by aligning our strategic vision to our tenants'

business ambition, reinforcing our diversification in our key markets and elevating the importance of sustainability across all aspects of our business.

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

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



Refinancing Agreements

Securing the right finance remains one of the key tenets of CLS' business model and strategy and has delivered significant value to our stakeholders. As the property and financing markets have become more challenging post pandemic, we have prioritised building in greater flexibility to our financing agreements to mitigate against this. We refinanced and extended a number of our 2023 and 2024 maturity loans this year and successfully executed committed Revolving Credit Facilities totalling £50m. The execution of our financing strategy in 2023 helped our weighted average debt maturity and liquidity position, which was a significant achievement in the current economic climate, giving us greater flexibility.

Consideration of S172 impacts by the Board in its decision making

INVESTORS (1) (2)

The execution of our financing strategy materially reduced the Group's liquidity and refinancing risks, enhancing our resilience in the current economic climate and giving our investors confidence that the company will continue to deliver on its strategy.

FINANCIAL INSTITUTIONS (1)

The amended financing agreements we entered into this year have strengthened our relationship with our lenders and ensured that the terms remain favourable and beneficial to all parties. Our new agreements we are party to have also allowed us to build relationships with lenders and ultimately expand our network for financing options in the future.

Monitoring Sustainability

This year we have focused on the implementation of our strategy and monitoring ESG focus areas. Numerous projects were carried out throughout the year in collaboration with the regional property teams. It was estimated that these projects would save approximately 1,000 tonnes CO₂e per annum and would put us on track to achieve our energy and carbon reduction target of 4% per year in future years. We also conducted a review of our sustainability reporting and benchmarking frameworks, which concluded that CLS is aligned with best practice in this area. Given our level of reporting, we carried out a competitive tender process for a sustainability data platform to provide better data reporting and further automation of energy consumption data, resulting in more accurate, timely and reliable data that would also enable easier third-party verification.

Consideration of S172 impacts by the Board in its decision making

COMMUNITIES/ENVIRONMENT (1) (3) (6)

Oversight of our Social Value Framework and CSR initiatives ensures we deliver on our objectives for the communities in which we invest, promoting education, employment and our long-term strategic aims to become Net Zero by 2030.

TENANTS (1) (2)

Our Sustainability Strategy is designed to support our purpose which is to provide sustainable office space that helps businesses grow. The Sustainability Committee is able to monitor and ensure that we are on track to meet our targets which in turn deliver cost savings for tenants through various energy efficiency measures.

Dividend Considerations

The Company's progressive dividend policy supports the long term strategic plan and provides an attractive return to shareholders.

Through the annual strategic plan, the Board monitors the Group's cash flow position as a result of our desire to reinvest and grow the portfolio, and support our vision to be a leading office space specialist and a supportive, progressive and sustainability-focused commercial landlord.

Consideration of S172 impacts by the Board in its decision making

INVESTORS (5)

The Board concluded that given the financial and operational performance of the Group against an uncertain macro-economic background, the 2023 interim dividend was paid at the same level as the previous year. The Board reviewed the financial and operational performance of the Group during 2023 and deemed it appropriate to pay a final dividend of 7.95 pence per share.

EMPLOYEES (4)

The Board considered how this would benefit and reward employees who own shares in CLS and also the impact it would have on the Share Incentive Plan. It concluded that there were significant benefits in rewarding employees through the performance of the Group.

KEY – SECTION 172 CRITERIA

①

The likely consequences of any decision in the long term

②

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

③

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

④

The interests of the Company's employees

⑤

The need to act fairly between shareholders

⑥

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

ESG overview

Sustainability Strategy to 2030

Environmental	A positive environmental impact We will invest in our properties and collaborate with occupiers to sustainably manage natural resources, support local environments and build resilience to climate risks; delivering future-ready assets. Net Zero Carbon Pathway ➤ See page 37 for details.	Our Sustainability Strategy maps the journey CLS will take up to 2030, with the key targets and milestones set appropriately to reflect the position we are starting from against each material element. Our strategy is summarised below. We believe that sustainable outcomes and shareholder returns are not a zero-sum game. Properly valuing and integrating sustainability risks and opportunities into our business strategy provides resilience to future disruption and unlocks potential future growth.
Social	Creating shared value We will create and share value with our stakeholders by engaging collaboratively with our occupiers, supporting local communities and partnering with our supply chain. Social Value Framework ➤ See the Social section of the 2023 Sustainability Report for details.	Our strategy takes steps to prepare and adapt our business before regulation requires it, or the environment and our customers demand it. A more sustainable operating model reduces material risks to our reputation and balance sheet. Crucial to this is our commitment to being a net zero carbon business by 2030. The fundamentals remain the same. We are working in line with globally recognised sustainability frameworks and targets to have a positive environmental impact, create shared value with our stakeholders and be a responsible business with strong governance and transparency. We continue to recognise the importance of addressing the environmental and social challenges that underlie a more sustainable future.
Governance	Being a responsible business Strong governance and transparency will provide the basis for demonstrating our values, supporting people and working with our stakeholders to uphold high standards. Monitoring and regulatory reporting ➤ See the Governance section of the 2023 Sustainability Report for details.	Explore deeper with our Sustainability Report This year we have decided to give sustainability prominence by creating a separate Sustainability Report published alongside our Annual Report. This fills the need of our stakeholders, including the numerous relevant ESG and sustainability reporting frameworks, for greater specialist data and information to provide necessary transparency. Our Sustainability Report provides a deep dive on the data and the work behind making CLS a more sustainable business and driving our ESG agenda. Sustainability remains an integral part of our overall strategy and we are getting on with implementation, showing clear results with significant energy savings, and progressing with

2023 ESG HIGHLIGHTS

SOLAR PHOTOVOLTAIC PANELS INSTALLED

111 kWp

PROPORTION OF TOTAL GROUP ELECTRICITY FROM RENEWABLE OR CARBON-FREE SOURCES

>99%

EQUIVALENT SOCIAL VALUE GENERATED (EXCLUDING SUPPLY CHAIN)

£261,949

EMPLOYEE VOLUNTEERING HOURS GIVEN TO COMMUNITY AND CHARITABLE ORGANISATIONS

985 hours

NET ZERO CARBON PATHWAY PROJECTS COMPLETED

73

REDUCTION IN LIKE-FOR-LIKE SCOPE 1 AND 2 CO₂ EMISSIONS FROM 2022

5%

ESG overview continued

2023 in review

making our buildings more efficient and future-ready. We have delivered on some of our commitments from our strategy, including becoming a Accredited Living Wage Employer.

This year we completed the rollout of rooftop solar photovoltaics (PV) and electric vehicle (EV) charging in the UK and improved many of our EPC ratings to position our assets as the most sustainable offerings in some local markets.

Our work on delivering social value in the communities we operate in continued with a new focus on skills for young people and helping their readiness for work through a new partnership with the National Literacy Trust.

Performance and Progress in 2023 Focus Areas

We made good progress against the targets we set ourselves for sustainability focus areas this year: making progress or fully achieving 17 out of 18 targets. Crucially, we are seeing energy reductions in line with our Net Zero Carbon (NZC) Pathway.

We were ahead of our energy reduction targets for the year. The impact of our projects is showing more broadly in energy reductions particularly as we were able to tune the operation of some major buildings. In France and Germany, there was some short term impact of energy efficiency measures. Importantly, we made progress in all three of our countries in different areas.

There has been a decrease in like-for-like landlord gas consumption of 7% across the Group. Similarly, electricity consumption in landlord spaces has decreased by around 8%, primarily resulting from energy efficiency projects.

Unfortunately, our progress on energy reduction was offset by higher electricity and district heating carbon factors, caused by the impacts of the Ukraine war on European energy markets. As a result, our total Scope 1 and 2 GHG (Greenhouse Gas) emissions, using location-based carbon factors, reduced by 5% like-for-like, but slightly increased on an absolute basis, in 2023. This short-term carbon factor increase, meant we were above our NZC Pathway target, but in line with the target we set ourselves.

Scope 3 emissions were similar to last year primarily due to our continued spending on major construction and refurbishment projects. However, we recognise improvements are required to our Scope 3 calculation methodology to measure our emissions more accurately.

A further 73 energy projects were completed in 2023 saving an estimated 741 tonnes CO₂e (tCO₂e). This was less than planned, due to some scaling back of capital expenditure. However, over 50% of our UK properties are now rated EPC A or B.

“Sustainability remains an integral part of our overall strategy and we are getting on with implementation, showing clear results with significant energy savings.”

For more detail, please visit our website to read our Sustainability Strategy and 2023 Sustainability Report

Our rooftop PV and EV charger roll out came to an end in the UK with a final 111 kWp installed at 5 sites and a further 20 EV chargers for tenants.

Water consumption (in absolute terms) increased in line with more people returning to the office. Waste across our managed buildings decreased; this was due to monitoring work. On a like-for-like basis, there were reductions of -3% and -14% respectively, once acquisitions and disposals are removed. Our waste data calculation will be improved in the coming years.

We have maintained the social metrics upon which we report. Notably, board gender balance improved whilst employee gender balance and turnover remained steady. See the Social section of the separate Sustainability Report for more commentary.

CSR and social value remain important. We held numerous volunteering events this year, with nearly 1,000 hours of employee time given and nearly £86,000 of donations to charities in our focus areas.

We updated 30 BREEAM In-use ratings this year in our UK and French portfolios and achieved a minimum of 'Good' for these, showing our properties are on track to be fit for a sustainable future by meeting or exceeding anticipated future regulatory requirements. This approach is mirrored in major refurbishments and acquisitions as they occur, with The Coade and Artesian achieving BREEAM 'Excellent' for new build and refurbishment respectively.

Metrics and Framework Alignment

We align to EPRA sBPR (Sustainability Best Practices Reporting), SASB (Sustainability Accounting Standards Board) and GRESB (Global Real Estate Sustainability Benchmark) frameworks and report in accordance with the SBTi (Science Based Targets initiative) and CRREM (Carbon Risk Real Estate Monitor).

We are well placed to report in line with the coming standards from the ISSB (International Sustainability Standards Board) as well as the EU's CSRD (Corporate Sustainability Reporting Directive).

The table overleaf shows a summary of key metrics for 2023. The full tables, with splits by country, can be found in the rear of the separate Sustainability Report. These include all the disclosures for EPRA sBPR guidelines, geographical splits of the data and the table of SASB indicators. This year we have again provided our annual sustainability data as a downloadable file from our website (in CSV format for easy use).

ESG overview continued

EPRA sBPR Summary data

GHG EMISSIONS

(GHG-Dir-Abs, GHG Indir-Abs, GHG-Dir-LfL, GHG-Indir-LfL)

	Absolute			Like-for-Like		
	2023 tCO ₂ e	2022 tCO ₂ e	Difference %	2023 tCO ₂ e	2022 tCO ₂ e	Difference %
Scope 1 GHG emissions (Direct)	4,809¹	4,858	(1)%	4,590	4,659⁵	(2)%
Gas	3,811	4,177	(9)%	3,654	3,923 ⁵	(7)%
Gas oil	8	14	(40)%	8	14	(42)%
Diesel	5	8	(35)%	5	8 ⁵	(38)%
Fugitive emissions	985	793 ³	24%	512	714 ^{3 5}	(28)%
Scope 2 GHG emissions (Energy Indirect – Location-based)	7,515¹	7,354	2%	6,516	6,605⁵	(1)%
Electricity (location-based)	4,034	4,080	(1)%	3,752	3,729 ⁵	1%
Purchased Heat (location-based)	3,481	3,274	6%	2,763	2,876 ⁵	(4)%
Scope 2 GHG Emissions (Energy Indirect – Market-based)	886¹	1,103	(20)%	653	933⁵	(30)%
Electricity (market-based)	23	2	1,433%	11	0	–
Purchased heat (market-based)	863	1,102	(22)%	642	933 ⁵	(31)%
Scope 3 GHG Emissions (Other Indirect)²	92,246¹	86,784	6%	–	–	–
Upstream emissions ²	61,181	61,488	(1)%	–	–	–
Downstream emissions ²	31,064	25,296	23%	–	–	–
Total Scope 1 and 2 GHG emissions (Location-based)	12,324¹	12,212	1%	10,695	11,264⁵	(5)%
Progress against NZC Pathway target	10,769⁴	–	14%^{1 9}	–	–	–
Total Scope 1, 2 and 3 GHG emissions (Location-based)	104,565	98,996	6%	–	–	–

ENERGY CONSUMPTION

(Elec-Abs, DH&C-Abs, Fuels-Abs, Total Energy-Abs, Elec-LfL, DH&C-LfL, Fuels-LfL, Total Energy-LfL, IF-RE-130a.2, IF-RE-130a.3)

	Absolute			Like-for-Like		
	2023 kWh	2022 kWh	Difference %	2023 kWh	2022 kWh	Difference %
Electricity						
Total purchased electricity for landlord spaces	18,586,145	20,277,919	(8)%	17,000,755	18,391,047 ⁵	(8)%
Total purchased electricity sub-metered to occupiers	7,463,012	7,978,663	(7)%	7,303,085	7,323,747 ⁵	(0.3)%
Total electricity generated through on-site PV	976,633	706,787	38%	962,714	689,989 ⁵	40%
Total electricity generated through on-site CHP	385,952	502,300	(23)%	385,912	502,300	(23)%
Proportion of electricity obtained from renewable sources	99.5%	99.9%	(0.4)%	99.9%	99.9%	0%
Grid electricity consumed within head offices	163,467	190,675	(14)%	163,467	190,675	(14)%
District Heating and Cooling						
Total landlord purchased district heating and cooling	11,088,580	11,521,889	(4)%	8,897,912	10,181,132 ⁵	(13)%
Proportion of district heating and cooling obtained from renewable sources	11%	14%	(24)%	13%	16% ⁵	(170)%
Fuels						
Total direct fuel consumption for landlord spaces	20,885,971	22,966,497	(9)%	20,010,218	21,571,428 ⁵	(7)%
Total direct fuel consumption sub-metered to occupiers	16,073	11,306	42%	16,073	11,306	42%
Totals						
Total Group energy consumption in landlord spaces	51,923,282 ¹	55,975,391	(7)%	47,257,552	51,335,895 ⁵	(8)%
Total Group energy sub-metered to occupiers	7,479,085	7,989,969	(6)%	7,319,158	7,335,052 ⁵	(0.2)%
Total energy consumed in head offices	163,467	190,675	(14)%	163,467	190,675	(14)%

INTENSITY METRICS

(Energy-Int, GHG-Int, Water-Int)

	Absolute			Like-for-Like		
	2023	2022	Difference %	2023	2022	Difference %
	kWh/m ² /year	kWh/m ² /year		kWh/m ² /yr	kWh/m ² /yr	
Total building energy intensity	103	117	(12)%	111	128 ⁵	(14)%
	kgCO ₂ e/m ² /yr	kgCO ₂ e/m ² /yr		kgCO ₂ e/m ² /yr	kgCO ₂ e/m ² /yr	
Total Scope 1 and 2 emissions intensity	21 ¹	22	(3)%	22	26 ⁵	(17)%
Total Scope 1, 2 and 3 emissions intensity	182	182	0%	–	–	–
	m ³ /m ² /yr	m ³ /m ² /yr		m ³ /m ² /yr	m ³ /m ² /yr	
Total building water intensity	0.37	0.33	12%	0.34	0.31 ⁵	7%

WATER AND WASTE

(Water-Abs, Water-LfL, Waste-Abs, Waste-LfL, IF-RE-140a.2)

	Absolute			Like-for-Like		
	2023 m ³	2022 m ³	Difference %	2023 m ³	2022 m ³	Difference %
Water						
Total landlord-obtained water	212,998 ¹	181,752	17%	164,035	168,655 ⁵	(3)%
Waste⁶	tonnes	tonnes		tonnes	tonnes	
Total waste collected	1,251 ¹	1,422	(12)%	1,084	1,255 ⁵	(14)%
Total non-hazardous waste	1,251 ¹	1,422	(12)%	1,084	1,255 ⁵	(14)%
Total hazardous waste	0 ¹	0.1	(100)%	0	0.1	(100)%
Total waste recycled	619 ¹	755	(18)%	543	679 ⁵	(20)%
Total waste incinerated with energy recovery	632 ¹	667	(5)%	541	576 ⁵	(6)%
Proportion of waste recycled	49% ¹	53%	(4)%	50%	54%	(4)%
Proportion of waste incinerated with energy recovery	51% ¹	47%	4%	50%	46%	4%

SOCIAL METRICS

(Diversity-Emp, Emp-Training, Emp-Dev, Emp-Turnover, H&S-Asset)

	2023	2022	Difference %
Gender Diversity			
All employees – % of female employees	48%	49%	(2)%
Board of Directors – % of female employees	44%	33%	21%
Training			
Average hours of training – all employees	10	3 ⁷	243%
Performance Appraisals			
Percentage of all employees who received performance appraisals	100% ⁸	100%	–
Turnover			
Total number of new employee hires	17	20 ³	(15)%
Total rate of employee turnover	25%	25% ³	–
Health and Safety			
Percentage of assets with health and safety assessments	100%	100%	–

1 2023 figure Independently Assured by DNV.

2 CLS currently only reports absolute Scope 3 emissions, therefore no like-for-like breakdown has been provided.

3 Figure restated due to use of revised calculation method.

4 Figure restated due to replacement of estimated data or availability of new data.

5 Figure restated with revised set of buildings aligned with EPRA sBPR guidelines.

6 2023 NZC Pathway target total Scope 1 & 2 emissions (absolute) (not including new buildings in 2023).

7 This figure was likely under-reported due to new introduction of LEARN system, tracking employee training.

8 Excluding employees on maternity leave and fixed term contractors who are not subject to annual appraisals.

9 Percentage difference between NZC Pathway target and actual Scope 1 and 2 emissions.

Regulated Reporting and Methodology

The disclosures included in this ESG section cover the following reporting requirements that we are subject to as a UK publicly listed company:

- Greenhouse gas ('GHG') reporting requirements defined within the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013
- Energy reporting requirements under the Streamlined Energy and Carbon Reporting ('SECR') requirements in the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018
- Climate-related financial disclosures consistent with recommendations from the Financial Stability Board's Task Force for Climate-Related Financial Disclosures (TCFD); as required under the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022

The scope, boundary and methodology adopted for the calculation of the Scopes 1, 2 and 3 GHG emissions, SECR metrics, and other environmental and social indicators are set out in the Sustainability Metrics: Scope, Boundaries & Methodology section in the back of our detailed Sustainability Report.

Independent Assurance

For the fourth consecutive year we engaged DNV, an independent expert in assurance and risk management, to undertake limited independent assurance. The assurance scope covers water, waste, energy and Scope 1, 2 and selected Scope 3 greenhouse gas emissions, EPRA sBPR metrics as well as progress on our NZC Pathway.

The specific metrics that have been subject to assurance are identified in the summary data table.

A copy of DNV's Assurance Statement can be found on our website

ESG overview continued

ESG priorities for 2024

In the year ahead our key priority is to continue building on our work to deliver energy and carbon reductions and again be in line with or ahead of the reductions planned in our NZC Pathway. This includes a focus on energy optimisation of buildings, further roll out of energy efficiency measures and ensuring our metering systems are robust and automated as much as possible.

A bigger focus on engagement with tenants and our supply chain, is key to improving Scope 3 GHG emissions (our largest segment of emissions), social value and other environmental metrics.

With the implementation of a state-of-the-art online data platform we also want to better share insights and reporting with our occupiers and stakeholders.

We will also still continue work on improvements in other environmental areas like biodiversity and waste alongside our continuing programme of green building certifications using BREEAM In-use.

On social value, our goal is to focus our work better, broaden our measurement and continue to grow our social value particularly around helping young people with skills.

We will also focus more heavily on compliance as we seek to address the incoming EU Corporate Sustainability Reporting Directive and French Décret Tertiaire regulations.

Focus Areas

- Reduce carbon emissions and energy use in line with the NZC Pathway model (3% like-for-like)
- Ensure the business is working towards compliance with key future regulations (i.e. MEES, Decret Tertiaire, Decret BACS, ISSB standards / TCFD and CSRD / EU taxonomy) and better measure progress
- Improve the efficiency and effectiveness of sustainability reporting by rolling out a new sustainability data platform and reviewing utilities metering
- Build CLS' reputation externally on sustainability and ensure EPRA award and GRESB rating are maintained
- Increase engagement with our tenants and supply chain, including data collection and reporting, to improve sustainability KPIs (e.g. Scope 3 GHG emissions, energy, waste, water and social value)
- Implement key actions to improve compliance with prompt payment code
- Further grow our social value focussing on measures under 'Improved employability of young people' outcome

ESG overview continued

Spotlight on Net Zero Carbon Progress

Our Net Zero Carbon Pathway is built from asset-level energy audits creating a robust technical evidence base of the energy and carbon saving opportunities and costs for each property. These have been aggregated into a Group-wide model to calibrate our targets, strategy and capital expenditure plans. In addition, they have been incorporated into individual asset management plans to enable strategic decisions about the refurbishment, sale or full redevelopment of assets to be made.

Where refurbishment is viable, the projects highlighted in the energy audit are incorporated into Net Zero Carbon Asset Management Plans for each building to ensure the optimal timing and allocation of capital over the course of the pathway to achieve our carbon reduction targets. These plans have resulted in a timeline of carbon reduction through to 2030 which will be constantly updated as expenditure is incurred at each asset. These plans are reviewed and improved each year to incorporate technology improvements as well as any acquisitions or disposals.

We have included the full portfolio of buildings in our NZC Pathway and report on progress against our targets, projects completed and delivery costs. The pathway includes a 65% reduction (giving a buffer on our 42% commitment) in Scope 1 and 2 GHG emissions and a 27% reduction in Scope 3 emissions by 2030 against a 2020 baseline. The plans are aligned to meet or exceed our SBTi target (42% reduction required) as well as the CRREM pathways for 2030.

“Our Net Zero Carbon Pathway includes a 65% reduction in Scope 1 and 2 GHG emissions and a 27% reduction in Scope 3 emissions by 2030.”

Residual carbon emissions in 2030 will be addressed with appropriate and robust carbon offsets. We are continuing to monitor options for offsets and will provide more details once the regulatory environment is more certain.

This year we have been working to verify that our NZC plans for each building in the UK and France align with planned regulatory changes (MEES in the UK and Decret Tertiaire in France). Initial results are positive showing measures and costs are aligned, but work on this will continue next year.

Energy Efficiency and Carbon Reduction Projects

During 2023, we continued to deliver a variety of projects to improve energy efficiency and reduce energy costs in our buildings in the UK, Germany and France.

We completed 73 carbon reduction projects from the NZC Pathway at a cost of £4.8 million. The projects save an estimated 741 tCO₂e annually; an increase of 21% over 2022. Similar to 2022, they included:

- Building refurbishment with window replacement (e.g. 9 Prescott St in the UK);
- Replacement of heating, ventilation and cooling plant and equipment with higher efficiency units;
- Replacing old extractor fans and old motors in air handling units with speed-controlled EC equivalents;
- Electrification of heating using heat pumps;
- Improving ventilation fan controls in car parks and toilets (e.g. carbon monoxide and time controls);
- Replacing old light fittings in common areas and tenant areas, including emergency lighting and external and carpark lighting with LED lighting and automatic lighting controls;
- Upgrades to controls including introducing Building Management Systems (BMS) and trialling continuous artificial intelligence BMS optimisation; and
- Installing roof-mounted solar PVs.

In addition, there were also simple operational changes:

- BMS and control systems adjustments where they were inefficiently deviating from optimum settings; and
- Further rollout of pioneering new air handler enzyme cleaning, piloted in 2022, to reduce pressure drops, improve heat transfer and consequently reduce fan and chiller / boiler energy use.

ESG overview continued

Spotlight on Net Zero Carbon Progress

An example of a completed project is the refurbishment of The Artesian. Full HVAC, lighting and window replacements as well as a new BMS and 16 kWp PV installation, mean the fully electric building is estimated to achieve savings of 140 tCO₂e per year.

We continued to expand our coverage of Automatic Meter Reading ('AMR') technology across our utility supplies in 2023. 77% of our main utility meters in managed assets now have AMR and for water supplies these include added smart leak detection.

Streamlined Energy and Carbon Reporting (SECR)

As a listed company, we are required to report to SECR regulations. The table below provides a summary of the required measurables (aligned to the EPRA sBPR performance measures on page 34). This, with the previous section on Energy Efficiency Projects, forms our disclosure. More detailed figures are provided in the Sustainability Report in the Extended Sustainability Metrics section along with calculation details in the Scope, Boundaries & Methodology section.

SECR Measurables

	2023	2022	% Change
Global Scope 1 & 2 GHG emissions (GHG-Indir-Abs-Scope 1 & Scope 2) tCO ₂ e	12,324	12,212	0.9%
GHG Emissions intensity ratio (GHG-Int) – Scope 1 & 2 emissions per net lettable floor area kg CO ₂ e/m ²	21	22	(2.7)%
Underlying global energy use (Total Energy-Abs) kWh	51,923,282 ¹	55,975,391	(7.2)%
UK energy use (Total Energy-Abs) kWh	23,194,699	26,437,689	(12.3)%
Offshore energy use (Total Energy-Abs) kWh	28,728,583	29,537,702	(2.7)%

TOTAL GROUP SCOPE 1, 2 AND 3 GHG EMISSIONS 2023 (TONNES CO₂e)

104,565

1. SCOPE 1 GHG EMISSIONS ²	4,809
2. SCOPE 2 GHG EMISSIONS ²	7,515
SCOPE 3 GHG EMISSIONS ²	
3. DOWNSTREAM LEASED ASSETS	31,064
4. PURCHASED GOODS AND SERVICES	5,706
5. NEW CONSTRUCTION & OTHER CAPITAL GOODS	53,937
6. WASTE GENERATED IN OPERATIONS, WATER, EMPLOYEE COMMUTING INC. HOMEWORKING, BUSINESS TRAVEL, FUEL AND ENERGY RELATED ACTIVITIES	1,536

1 2023 figure Independently Assured by DNV
2 tCO₂e

	2023 tCO ₂ e	2022 tCO ₂ e	Difference %
Scope 3 GHG Emissions Selected Categories			
Category 1: Purchased goods and services	5,706 ¹	6,264	(9)%
Category 2: New construction and other capital goods	53,937 ¹	53,639	1%
Category 3: T&D and WTT losses	1,145 ¹	1,261	(9)%
Category 5: Water and waste treatment	70 ¹	79	(12)%
Category 6: Business travel	253 ¹	180	41%
Category 7: Employee commuting, including homeworking	68 ¹	64	10%
Category 13: Sub-metered utilities, & occupier-controlled utilities	31,064 ¹	25,296	23%
Total Scope 3 GHG Emissions Selected Categories	92,243	86,783	6%

ESG overview continued

Environmental Summary

- Achieved
- ◐ Partially achieved
- Not achieved

2023 Focus Areas and Performance

TARGET	PERFORMANCE	
Reduction in carbon emissions and energy use in line with the NZC Pathway model (4% like-for-like) and completion of relevant planned NZC energy efficiency and PV projects	●	• Scope 1 & 2 GHG emissions reduced by 5% like-for-like, only exceeding the annual NZC Pathway target due to worsening electricity carbon factors • Energy use reduced by 8% including district heating use down by 12%, and landlord electricity down by 8% • 73 out of 118 planned NZC Pathway projects completed costing £4.8 million and saving an estimated 741 Tonnes of CO₂e per year
Reduce energy Intensity in top 15 energy consuming buildings by more than 5% compared to 2022	◐	• Made significant gas and electricity reductions at most of our larger buildings • Spring Mews had 51% gas savings from recommissioning the ground source heat pump system • Electricity use reductions included 16% at Harman House, 18% at Thamelink House and 14% at Hygeia
Maintain or improve EPC (or country equivalent) ratings including having plans to upgrade all D rated buildings in UK	◐	• Over 50% of our UK properties now have EPCs of A or B • Some challenges with new EPC calculation method has meant one building was rerated as E. However, plans are in place for all EPC D / E rated buildings to reach EPC B
Undertake pilot assessments on development and refurbishment embodied and whole life carbon for achieving net zero carbon buildings including carbon credit offset purchases	●	• Embodied Carbon Assessments completed at The Coade and Artesian (Prescot Street) alongside operational carbon assessments • The results showed the need to focus on embodied carbon reduction of future developments
Increase smart meter rollout for all utilities to >80% coverage	◐	• Smart metering established in 77% of main utilities including nearly all electricity and gas meters • All German water meters include smart leak detection with further roll out for other regions in 2024 • District heating utility meters unable to have smart meters fitted currently
Undertake waste education initiative at assets covering >80% waste generation	◐	• Waste education days held at all poorer performing UK properties • Recycling average dropped to 49% and needs further work to improve
Release Biodiversity net gain and rewilding plan and commence implementation	◐	• New biodiversity, rewilding and ecology requirements included in UK landscape maintenance contract • Biodiversity and rewilding initiatives based on baseline assessments deferred to 2024/25
Update portfolio to BREEAM In-use V6 and maintain or improve ratings with clear plans to reach "Very Good" or higher	●	• BREEAM In-use ratings maintained and plans in place for all rerated buildings to achieve "Very Good" • Artesian (9 Prescot Street) and The Coade in London achieved BREEAM "Excellent" under the New Construction and Refurbishment and Fit-out schemes respectively

Key Environmental Highlights

PERCENTAGE OF
SMART METERING
ON MAIN UTILITIES

77%

PERCENTAGE OF UK
PROPERTIES RATED
EPC A OR B

53%

ESG overview continued

Social & Governance Summary

-  Achieved
 Partially achieved
 Not achieved

2023 Focus Areas and Performance

TARGET	PERFORMANCE	
Improve occupier engagement and experience including launching online tenant portal, pilot refreshed handbooks and welcome packs with environmental requirements in the UK		- Online tenant portal pilot launched at pilot sites - Refreshed tenancy fitout sustainability requirements initiated as part of green lease review - Increased tenant data requests serviced
Grow our social value focussing on measures under 'Improved employability of young people' outcome		£261,949 Social Value generated (excluding supply chain) including 985 staff volunteering hours, up 37% from 2022 - Nearly £5,000 increase in value generated for youth employability outcome
Improve social value measurement further by covering more measures from our framework in line with TOMs and create overall social value calculation		- We have adapted measures in framework adding a measure where we provide reduced rents for charities - Delays in supply chain engagement impacted this focus area and meant we did not measure our supply chain
Deepen key charity and community partnerships aligned to Social Value Framework		- New partnership with the National Literacy Trust has increased hours spent on youth skills and employability - Two students from local school completed work experience as part of this
Gain and maintain Living Wage Foundation accreditation		- All CLS employees & relevant contractors compliant prior to October Living Wage increase - Living Wage Employer accreditation received
Commence implementation of new Diversity, Equity and Inclusion plan		Implemented some DE&I plan elements including cultural recognition days (more work required in 2024)
Improve compliance with prompt payment code focussing particularly on % SMEs paid within 30 days		- Compliance with prompt payment target has not improved - A new plan has been established by the finance team to address deficiencies, particularly in the UK. This includes IT system improvements, employee training, new finance processes and additional internal reporting
Increase % of Group debt comprised of ESG-linked loans to above 21%		- Group debt proportion of ESG-linked loans maintained - Sustainability Committee decided to review this goal in 2024. Changes in finance markets mean this goal may not help the business improve sustainability in the short-term
Provide 90% of employees with 4 hours or more of job-specific training in sustainability		'Lunch and Learn' format re-established with 5 sessions on different aspects of sustainability - Property team members trained in BREEAM In-use
Create more non-financial incentives (awards & recognition) to encourage employee action on sustainability		Launched new 'Sustainability Stars' awards for employees and contractors to recognise their contributions to our goals

Key Social & Governance Highlights

EQUIVALENT SOCIAL
VALUE GENERATED
(EXCLUDING SUPPLY CHAIN)

£261,949

EMPLOYEE VOLUNTEERING
HOURS GIVEN

985

ACHIEVED LIVING WAGE
EMPLOYER ACCREDITATION

EPRA SBPR GOLD
AWARD ACHIEVED

ESG: Climate-related Financial Disclosure

We recognise that the impacts of climate change, such as higher average temperatures, alongside changes to technology, markets, policy, regulation and, consumer sentiment, on the pathway to a net zero carbon economy, create risks and opportunities that could have material impacts on the value of the company and our assets.

CLS has made climate-related financial disclosures as required under the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022. These are consistent with recommendations from the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) which are now part of the IFRS Sustainability Disclosure Standards (i.e. IFRS S2) developed by the International Sustainability Standards Board (ISSB).

This includes: showing how climate change considerations are integrated into our governance processes; the potential impacts on our strategy and financial planning; how they are incorporated in risk management; and the relevant climate-related metrics and targets that CLS uses to drive action.

Visit our Sustainability Report here

The tables below summarise our responses to the recommended disclosures under the Governance and Risk Management pillars of the TCFD framework and signposts the location of additional detail within our separate comprehensive Sustainability Report published concurrently. We have documented the details of some disclosures elsewhere (e.g. the Sustainability Report) to meet the needs of our stakeholders to minimise the length of the annual report. Taken together, these reports represent full disclosure against all recommendations of TCFD.

Governance

Reporting Requirements (as per regulations)	CLS Holdings Disclosure	Additional Information / References
Description of the governance arrangements in relation to assessing and managing climate-related risks and opportunities	A) The Board's oversight of climate-related risks and opportunities	➤ Governance Framework page 67 ➤ Risk Management section page 48
	B) Management's role in assessing and managing climate-related risks and opportunities	➤ Governance Framework page 67 ➤ Remuneration Report page 84

ESG: Climate-related Financial Disclosure continued

Risk Management

Reporting Requirements (as per regulations)		CLS Holdings Disclosure	Additional Information / References
Description of how CLS Holdings identifies, assesses, and manages climate-related risks and opportunities	A)	Climate-related transition risks and opportunities are identified and assessed by the CLS Sustainability team and documented in the Sustainability Risk Register. The Register is reviewed by the Sustainability Committee on at least an annual basis and, where necessary, updated to reflect the ever-changing regulatory landscape, global socio-economic conditions and stakeholder demands, amongst other issues. Physical risks are identified and assessed on both an asset and portfolio level using the Jupiter Intelligence ClimateScore Global platform. Using the latest climate science, we identify risks and assess the level of exposure of our buildings to a range of acute and chronic climate hazards, over different time horizons, against different climate scenarios. Using the platform, we also quantify the level of risk from a financial perspective, providing oversight of the cost of action versus inaction. Like transitional risks/opportunities, all material physical risks are summarised, as applicable, in the Sustainability Risk Register which is reviewed and updated annually. Both physical and transition risks and opportunities are reviewed by the Sustainability Committee in accordance with TCFD guidance and Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022. To align our assessment of CLS' key areas of risk and opportunity associated with climate change to the EU Corporate Sustainability Reporting Directive (CSRD), we will undertake a double materiality assessment in 2024, using any variations in results to update the Sustainability Risk Register, if required.	➤ Sustainability Report – Sustainability Risk Register Summary 2023 section ➤ Sustainability Report – Climate-related Risks & Opportunities section
	B)	Fundamentally, climate-related risks and opportunities are managed in accordance with CLS' Group-wide approach to risk management. Once identified, physical and transitional risks and opportunities are managed using the mitigations and controls outlined within our Sustainability Report and Climate Resilience Plan. Day-to-day management is owned by the Sustainability team in conjunction with the Group's Sustainability Committee, which meets on quarterly basis. The team has significant knowledge and experience of climate-related and sustainability matters. In addition, we utilise the services of expert third party consultants where necessary. Training and presentations are provided to the Board and management to maintain up-to-date industry knowledge. The Board has experience in advising both listed and non-listed organisations on their approach to ESG matters in the built environment and across corporate disciplines.	➤ Sustainability Report – Climate-related Risks & Opportunities section ➤ Climate Resilience Plan ➤ Risk Management section pages 48-53
	C)	The Group risk management strategy involves the ongoing assessment and management of six principal risks, considered those that have the greatest impact on our business strategy. The principal risks act as a centralised risk repository involving an annual evaluation of risk profiles and an analysis of the impacts on the Group's business model. It also provides the structure to assign the appropriate controls. Sustainability is represented within the six principal risks and considers climate-related transition and physical risks a "key risk" to the business. All transition and physical risks are included in the Sustainability Risk Register which is maintained by the Sustainability team and reviewed by the Sustainability Committee on at least an annual basis or when a material change in the risk landscape occurs. Climate-related risk profiles are reviewed and relevant controls are assigned based on the ongoing evaluation of the Sustainability Risk Register. Furthermore, climate risks, opportunities and any necessary responses are managed across the same time horizons used by the Group to establish any emerging risks (page 53) ensuring their inclusion in short, medium and long-term business planning.	➤ Sustainability Report – Sustainability Risk Register Summary 2023 section ➤ Risk Management section pages 51-53

Principal Risks & Opportunities

This section sets out the principal physical and transitional climate-related risks and opportunities arising in connection with our operations and the scenarios, including timeframes, over which these risks and opportunities develop.

Whilst there has been no material change to our exposure from last year, this year, we have re-framed our analysis to better align with the recommendations of Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022. As such, only the material risks and opportunities to the business are outlined below. Further details and risk analysis are presented in the Sustainability Report including commentary on the updates to the ClimateScore Global platform data analysis methodology.

We have assessed the risks and opportunities presented to the business using two possible climate change scenarios; a 1.8°C global warming trajectory (aligned with Shared Socioeconomic Pathway (SSP) 1 and Representative Concentration Pathway (RCP) 2.6) and a 4.4°C trajectory (aligned with SSP 5 and RCP 8.5). Risks and opportunities are also considered against three different timeframes: short (<1 year); medium (until 2030); and long-term (beyond 2030). The two climate change scenarios ensure we identify, assess and manage risks and opportunities across a full spectrum of global warming scenarios. The time frames against which we assess risks and opportunities have been selected to align with the Group's overall approach to risk management (please see pages 48-53) which outline the time horizons the Group uses) and to best capture climate-related risks and opportunities given the nature of our business and how it operates.

Time Horizon	Our Approach
Short term (< 1 year)	Our annual strategic budgeting process combined with the individual NZC Asset Management Plans (see page 37), ensures that the necessary resource and capital required to mitigate the impacts of climate change and maximise any opportunities, is identified and allocated to each property on a yearly basis.
Medium term (until 2030)	We are acting now, until 2030, to meet the targets set out within our NZC Pathway. Our NZC Asset Management Plans ensure we respond to both transitional and physical climate-related risks whilst decarbonising our operations in line with our science-based target timeframe.
Long term (beyond 2030)	Our assets typically have a lifespan of over 50 years. The identification of long-term risks (i.e. beyond 2030) is thus critical for our business model, especially investment allocation and development decisions. Consideration of long-term risks and opportunities is fundamental in ensuring our portfolio remains resilient in the decades to come.

ESG: Climate-related Financial Disclosure continued

Climate-related Physical Risks Summary Table

We have used Jupiter Intelligence ClimateScore Global platform to perform analysis and prioritisation of climate-related physical risks associated with well-known hazards. These are summarised in the table below. More details of the analysis from the ClimateScore Global platform is provided in the risk tables in the Sustainability Report including hazard likelihood and impact ratings. In the review of risks and opportunities by the Sustainability Committee, it was agreed there are currently no material opportunities associated with physical climate change related to our current business model over and above providing high quality buildings with strong sustainability credentials which meet regulatory standards.

Scenario	Short term (< 1 year)		Medium term (until 2030)	Long term (beyond 2030)	
SSP 1 / RCP 2.6 (approximately 1.8°C warming by 2100). A scenario in line with the United Nations Climate Change Agreement of 2015. According to the IPCC, it requires that greenhouse gas emissions start declining immediately and reach zero by 2100. This relies on global implementation of stringent climate policies	Low physical risks as only a small proportion of our portfolio (4% by NLA) is exposed to highest aggregated physical risk (including extreme cold, extreme heat, flooding, windstorms and wildfire). The most significant risk to our portfolio is flooding. 4% of our portfolio (by NLA) is located in flood plains where a 1 in 100-year event would see flood depth exceed two metres.	Impacts Disruption at buildings leading to reactive maintenance adding to operating costs and possible tenant dissatisfaction.	Physical risks and impacts are consistent with the short term.	Slight increase in physical risks but no significant change to overall portfolio exposure. For example, slightly warmer summers are expected but these do not pose significant risk of heat stress.	Impacts Slightly increased disruption at buildings leading to increased reactive maintenance costs and possible tenant dissatisfaction.
SSP 5 / RCP 8.5 (approximately 4.4°C warming by 2100). A 'business as usual' high-emissions scenario. This scenario is consistent with no major policy changes or industry moves to reduce emissions globally leading to high atmospheric GHG concentrations	Low physical risks as still only a small proportion of our portfolio remains exposed to highest aggregated physical risk. The most significant risk is still from flooding (11% of properties deemed at highest, high or moderate risk based on ClimateScore Global).	Impacts as above.	Physical risks and impacts are consistent with the short term.	Significant increase in physical risks across the portfolio from hotter, drier summers; warmer, wetter winters and more frequent severe weather events. Sea level rise and increases in river peak flows put additional strain on the flood defences which may cause flood defence failures across the regions	Impacts Increased disruption at buildings leading to significantly increased reactive maintenance costs and tenant dissatisfaction. Significantly increased insurance premiums. Increased capital allocation for building retrofit / refurbishment projects to meet potentially higher insurance requirements / buildings standards.

Climate-related Transitional Risk & Opportunities Summary Table

Climate-related transitional risks were considered during the development of the NZC Pathway. These are reviewed at least annually by the Sustainability Committee to ensure that any material changes are captured. More detail is provided in the risk tables in the Sustainability Report including hazard likelihood and impact ratings. Note that we have blended the material opportunity of increased occupier demand for low-carbon buildings with the risk of failing to provide net zero aligned buildings, as it can be seen both ways and the resulting actions/mitigation is the same.

Scenario	Short term (< 1 year)		Medium term (until 2030)	Long term (beyond 2030)	
SSP 1 / RCP 2.6 (approximately 1.8°C warming by 2100). A scenario in line with the United Nations Climate Change Agreement of 2015. According to the IPCC, it requires that greenhouse gas emissions start declining immediately and reach zero by 2100. This relies on global implementation of stringent climate policies	Medium transitional risks associated with existing regulations, for example, MEES and Décret Tertiaire as well as local planning requirements favouring low embodied carbon development schemes. In addition, there is increasing occupier and investor demand for assets with high sustainability credentials.	Impacts Capital allocation for building retrofit / refurbishment projects as per our NZC Pathway and Sustainability Strategy.	Transitional risks and impacts remain consistent with the short term.	High transitional risks associated with: Regulations including MEES and Décret Tertiaire; Carbon tax – potential for the built environment to be included in UK Emissions Trading Scheme; Operational and embodied carbon obligations for development schemes; and Continued increase in occupier and investor demand for ESG.	Impacts Capital allocation for building retrofit / refurbishment projects as per our NZC Pathway and Sustainability Strategy. Increased operating costs e.g. cost of energy.
SSP 5 / RCP 8.5 (approximately 4.4°C warming by 2100). A 'business as usual' high-emissions scenario. This scenario is consistent with no major policy changes or industry moves to reduce emissions globally leading to high atmospheric GHG concentrations	Transitional risks remain consistent with SSP 1 scenario.	Impacts as above.	Transitional risks and impacts remain consistent with the short term.	Significant increase in transitional risks like all other commercial landlords operating in Europe, as adaptation measures are adopted to cope with changes in climate and the associated physical risks.	Impacts Increased capital allocation for building retrofit / refurbishment projects outside of that captured in NZC Pathway and Sustainability Strategy. Increased operating costs e.g. cost of energy.

Business Model & Strategy Resilience

The tables below outline the financial and strategic impacts of transitional and physical climate-related risks on CLS' operations and explains how our business strategy is designed to mitigate and respond to these impacts, ensuring our portfolio and business model remains resilient in the long-term. We only outline the impact of transitional risk under SSP 1 / RCP 2.6 as this climate scenario requires the greatest level of transition and already aligns with our financial and strategic planning.

Scenario 1 – SSP 1 / RCP 2.6

Summary risk	Financial impact potential	Strategy impact potential	Financial plan impact potential
Transitional	The Group's <u>NZC Pathway is underpinned by individual property energy audits which identify energy and carbon saving opportunities. The investment allocated to deliver the audit findings amounts to an estimated £65 million over a 9-year period between 2021 and 2030. We have integrated the energy audits into individual Asset Management Plans to enable strategic decisions about the refurbishment, sale or full redevelopment of our assets to be made.</u> <u>Furthermore, we report against all relevant mandatory GHG, energy and ESG reporting frameworks as well as several voluntary disclosures (see page 33), ensuring we meet all current and future regulation.</u>	Our Sustainability Strategy, NZC Pathway and Climate Resilience Plan align with our business model and overall strategy. Notably, our active asset management approach continuously upgrades our portfolio of buildings to meet energy and carbon targets and is manageable within current planned capital allocations. Given this, our analysis suggests our business model and strategy remain resilient in the short to medium term to climate-related transition risks in all scenarios by following the actions and targets in our Sustainability Strategy, NZC Pathway and Climate Resilience Plan.	In the short term, annual budgets already factor in investment aligned with the NZC Pathway and Sustainability Strategy. In the longer term, our strategic budgets and investment programme includes the estimated £65 million from 2021 to 2030 to prevent obsolescence (i.e. not meeting future climate standards) and creates a resilient portfolio. Relative to our peer group of commercial landlords with properties in UK, French & German cities, we see no major differences.

ESG: Climate-related Financial Disclosure continued

Scenario 1 – SSP 1 / RCP 2.6 continued

Summary risk	Financial impact potential	Strategy impact potential	Financial plan impact potential
Physical	As above, the capital allocated to deliver the targets set out in our NZC Pathway, Sustainability Strategy and Climate Resilience Plan will ensure the necessary adaptation measures and mitigating controls are implemented. Our properties are insured against all weather hazards and following discussions with our insurance brokers, there will be no material change to our insurance premiums in the medium term.	Our active asset management approach, in line with our Sustainability Strategy, NZC Pathway, Climate Resilience Plan and overall Group strategy, means our properties undergo a programme of upgrades and future proofing to address physical climate risks. This process is manageable within current planned capital allocations. As such, we are confident our business model will remain resilient in the long term.	As above, annual budgets factor in investment aligned with the NZC Pathway, Sustainability Strategy and Climate Resilience Plan meaning we expect no material impact on our future financial planning.

Scenario 2 – SSP 5 / RCP 8.5

Summary risk	Financial impact potential	Strategy impact potential	Financial plan impact potential
Physical	The investment allocated to deliver our NZC Pathway, Sustainability Strategy and Climate Resilience Plan will ensure comprehensive and robust mitigation measures and controls are implemented across our portfolio. Our analysis of the short, medium and long-term hazard levels associated with climate change across the UK, France and Germany (see Climate Related Risks & Opportunities section of the Sustainability Report), highlight some adaptation measures will be necessary but this will be covered by the capex we have already identified and allocated, in the medium-term.	Our analysis gives us confidence in the resilience of our strategy, as we are supporting the transition to a low-carbon world whilst managing the impact of climate-related risks to our portfolio. Although it does not undermine our overall model as a commercial landlord, we recognise our strategy and adaptation measures may need to evolve in the long term under a > 4°C warming (i.e. SSP 5) scenario. This may involve measures including divestment of assets which are less resilient to extreme heat and rainfall (as part of a holistic asset assessment), or investment into additional building infrastructure to limit the impact of flooding, coastal surge and extreme heat. This scenario could also result in changes to our customers' and supply chain partners' businesses, including business failures, or supply chain disruption. Increased due diligence in supply chain selection may be required, particularly considering the sourcing of construction materials which may be processed or manufactured in countries where the effects of climate change are more extreme. We do not expect this to impact tenant demand for workspace.	In the medium to long-term, whilst our Sustainability Strategy, NZC Pathway and Climate Resilience Plan still apply, we note that capital allocations and operating costs (e.g. insurance premiums) may exceed current planning to meet future standards. However, we fully expect this will be in line with our peer group of commercial landlords with properties in UK, French and German cities.

KPIs & Targets

KPIs for tracking climate-related transition and physical risks are shown in tables below. More details on the targets and calculations are in the referenced documents. Some KPIs are independently assured as indicated in the table.

Note that most targets and KPIs used to manage climate-related transitional risk are drawn from our Sustainability Strategy and NZC Pathway and targets for managing physical risks are taken from our Climate Resilience Plan.

Interim focus areas and targets are established and reviewed year on year by the Sustainability Committee.

As per the Scope, Boundaries & Methodology 2023 section of the Sustainability Report, GHG emissions are calculated in line with the GHG Protocol guidance. Further detail on the interlinkage between our KPIs and Targets and risks and opportunities can be found in the [Sustainability Report](#).

Climate-related Transition Risk & Opportunities KPIs & Targets

KPI	EPRA/SASB Reference	2023	2022	2021	Targets & References
Scope 1 and 2 emissions (tCO ₂ e)	GHG-Dir-Abs, GHG-Indir-Abs	12,324 ¹	12,212	13,894	42% reduction in absolute Group Scope 1 and 2 emissions by 2030 (see NZC Pathway / SBTi aligned target)
Total group energy consumption (kWh)	Total-Energy-Abs	51,923,282 ¹	55,975,391	59,194,444	N/A
Total electricity consumption (kWh)	Elec-Abs	27,575,210	29,465,669	30,692,654	N/A
Proportion of electricity sourced from renewable sources (%)	Elec-Abs	99.5%	99.9%	92%	100%
On-site renewable energy generation (MWh)	Elec-Abs	977	707	469	N/A
Total fuel consumed on site (kWh)	Fuels-Abs	20,902,044	22,977,803	25,909,886	N/A
Building emissions intensity by floor area (kWh/m ² /year)	Energy-Int	103	117	134	85 kWh/m ² /year (aligned with 1.5 °C CRREM pathway)
Scope 3 emissions (tCO ₂ e) and selected Scope 3 categories split	GHG-Indir-Abs	92,243 Selected Scope 3 categories on P38 ¹	86,783 Selected Scope 3 categories in Table 3 in Sustainability Metrics Appendix Annual Report 2022	–	Physical intensity reduction by 20% per m ² NLA (See NZC Pathway / SBTi aligned target / CRREM aligned target)
EPC (Energy Performance Certificate) split of UK portfolio	Cert-Tot	53% EPC A or B 47% EPC C or below	45% EPC A or B 55% EPC C or below	–	Fully MEES compliant in UK – expected to be minimum EPC C by 2027, EPC B by 2030. Fully Décret Tertiaire compliant in France

¹ KPI performance is independently assured in 2023.

Climate-related Physical Risk & Opportunities KPIs & Targets

Number and % by value of assets located in areas exposed to high or highest risk of inland, coastal and flash flooding – current & 2030 (SSP 5 Scenario) ^{1 2}	N/A	2023: 7 8% by value (2022) 2030 (SSP 5 Scenario): 7	2022: 9 (% by value not measured) 2030 (SSP 5 Scenario): 9	Less than 5% assets (by value) by 2035
% Assets with measures installed to mitigate flooding (in highest risk areas)	N/A	0%	Not measured	100% by 2035
% Total water withdrawn in regions with high or extremely high baseline water stress	SASB IF-RE-140a.2	16%	16%	<10% by 2035
% Assets with adaptation measures to mitigate overheating	N/A	Not yet measured	Not yet measured	100%

¹ As per ClimateScore Global definitions.

² Methodology for calculation included in the Sustainability Report.

Risk management

Risk management is a critical component of the operation of our business, allowing us to take advantage of opportunities whilst ensuring that we do not expose the business to excessive risk thereby generating shareholder value over the long term in a sustainable and compliant manner.

What we did in 2023

- Enhanced our internal control framework through documentation of key processes and controls across the Group.
- Performed controls testing as per our plan and in readiness for the UK Government's corporate governance reforms.
- Closely monitored the Group's cash position and cash flow, on at least a weekly basis, with particular focus on refinancings, sales and capital expenditure. The Group has a successful track record of cash management but its business model remains dependent on refinancings and sales as highlighted in the Going concern assessment on page 54.
- Targeted capital expenditure to ensure properties remain appealing to tenants in terms of their amenities and sustainability credentials to mitigate identified property and sustainability risks.
- Undertook a Group wide Staff Engagement and Enablement Survey completed by 88% of staff providing insight into the business.
- Retained our Cyber Essentials plus ranking.
- Achieved milestone targets on the Net Zero Carbon pathway.
- Engaged external consultants who performed an in-depth analysis of the climate related resilience.

Our Priorities for 2024

- Finance remaining 2024 maturing debt and advance refinancings of 2025 loans.
- Finalisation of CoreStream risk management system through refinement of risk registers, reassessment of material risks and enhancement of our internal controls framework (including ownership and testing).
- Continue to deliver on our roadmap of readiness activities for the UK Government's proposed corporate reforms.
- Refinement of internal control ownership and responsibilities.
- Implement relevant Grant Thornton findings.
- Make improvements based on feedback from tenant surveys.
- Ensure Cyber Essentials plus ranking retained.
- Enhance our crisis response capabilities to reflect the dynamic nature of the global risk landscape.
- Digitally enable employees and tenants, and continue to build digital literacy, awareness and capability.
- Minimise financial risk in relation to securing future gas and electricity supply for the portfolio though adherence to risk limits with guidance from our external energy procurement partners.
- Closely monitor and support the business through risks arising from the changing geopolitical environment.

OUR RISK MANAGEMENT FRAMEWORK

Top down Oversight, identification, assessment and mitigation of risk at a Group level. Continuous review of strategy and our environment ensures that we respond in a timely manner to any changes in our principal and emerging risks.	The Board - Overall responsibility for reviewing and monitoring risk management and internal controls framework. - Annual review and determination of risk appetite. - Annual assessment of principal and emerging risks. - Receives regular updates from the Audit Committee on risk management, internal controls and the long-term viability of the Group. - Sets business wide policies and delegated authority limits.		
Bottom up Identification, assessment and mitigation of risk at business unit and functional level.	Audit Committee - Key oversight and assurance function for risk management, internal controls and viability. - Receives updates on risks and the control environment including the results of any internal control review procedures and other assessments undertaken in the period at each Audit Committee meeting. - Invites senior managers to attend to discuss specific risk areas. These discussions are sometimes supplemented by external advisors where relevant. - Engages with, and reviews findings of, the external auditors. - Reports to the Board on the effectiveness of risk management and internal controls.	Executive Committee - Comprises the CEO and the CFO together with other senior leaders as required. - Responsible for the day-to-day operational oversight of risk management. - Major business-wide decisions such as property acquisitions, disposals, significant strategy changes and the wider changing geopolitical landscape are discussed. These decisions are assessed with reference to risk appetite. - Proposed decisions are reviewed by the Board before implementation subject to authorisation limits.	Senior Leadership Team - Meets fortnightly and is comprised of the CEO, the CFO, the COO, regional business heads and the Group Financial Controller. - Reviews and monitors the Group's principal and emerging risks taking into account the appetite for, and impact of, risk in all areas of the business. These are presented to the Audit Committee every six months for further discussion. - Senior managers regularly attend Audit Committee meetings to provide further information in relation to specific risk areas, supported by external advisors if appropriate.
	Policies The Group has policies set by the Board that govern key risks across the business. These are regularly reviewed to ensure they are up to date and comply with laws and regulations.	Controls CoreStream utilised as the Group's risk management system for recording key processes, controls, risks and ownership and regularly testing effectiveness of material controls.	Business Units Risk management embedded in day-to-day operations including identifying, evaluating and reviewing within these units. Executes strategic actions in compliance with the Group's objectives and policies. Engages with the Executive Directors and senior management to identify risks and review risk processes and procedures relevant to these units.

Management of Risk throughout the Group

The Board has overall responsibility for risk management and has carried out a robust assessment of the principal risks faced by the Group thereby meeting its responsibilities in connection with risk management and internal control set out in the UK Corporate Governance Code.

Based on the size of its balance sheet and market capitalisation, CLS is a large business, but it is relatively small based on the number of people working directly in the business. Our internal control structures allow the Group to safeguard its assets, prevent and detect material fraud and errors, ensure accuracy and completeness of the accounting records used to produce reliable financial information while still allowing the flexibility to take advantage of opportunities to further the business strategies of the Group.

In 2021 the Group invested in CoreStream, an internal control and risk software package. Work continues to populate the system fully and embed an effective risk management structure within our operations. This will allow us to monitor and report the risks and their associated internal controls more effectively to the Audit Committee and the Board.

Risks are identified and assessed, and a risk owner is assigned. The risk owner is the person considered to be in the best position to prepare and implement mitigation plans. In addition, a control owner is assigned who can monitor and assess the effectiveness of the controls to address each principal risk. As part of our risk management procedures, the Executive Committee and Audit Committee receive updates regarding risk management activities to ensure that procedures are consistently applied across the Group and that they remain sufficiently robust, and to identify any weaknesses or enhancements.

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

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

Risk appetite

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

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

To decide upon risk categorisations, internally set, percentage movements in the balance sheet and income statement are taken into account. The Board has assessed its risk appetite for each of the Group's principal risks as follows:

Principal risks	2023 Risk appetite	2022 Risk appetite	
Property	High	High	No change
Sustainability	Medium	Medium	No change
Business interruption	Low	Low	No change
Financing	Medium	Medium	No change
Political & economic	Medium	Medium	No change
People	Medium	Medium	No change

On reviewing our risk appetite, the Board recognised that there are factors outside of the Group's control, for example the market that influences their appetite in any one year.

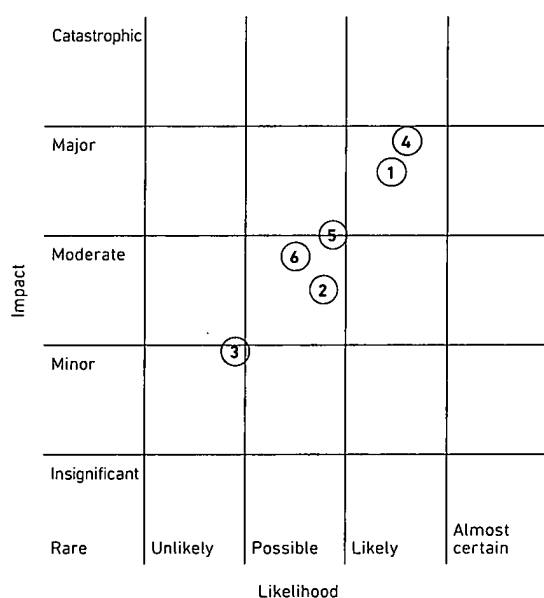
Risk management continued

Risk assessment

As part of annual business planning, the Board undertakes an assessment of the risks that could threaten the Group's strategic objectives, future performance, solvency or liquidity. Risks are reviewed in detail with their respective owners, typically a member of the Senior Leadership Team or key business leader.

We use a risk scoring matrix to consider the likelihood and impact of each risk at regular points throughout the year.

The chart below 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 continue to have the potential to alter this positioning and therefore these risks are closely monitored throughout the year. In some cases the change in risk profile in the year is not sufficient to change the risk assessment category but instead indicates the change within the category.



KEY

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

The general risk environment in which the Group operates has remained at a higher level over the course of the year. This is largely due to the uncertain global and European economic conditions particularly higher interest rates and inflation and the impacts of the continued war in Ukraine and instability in the Middle East.

Throughout the year, the Board monitored the changing situation and considered its effect on the business, as it will continue to do so going forward. The impact of the macro-economic factors is discussed in the CEO review and the individual country property reviews.

Our principal risks are set out on the following pages 51 to 52. In evaluating these risks, any potential impact as a result of market uncertainties has been considered.

Principal risks	2023 Risk Assessment	2022 Risk Assessment
Property	High	High
Sustainability	Medium	Medium
Business interruption	Low	Low
Financing	High	High
Political & economic	Medium	High
People	Medium	Medium

Risk assessment vs risk appetite

The Board's risk appetite in relation to the Group's principal risk assessment is broadly aligned. As shown in the table below, there is divergence of risk appetite and risk status in relation to the financing risk. The Board accepts that there are factors in relation to this risk that are outside the Group's control and are likely to change over time. Mitigating actions have been put in place to ensure financing risk is adequately managed and monitored to reduce the potential impact on the Group. The Board recognises that not all risk can be fully mitigated and that they need to be balanced alongside commercial, and political and economic, considerations. If a difference between the Board's risk appetite and the risk assessment persists for an extended period, whether and how the gap should be closed is discussed at Board level.

Principal risks	Risk assessment	Risk appetite
Property	High	High
Sustainability	Medium	Medium
Business interruption	Low	Low
Financing	High	Medium
Political & economic	Medium	Medium
People	Medium	Medium

Principal risks

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

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

Principal risk	Risk description	Key risks	Mitigation in 2023	Mitigation in 2024
1 Property STRATEGY KPI/OPI TSR(R), TAR ▶ Country review pages 10 to 15	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.	- Cyclical downturn in the property market which may be indicated by an increase in yields - Changes in supply of space and/or demand (vacancy rate) - Poor property/facilities management - Inadequate due diligence and/or poor commercial assessment of acquisitions - Failure of tenants - Insufficient health and safety risk protection - Building obsolescence	- Maintained strong relationships with our occupiers, agents and direct investors active in the market and actively monitored trends in our sectors - Asset management committees meet once a month to discuss each property - Continued investment of £50.1 million in our properties with refurbishments taking place in over 30 properties to meet tenant demands (see page 18 for more detail) - Rigorous and established governance approval processes for capital and leasing decisions - Engagement with tenants to understand their needs and space requirements - Targeted capital expenditure with a focus on sustainability - Disposal of 4 properties with low yield, limited asset management potential or risk/reward ratio unfavourably balanced - Continued monitoring of covenant strength and health of tenants - High quality provision of property and facilities management services with our in-house team - Health and safety committee that closely monitors activity and regulation and reports to every Board meeting	Continue with our current controls and mitigating actions RISK ASSESSMENT  CHANGE IN RISK PROFILE IN THE YEAR  DIRECTION OF TRAVEL 
2 Sustainability STRATEGY KPI/OPI TSR(R), TAR, VR, ACR ▶ ESG pages 32 to 47 for more detail	As a result of a failure to plan properly for, and act upon, the potential environmental and social impact of our activities, changing societal attitudes, and/or a breach of any legislation, this could lead to damage to our reputation and customer relationships, loss of income and/or property value, and erosion of shareholder confidence in the Group.	Transition risks: These include regulatory changes, economic shifts, obsolescence, and the changing availability and price of resources. Physical risks: These are climate-related events that affect our supply chain as well as the buildings' physical form and operation; they include extreme weather events, pollution and changing weather patterns.	- Continued monitoring and oversight by the Sustainability Committee over key ongoing projects - Detailed Sustainability risk registers maintained, reviewed and updated - Continued implementation and active monitoring of NZC Pathway projects - Completion of planned energy efficiency projects including all scheduled PV installations - Completion of all scheduled EV installations - Continued EPC upgrade programme - Recertification of relevant properties in the UK and France to BREEAM In-use V6 - Independent assurance on EPRA sBPR KPI data - Sustainable procurement policy published - Renewal of Sustainable refurbishment and fit-out guide - Achieved living wage accreditation - Continued engagement with occupiers including release of new occupier app	- Implementation of new sustainability data platform - Implementation of our climate resilience plan - Ongoing rollout of biodiversity net gain plan - Continue with our current controls and mitigating actions RISK ASSESSMENT  CHANGE IN RISK PROFILE IN THE YEAR  DIRECTION OF TRAVEL 
3 Business interruption STRATEGY KPI/OPI TSR(R), TAR	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.	- Cyber threat - Large scale terrorist attack - Environmental disaster, power shortage or pandemic	- Maintained a Centre of Internet Security 'A' rating - Maintained Cyber Essentials Plus certification - Conducted penetration testing on the Group's properties (e.g. simulate cyber-attacks on building management systems) - Continued implementation of shared property and finance system across the Group - Continued use of external partners for specialist cyber security activities and independent reviews - Transitioned to continuous and automated patching across all managed systems - Continued to test and train employees on cyber security	Continue with our current controls and mitigating actions RISK ASSESSMENT  CHANGE IN RISK PROFILE IN THE YEAR  DIRECTION OF TRAVEL 

Risk management continued

Principal risk	Risk description	Key risks	Mitigation in 2023	Mitigation in 2024
4 Financing risk STRATEGY KPI/OPI COST OF DEBT ➤ Chief Financial Officer's review pages 24 to 27	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.	- 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	- Financed, refinanced or extended 11 loans to a value of £330.6 million - Weekly treasury meetings took place with the CEO and CFO including discussion of financing, rolling 12-month cash flow forecasts, FX requirements and hedging, amongst other items - Weekly cash flow forecasts prepared and distributed to Senior Leadership Team 75.9% of the Group's borrowings are fixed rate plus a further 3.8% of interest rate caps - Regularly monitored loan covenants - CLS borrows in local markets and in local currencies via individual SPVs to provide a 'natural' hedge (see page 19 for more detail) - Maintained a wide number of banking relationships with 25 lenders across the Group to diversify funding sources - Weighted average cost of debt remains low (3.61%) - Maintained average debt maturity of 3.5 years - Significant headroom across three main loan covenants of between 13% and 30% - All loans have equity cure mechanisms to repair breaches	Continue with our current controls and mitigating actions RISK ASSESSMENT  CHANGE IN RISK PROFILE IN THE YEAR  DIRECTION OF TRAVEL 
5 Political and economic STRATEGY KPI/OPI VR, ACR	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.	- Ongoing transition of the UK from the EU - Global geopolitical and trade environments	- Monitored events and trends closely, making business responses if needed - Maintained membership of key industry bodies for example the British Property Federation, British Council of Offices and Better Buildings Partnership - Monitored tenants for sanction issues	Continue with our current controls and mitigating actions RISK ASSESSMENT  CHANGE IN RISK PROFILE IN THE YEAR  DIRECTION OF TRAVEL 
6 People STRATEGY KPI/OPI TSR(R), TAR, DIVIDEND COVER ➤ ESG pages 32 to 47	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.	- Failure to recruit senior management and key executives with the right skills - Excessive staff turnover levels - Lack of succession planning and development opportunities - Poor employee engagement levels	- Undertook a Group wide Staff Engagement and Enablement Survey, completed by 88% of staff providing insight into the Group - Engagement with workforce advisory panel - Staff wellbeing week - Monitored market to ensure competitive remuneration packages across the Group	- Continue with our current controls and mitigating actions - Assess feedback provided in Staff Engagement and Enablement Survey and implement appropriate changes. RISK ASSESSMENT  CHANGE IN RISK PROFILE IN THE YEAR  DIRECTION OF TRAVEL 

KEY TO RISK ASSESSMENT

	HIGH		INCREASING
	MEDIUM		DECREASING
	LOW		NO CHANGE

Emerging risks

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

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

Risk	Potential Impact	Mitigation	Time Horizon		
			Short < 2yrs	Medium 2-5 yrs	Long > 5 yrs
Adoption of technology	Failure to embrace technology could result in the Group falling behind its competitors in efficiency, thereby risking a loss of competitive edge. As buildings evolve to incorporate smart features, tenants may prefer such technologically advanced spaces over those lacking similar amenities. Neglecting occupant preferences for technology could diminish the attractiveness of the Group's office properties, potentially leading to vacancies and a decline in rental revenue.	We thoroughly examine emerging technologies to ensure that we extract the utmost value from any new system or service we opt to incorporate into our comprehensive digital and technological framework.	●	●	●
Artificial Intelligence	The automation of certain tasks through AI may lead to job displacement for those whose roles are automated but will also create jobs. This could have implications on our current tenant base which may impact office space requirements.	Active monitoring of the changing landscape through attendance at AI industry talks and regular discussion/awareness at the executive committee level.	●	●	●
Regulation/ compliance	Increased capital cost of maintaining our property portfolio. Increased administration costs to ensure resources sufficient to deliver corporate compliance.	Continued ongoing assessment of all properties against emerging regulatory changes and benchmarking of fit-out and refurbishment projects against third-party schemes.	●	●	●
Increasing energy and construction costs	Increased cost of operating properties will reduce attractiveness of tenancies to existing and potential customers. Increased costs of refurbishments and developments leading to reduced investment returns.	Ongoing consideration of, and investment in, energy efficient plant and building-mounted renewable energy systems. Continued monitoring of materials, investment in key skills for staff and viability assessments of buildings.	●	●	●
Changes in office occupation trends	Changes in social attitudes to agile and flexible working practices may reduce demand for space compared to historic trends.	In-house asset management model provides the means for the property team to: proactively manage customers; and gain real-time insight and transparency on changes in needs and trends allowing us to adapt our properties to meet these.	●	●	●
Climate change, natural resources and biodiversity risks	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. Inability to obtain sufficient carbon credits at suitable price to offset residual carbon emissions in order to achieve net zero carbon.	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. We are investigating various solutions to achieve sufficient offsets by 2030.		●	●
					●

Going concern and viability statement

Going concern

Background

CLS' strategy and business model include regular secured loan refinancings, and capital deployment and recycling through acquisitions, capital expenditure and disposals. Over the last thirty years, the Group has successfully navigated several periods of economic uncertainty, including the recent economic stress resulting from the Covid-19 pandemic, Russia's invasion of Ukraine and the cost-of-living crisis.

The Group continues to have very high rent collection and low bad debts, and has a long-term track record in financing and refinancing debt including £330.6 million completed in 2023 and a further £103.2 million subsequent to year end, of which £88.5 million has been executed and £14.7 million for which credit approval has been obtained by lenders or terms have been agreed.

The Directors note that the interim financial information for the six months ended 30 June 2023 contained disclosure of a Material Uncertainty related to going concern due to the timing and amounts of the planned refinancing of debt and disposals of property being then outside of Management's control. In this context the Directors set out their considerations and conclusions in respect of going concern for these financial statements below.

Going concern period and basis

The Group's going concern assessment covers the period to 31 July 2025 ("the going concern period"). The period chosen takes into consideration the maturity date of loans totalling £311.3 million that expire by July 2025. The going concern assessment uses the business plan approved by the Board at its November 2023 meeting as the Base case. The assessment also considers a Severe but plausible case.

Forecast cash flows – Base case

The forecast cash flows prepared for the Base case reflect the challenging economic backdrop and include assumptions regarding forecast forward interest curves, inflation and foreign exchange, and includes revenue growth, principally from contractual increases in rent, and increasing cost levels in line with forecast inflation.

The Base case is focussed on the cash and working capital position of the Group throughout the going concern period. In this regard, the Base case assumes continued access to lending facilities in the UK, Germany and France, and specifically that debt facilities of £311.3 million expiring within the going concern period will be refinanced as expected (£261.5 million) or will be repaid (£49.8 million), some of which are linked to forecast property disposals. The Board acknowledges that these refinancings are not fully within its control; however, they are confident that refinancings or extensions of these loans will be executed within the required timeframe, having taken into account:

- existing banking relationships and ongoing discussions with the lenders in relation to these refinancings;
- CLS' track record of prior refinancings, particularly in the 12 months to 31 December 2023 when £330.6 million was successfully refinanced or extended; and
- recent refinancings subsequent to the year end that have been executed, credit approved by lenders, or where the terms have been agreed, totalling £103.2 million of the £311.3 million noted above.

The Base case also includes property disposals in the going concern period in line with the Group's business model and the forecast cash flows approved by the Board in November 2023. The Board acknowledges that property disposals are not fully within its control; however, they are confident these transactions will be completed within the going concern period, based on their history of achieving disposals (with disposals of £73.5m achieved since 2022). The value of the properties available for disposal is significantly in excess of the value of the debt maturing during the going concern period.

The Group's financing arrangements contain Loan to Value ('LTV'), Interest Cover Ratio ('ICR') and Debt Service Coverage Ratio ('DSCR') covenants. In the Base case, minimal cure payments have been forecast given that the Group expects to maintain its compliance with the covenant requirements.

The near-term impacts of climate change risks within the going concern period have been considered in both the Base and the Severe but plausible case and are expected to be immaterial.

Forecast cash flows – Severe but plausible case

A Severe but plausible case has been assessed which has been produced by flexing key assumptions further including: lower rents, increased service charges, higher property and administration expenses, falling property values, higher interest rates and reduced achievements of refinancings and disposals.

These flexed assumptions are more severe than CLS experienced during the 2007-2009 global financial crisis and other downturns such as that experienced in 2020-2022 during the Covid-19 pandemic. A key assumption in this scenario is a reduction in property values of 10% until December 2024, impacting forecast refinancings, sales and cash cures. This is in addition to the reduction experienced of 12.5% in 2023 and 17.1% since June 2022.

Assumptions around refinancing and investment property disposals are adjusted to only include those agreed or considered significantly advanced by management. In addition, a reduction in property values of 10% results in additional cure payments of £12.1 million being necessary for the Group to remain in compliance with its covenant requirements.

Due to the severity of the assumptions used in this scenario, which is severe but plausible and therefore not remote, the liquidity of the Group is exhausted even after putting in place controllable mitigating actions as set out below.

Mitigating actions

In the Severe but plausible case, CLS is assumed to take mitigating actions in terms of depositing cash to equity cure some loans, scaling back uncommitted capital expenditure (without impacting revenue streams over the going concern period) and reducing the dividend to the Property Income Distribution required under the UK REIT rules as well as drawing its existing £50 million of currently unutilised facilities. If needed, further disposals could be considered as there are no sale restrictions on CLS' £2.1 billion of properties, albeit the timing and the amount of these potential disposals are not in the Group's control.

Additionally, the Directors note that the properties that require refinancing in the going concern period are on a non-recourse basis to the Group. Accordingly, in extremis, the lender could enforce their security on an individual property with no claim on the rest of the Group's assets.

Material uncertainty related to going concern

As described above, the Group is reliant for liquidity purposes upon its ability to both refinance the debt maturing and to complete a number of property disposals in the going concern period in more challenging market conditions.

Whilst the Directors remain confident, due to the reasons highlighted above, that a combination of sufficient refinancings and property disposals will be achieved, the timing and value of both the planned refinancing of facilities falling due within the going concern review period, and planned property disposals, is outside of management's control and consequently a material uncertainty exists that may cast significant doubt on the Group's and Company's ability to continue as a going concern.

Notwithstanding this material uncertainty on the going concern assumption, given our track-record and reputation, the Directors are confident that the debt falling due for repayment in the going concern period will be refinanced or settled in line with their plans for the reasons set out above, rather than requiring repayment on maturity, or will be extinguished as part of property disposals in the period. In extremis, the loans requiring refinancing are provided on a non-recourse basis. Therefore, the Directors continue to adopt the going concern basis in preparing these Group and Company financial statements.

The financial statements do not contain the adjustments that would result if the Group and Company were unable to continue as a going concern.

Viability statement

Viability

The Group's viability assessment follows a similar methodology to the going concern assessment in terms of analysing the Base case financial forecasts and a Severe but plausible case but makes the assessment of the viability of the company to continue in operation and meet its liabilities as they fall due over a considerably longer period.

The viability assessment covers the period to 31 December 2027 ("the viability period"), a period chosen as it is coincident with the period of the forecasts approved by the Board at its November 2023 Board meeting. These forecasts comprise the Base case but they have been updated for the actual results for 2023 and any changed assumptions. The period of 4 years was chosen as this is similar to the Group's WAULT and weighted average debt maturity, and so aligns with the period over which the Group has good visibility.

In performing this assessment, the Board notes that the interim financial information for the six months ended 30 June 2023 contained disclosure of a Material Uncertainty related to going concern because the timing and amounts of the planned refinancing of debt and disposals of property at the time were outside of Management's control. In this context the Directors set out their considerations and conclusions in respect of their viability statement for these financial statements below.

Viability assessment

As with the Going Concern assessment, the financial forecast prepared for the Base case takes account of the Group's principal risks and uncertainties, and reflects the current challenging economic backdrop. The forecast uses forward interest rate curves, inflation and foreign exchange. The slower pace in the reduction in vacancy is forecast to continue.

The Base case is focussed on the cash, liquid resources and working capital position of the Group including forecast covenant compliance. The forecast also assumes continued access to lending facilities but given the longer time period than the going concern period the amounts are consequentially greater. Within the viability period, debt facilities of £714.7 million expiring will be refinanced (£519.9 million) as expected or repaid (£194.8 million, which is linked to forecast property sales) taking into account:

- existing banking relationships;
- CLS' track record of prior refinancings, particularly in 2023 when £330.6 million was successfully refinanced or extended;
- refinancings subsequent to year end that have been completed, or where terms have been agreed, or where negotiations are very advanced totalling £103.2 million of the £714.7 million expiring before 31 December 2027; and
- other ongoing discussions with lenders.

A Severe but plausible case was also produced by flexing key assumptions including: lower rents, increased service charges, higher property and administration expenses, falling property values, higher interest rates and reduced achievements of refinancings and disposals. These flexed assumptions are derived by considering the negative market and economic impacts experienced during the 2007-2009 global financial crisis and other downturns such as that experienced in 2020-2022 during the Covid-19 pandemic. A key assumption in this scenario is a further reduction in property values of 10% until 31 December 2024 which is in addition to the fall in value already experienced in 2022 and 2023 but no subsequent bounce back in valuation has been assumed.

Assumptions around refinancing and property disposals are adjusted to only include those agreed or considered significantly advanced by management. In addition, a reduction in property values of 10% results in additional cure payments of £9.8 million being necessary for the Group to remain in compliance with its covenant requirements.

The impacts of climate change risks within the viability period have been considered in the Severe but plausible case and are expected to be immaterial.

Due to the severity of the assumptions used in this scenario, which is Severe but plausible and therefore not remote, the liquidity of the Group is exhausted even after putting in place controllable mitigating actions as set out below.

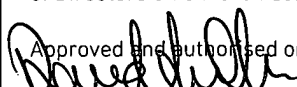
In the Severe but plausible case, CLS would need to take mitigating actions in terms of depositing cash to equity cure some loans as envisaged under the facilities, stopping future acquisitions, scaling back uncommitted capital expenditure and reducing the dividend to the Property Income Distribution required under the UK REIT rules as well as drawing some of its existing £50 million of currently unutilised facilities of which £30 million is committed until October 2026 with the option to extend a further two years and £20 million is committed until November 2025 with an option to extend a further year.

Additionally, the Board note that the properties that require refinancing in the going concern period are on a non-recourse basis to the Group. Accordingly, in extremis, the lender could enforce their security on an individual property with no claim on the rest of the Group assets.

Material uncertainty

The Directors highlighted in their going concern assessment (see note 2.1) that whilst they remain confident in the future prospects for the Group and its ability to continue as a going concern, the Group is reliant upon its ability to both refinance the debt maturing and to complete a number of property disposals in the going concern period in challenging market conditions. The same material uncertainty may also cast significant doubt over the future viability of the Group.

Our 2023 strategic report, from pages 1 to 57, has been reviewed and approved by the Board of Directors on 8 March 2024.



Approved and authorised on behalf of the Board.

David Fuller BA FCG
Company Secretary

8 March 2024

Chairman's introduction

Leading with purpose

Dear Shareholder

On behalf of the Board, I am pleased to present the Corporate Governance Report for the year ended 31 December 2023. This report sets out our governance framework, the Board's key focus areas in the last year as well as our approach to monitoring company culture and aligning our strategy with our purpose, vision and values.

This report also outlines how we have complied with the principles set out in the UK Corporate Governance Code 2018. Our code compliance statement can be found on page 59.

Living our purpose and culture

2023 continued to pose challenges, with inflationary pressures, rising interest rates, and general economic uncertainty being at the forefront of considerations for both the business and employees. As part of our commitment to adapt and evolve to the uncertain economic landscape, at our annual strategy day, the Board considered how our culture aligns to support the delivery of the Group's strategy and underpins how we execute our business model.

During the year, we discussed our culture and the key metrics that we use to monitor it through mechanisms such as feedback from employee forums, full and half year individual performance reviews, and the Staff Survey, which was externally facilitated through our partner, Korn Ferry. After careful evaluation, we concluded that the purpose, vision and values of the Group remained appropriate in setting the right culture and that management continued to implement the right workforce policies and practices that supported it.

In line with the principles of the UK Corporate Governance Code guidelines on Board composition, succession and evaluation, we carried out a robust review of the independence, diversity and composition of our Board members in 2023 and you can find further information on page 71 of the Nomination Committee's report.

A key focus for the Board, upon recommendation from the Nomination Committee, was to consider the independence of myself and Elizabeth Edwards given that we have both served as a director for more than nine years. It was concluded that, taking into account both mine and Elizabeth's time commitment, the nature of our other non-executive roles, and our continued independent leadership and challenge at meetings demonstrating our independence, we remained independent and should continue to serve. The Board also concluded that this in turn

Board focus areas in 2023

- Reviewed and approved financial statements following recommendations from the Audit Committee
- Commissioned an external evaluation of the performance of the Board and its Committees
- Carried out a review of our workforce engagement mechanisms
- Continued to monitor the implementation of our Sustainability policy
- Considered our financing strategy in light of the changing economic landscape

Priorities for 2024

- Focus on big trends within the commercial property market
- Oversee culture to provide assurance that the agreed values and culture are being embedded
- Continuous review of risk and uncertainties facing the Company and their implications for the business model

“Our well established culture, collaborative approach and robust governance framework provides reassurance and confidence in uncertain times.”

UK Corporate Governance Code

provided significant continuity and experience in a period of economic uncertainty and will assist in the induction of Eva Lindqvist, our new Board member.

Following the retirement of Chris Jarvis at the conclusion of the 2023 AGM, we commissioned an external search consultancy to assist in the appointment of a new non-executive director, with specific focus on diversity when gathering candidates.

After a thorough selection process, Eva Lindqvist was appointed to the Board in September; an appointment that maintains our commitment to Board diversity. More can be read about Eva's appointment on page 68.

External Board Evaluation

This year we facilitated an external Board Evaluation with advisory firm Independent Audit. We were pleased to see they shared view that Board meetings were engaging, with there being no barriers to effective challenge and debate, and that there was a strong relationship between the Board and Senior Leadership team. Similarly, the positive feedback on management presentations to the Board, which were not only insightful but also key to the development of key personnel in the company. However, we also noted that we should spend more time discussing strategy and scenario planning.

Areas of focus for the year ahead will be on macro trends within the property sector and their impact on the execution of our strategy, as well as keeping abreast of the risks and uncertainties facing the business. We will look to refresh how we deliver our Strategy meeting to ensure we cover these important topics. Next year's evaluation will be conducted internally and we will report on our actions from the findings of the 2023 evaluation.

Looking forward

Ensuring we have the right culture and values enables us to create and build strong and successful relationships with our key stakeholders, which is vitally important in the current economic landscape. This in turn creates an environment where we are able to remain resilient and seize opportunities when they arise, supporting the delivery of our long-term strategy to the benefit of all stakeholders.

Lennart Sten

Non-Executive Chairman

8 March 2024

Board leadership and Company purpose

➤ See pages

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

Board of Directors	60-61
Board activities	62-63
Approach to s.172(1)	44-45
Strategy, Purpose, Vision and Values	16-17 and 30

Division of responsibilities

➤ See pages

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

Governance framework	67
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Composition, succession and evaluation

➤ See pages

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

Nomination Committee Report/Chairman's statement	68-75
External Board evaluation	74-75

Audit, risk and internal control

➤ See pages

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

Audit Committee report	76-80
Going concern basis	80
Viability statement	80
Assessment of the principal risks facing the Group	51-53
Annual review of systems of risk management and internal control	78
Fair, balanced and understandable	78

Remuneration

➤ See pages

The Remuneration Committee is responsible for the design, implementation and oversight of the Group's Remuneration Policy, which was approved by shareholders on 27 April 2023.

Remuneration Committee Report	81-99
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Principles and how the Company addresses them

The principal corporate governance rules which applied to the Company in the year 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 58 to 103.

Compliance with the Code

Save as identified below and explained in this report, the Board considers that throughout 2023 it complied with the provisions of the Code.

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

11 – Board balance, explanation on page 69

17 – Nomination Committee membership, explanation on page 68

Board of Directors

The right skills to deliver our strategy

DIRECTORS TENURE

1. 0-2 years:	1
2. 3-4 years:	3
3. 5+ years:	5

BOARD INDEPENDENCE

1. Non-independent:	2
2. Independent:	4
3. Chairman:	1
4. Executives:	2

BOARD MEMBERS' RANGE OF EXPERIENCE

Number	Experience
8	Property Wide ranging experience of the property sector including our European markets
4	International markets Experience and in-depth knowledge of dealing in, and the operation of, international markets
4	Financial management Substantial background of financial experience from wide ranging industries and markets
7	Governance Significant listed company governance experience and understanding of investor requirements
9	Risk management In-depth insight and experience of risk management within the property sector
9	ESG Knowledge of environmental, social and governance issues facing listed and non-listed organisations in the property sector and wider UK businesses and charities
3	Human resource Knowledge of HR operations, setting and monitoring culture, and diversity and inclusion

56%

BOARD INDEPENDENCE
INCLUDING THE
CHAIRMAN AT 31
DECEMBER 2023

44%

FEMALE REPRESENTATION
AS AT 31 DECEMBER 2023

Visit our website to view the full
biographical information for the Directors:
[https://www.clsholdings.com/about-us/
our-leadership](https://www.clsholdings.com/about-us/our-leadership)

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. Founder and CEO of Svenska Handelsfastigheter

Qualifications: Degree in Law, Stockholm University

Experience: International property industry. Board member, Interogo Holding AG. Chairman, KlaraBo Sverige AB

Attendance:

Board **7/7**

Remuneration Committee **4/4**

Nomination Committee **1/1**

AGM **1/1**

Lennart Sten

Independent Non-
Executive Chairman
1 August 2014

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

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

Experience: 20+ years of property industry and business experience

Attendance:

Board **7/7**

Nomination Committee **1/1**

AGM **1/1**

Anna Seeley

Non-Executive Director
and Vice Chair
11 May 2015

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

Qualifications: Degree in Business Administration, Stockholm University

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

Attendance:

Board **7/7**

AGM **1/1**

Fredrik Widlund

Chief Executive Officer
3 November 2014

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

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

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

Attendance:

Board **7/7**

AGM **1/1**

Andrew Kirkman

Chief Financial Officer
1 July 2019

Former roles: Managing Director, Landesbank Berlin London. Head of BerlinHyp London office. Senior positions with National Australia Bank, Westdeutsche Immobilien. Management Consultant, PWC. Trustee Refuge

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

Experience: Extensive commercial property investment and finance expertise in the UK and Europe (primarily Germany). Governance. Non-Executive Director, Schroders European REIT plc. Trustee, Central School of Ballet, Chair Audit Committee. Past Warden, the St Olaves and St Saviours Schools Foundation, member Finance and General Purposes Committee. Past Master, Worshipful Company of Chartered Surveyors, member Charity Committee.

Attendance:

Board 7/7

Audit Committee 4/4

Nomination Committee 1/1

AGM 1/1

Elizabeth Edwards
Senior Independent
Director
13 May 2014

Bill Holland
Independent
Non-Executive Director
20 November 2019

Former roles: Senior Partner, KPMG real estate audit practice

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

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

Attendance:

Board 7/7

Audit Committee 4/4

Remuneration Committee 4/4

AGM 1/1

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

Qualifications: Degree in Law, Stockholm University

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

Attendance:

Board 7/7

Bengt Mortstedt
Non-Executive Director
7 March 2017

Eva Lindqvist
Independent
Non-Executive Director
22 September 2023

Former roles: Senior roles, Ericsson. Senior Vice President, Telia Sonera telecoms division. Chief Executive, Telia Sonera international carrier. CEO, Xelerated Holdings AB.

Qualifications: MSc, engineering degree in Applied Physics. Marketing Diploma. Master of Business Administration. Melbourne Graduate School of Management. Helen Schyft Fellowship

Experience: NED, Tele2AB. NED, Greencoat Renewables plc, member Audit, Management Engagement, Nomination and Remuneration Committees. NED, Keller Group plc, Chair Remuneration Committee, member Audit and Risk, Nomination, and Governance and Sustainability Committees. Member of the Royal Swedish Academy of Engineering Sciences.

Attendance:

Board 1/2

Audit Committee 1/1

Remuneration Committee 1/1

Former roles: Solicitor, Slaughter and May, Director Asda Stores, Company Secretary and General Counsel Asda Group plc/Asda Wal Mart, Partner Eversheds Sutherland LLP, Chair St Giles Trust; Independent NED and SID Bellway plc

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

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

Attendance:

Board 7/7

Audit Committee 4/4

Remuneration Committee 4/4

AGM 1/1

Denise Jagger
Independent
Non-Executive Director
1 August 2019

Resigned 31 December 2023

Christopher Jarvis
Non-Executive Director
25 November 2008

Resigned 27 April 2023

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

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

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

Attendance:

Board 1/1

AGM 1/1

Key Board activities

Key announcements, decisions and Board approvals

MAR	APR	MAY	JUN
• Approval of the 2022 annual report and accounts • Approval of the 2022 final dividend • Main Board • Audit Committees • Remuneration Committees	• AGM at which all shareholder resolutions passed	• Property tour in Paris • Main Board	• Sale of three properties at 7.5% above valuation • Signing of 30-year lease in Essen, Germany • Exchanged contracts for the sale of Westminster Tower

How governance supports our business model and strategy

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

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

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

➤ Read more on pages 16-21.

The Board Governance role	
	The Board considers the Group's investment criteria and market conditions in the regions to ensure it supports its long-term strategy.
We acquire the right properties	
	The Board considers the Group's financing strategy to ensure it remains appropriate, dynamic and diverse.
We secure the right finance	
	The Board considers the Group's operational strategy to deliver on the Group's vision to be a supportive, progressive and sustainably focused commercial landlord.
We deliver value through active management and cost control	
	The Board oversees management's assessments to ensure the Company focuses on holding properties with the potential to add value in line with the Group's investment strategy and sustainability goals.
We continually assess whether to hold or sell properties	
	The Board aims to grow the dividend in line with the growth in the business and in line with its dividend policy. It also ensures the reward structures for its employees underpin our values and support the success of the business. Our tenants are our customers, and we provide sustainable office space that helps businesses grow.
We reward shareholders, customers and employees	

AUG

- Approval of the 2023 half-yearly report and interim dividend
- Main Board
- Ad Hoc Board
- Audit Committee

SEP

- Consideration of the Group strategy
- Sustainability Update
- Financing Strategy discussion
- Ad Hoc Board meeting to appoint Non-Executive Director
- Strategy day

NOV

- UK property tour
- Trading update
- Agreed two Revolving Credit Facilities totalling £50 million
- Main Board
- Audit Committee
- Nomination Committee
- Remuneration Committee

What we considered for 2023

Relevant stakeholders

Find out more

- Received detailed updates on the markets in which we operate together with investments at each Board meeting
- Received presentations from the UK, German and French Valuers on market conditions and key portfolio risks and opportunities
- Considered acquisitions and disposals strategy in light of challenging market and ability to meet investment criteria

- Investors
- Employees

➤ Read more
on pages 16 and 18

- Received updates on the Group's debt position including covenant reports, cash flow and budgets.
- Received detailed updates on the Group's financing strategy
- Considered the impact and use of other debt facilities including the approval of revolving credit facilities totalling £50 million

- Financial Institutions

➤ Read more
on pages 17 and 19

- Received updates on asset, property and facilities management operations
- Ensured appropriate resourcing levels to facilitate active in-house asset management
- Monitored performance against budget and organisational structure as part of cost control measures
- Reviewed and approved 2024 budget and forecasts

- Tenants
- Suppliers

➤ Read more
on pages 17 and 20

- Received updates on vacancy rates and rent collections
- Received senior management recommendations for capital and operational expenditure in relation to building management
- Received updates on the sustainability strategy including the Net Zero Carbon pathway
- Reviewed the Group's strategy for the property portfolio at the Strategy Board meeting held in September

- Tenants
- Communities
- Suppliers

➤ Read more
on pages 16 and 21

- Considered and approved interim and final dividend proposals, based on the financial performance of the Group
- Considered appropriate reward structures for employees that reflect Group performance
- Approved capital expenditure budgets, supported by our sustainability strategy, to deliver sustainable office space

- Investors
- Employees

➤ Read more
on page 17

Relationship with stakeholders

The Company values its dialogue with both institutional and private investors

The Board's primary contact with existing and prospective institutional shareholders is through the Chief Executive Officer and the Chief Financial Officer, who have regular meetings with institutional shareholders. They also undertake analyst presentations following the Company's half-yearly and annual financial results. They are supported by a financial relations advisor and during 2023 by three 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.

Slightly less investor meetings took place in 2023, due to the EPRA and UBS conferences not being attended.

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

KEY SHAREHOLDER EVENTS

MAR

Analyst presentation

30 institutional investor meetings

3 Sales presentations

APR

1 institutional investor meeting

AUG

Analyst presentation

18 institutional investor meetings

3 Sales presentations

SEP

6 institutional investor meetings

OCT

1 institutional investor meeting

NOV

1 institutional investor meeting

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

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

Proxy voting

The proxy forms for the Annual General Meeting which was held in 2023 included a "vote withheld" box.

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

At the 2024 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.

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

2023 AGM

At the 2023 AGM, all the resolutions as set out in the Notice of Meeting were unanimously passed on a poll.

Workforce engagement

Helping to enhance our working environment

Dear Shareholder,

As Chair of the Workforce Advisory Panel, I am pleased to present the 2023 report from the Panel.

Role of the Panel

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

Main activities during the year

In January 2023, the Group reviewed its flexible working policy based on the needs of the business. As a result, the flexible working policy was updated to reflect the fact that being together more often better supported our purpose as a sustainable work space provider, our values and underlined the benefits of being together to discuss ideas and collaborate more efficiently and effectively. Throughout the year, the Panel received feedback on the implementation of the updated working from home policy, which was fed back to the Board. These communication flows enabled the Board and Senior Leadership Team to understand how the policy had been received and were able to engage with the wider workforce to explain the Company's decision and address any concerns.

The uncertain macro economic landscape continued to be a frequent discussion, with inflationary pressures and rising interest rates having an effect on both the operation of the business and staff across the Group. The Panel also discussed the impact the economic environment had on company strategy and how this fed into workforce practices. As a result, Panel members were able to provide feedback on how company strategy was driving behaviours, which could then be articulated to the Board for further assessment.

As part of the evolution of the Company's workforce engagement mechanism, the Panel reviewed its Terms of Reference and assessed the effectiveness of the current structure. We considered the purpose of the panel and the current meeting format. In addition, we reviewed the FRC consultation paper on workforce engagement trends that have arisen amongst

WORKFORCE INCLUSIVITY

The Panel met four times during 2023.

At the start of 2023, the Panel consisted of seven employees from across the Group. The selection process is undertaken through an interview process from a shortlist of employees who either volunteered or were nominated by their peers.

FTSE companies since the implementation of the code provisions. The Panel concluded that, given the nature and complexity of CLS, an open forum meeting in each country throughout the year would be best suited to engage with the workforce going forward.

Looking forward

Following the recommendation by the Panel to hold open forums across the Group, the Board agreed that, given the differing sub-cultures that exist within each region, the Group should amend its approach to workforce engagement and adopt such an approach to gain a more detailed understanding of country specific workforce matters. This would in turn allow employees to directly voice their views on workforce practices and policies at local level, which should encourage more effective and broad ranging engagement.

As Senior Independent Director and designated workforce non-executive director, from 2024 it will be my responsibility to visit each office to host these wider meetings and understand the views of the workforce.

Elizabeth Edwards
Chair, Workforce Advisory Panel

8 March 2024

Our focus for the year ahead

- Implement an enhanced mechanism for workforce engagement
- Continue to facilitate communication between the Board and employees
- Continue to discuss the views of the employees and review CLS' workplace practices

Culture dashboard

The Company values its dialogue with both institutional and private investors

Maintaining a healthy culture

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

CLS' culture and the role of the Board

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

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

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

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

How the Board assessed and monitors culture

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

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

Division of responsibilities

The Board's role

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

Board and Committee structure

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

Chair leadership and effectiveness

As the Group's Independent Non-Executive Chairman, Lennart leads the Board in promoting a culture of openness and debate to ensure the Board operates effectively. It is the Board's culture and accepted practice to give regular feedback, but once a year a more formal feedback session is undertaken with the Non-Executive Directors, led by the Senior Independent Director without the Chair present. This session reviews the Chair's overall performance, considering areas such as communication, effective leadership and oversight of the Board and company culture. The right "tone from the top" is key to support our purpose, vision and values. Lennart and the Board lead by example and the culture of openness and collaboration resonates throughout the Group.

Roles and responsibilities of the Directors

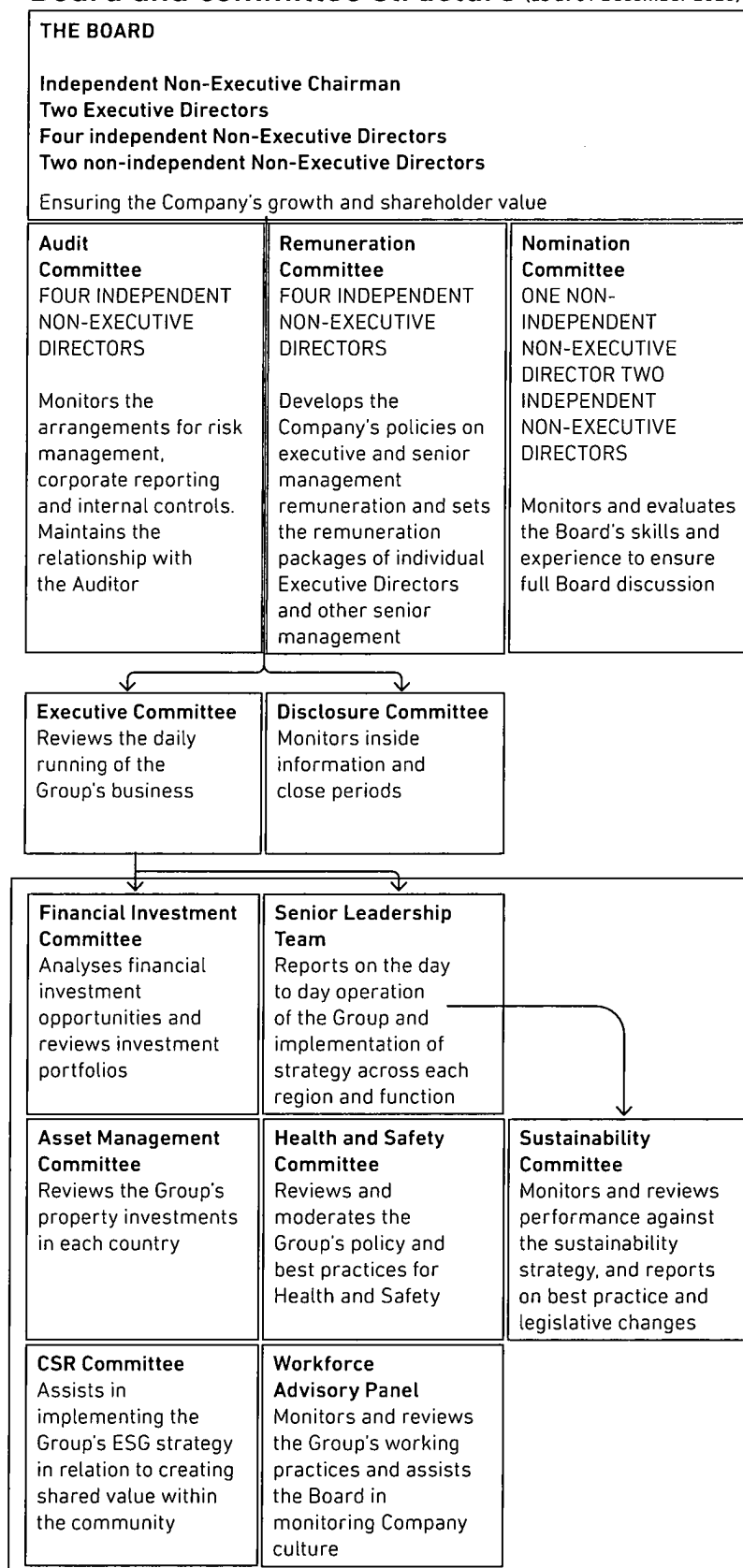
The Board's composition and responsibilities are set out in a formal schedule of matters specifically reserved to it for decisions. Matters reserved for Board decisions include identifying strategic long-term objectives, approving the annual Group budget, and approving substantial property transactions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

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

Division of responsibilities

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

Board and committee structure (as at 31 December 2023)



Nomination Committee Report

Stability and continuity will be our focus during 2024

Dear shareholder

On behalf of the Nomination Committee, I am pleased to present my report as Chair of the Committee for the year ended 31 December 2023. This report is intended to give an insight into the work of the Committee during the year.

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

Role of the Committee

The Committee makes recommendations to the Board with regard to the nomination, selection and succession of directors and senior executives. The Committee also focuses on ensuring 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, and reviews the annual Board Evaluation process to ensure it continues to operate in the best possible way.

Membership and attendance

The Committee met formally once during 2023 and held frequent discussions outside formal meetings. During the year, the Committee comprised three Non-Executive Directors, with a majority being independent. Given the Group has a Controlling Shareholder, the composition of the Committee reflects the need for independent oversight whilst recognising the shareholder base. The Company Secretary acts as Secretary to the Committee and its Terms of Reference are available on the Company's website.

Main activities throughout the year

The Committee continued to fulfil its core responsibility to review the structure of the Board and its Committees. This year, we focused on the outcomes of our 2022 review, in which we undertook to broaden the Board's experience following the retirement of Chris Jarvis at the conclusion of the 2023 Annual General Meeting having served for more than 14 years.

In accordance with our policy on the appointment of new directors, we appointed an external search consultancy, Sapphire Partners, who specialise in championing a diverse range of candidates.

Following a two stage process, with candidates meeting members of the Committee and members of the senior leadership team, we recommended to the Board that Eva Lindqvist be appointed as a director, given her wide ranging commercial experience in listed companies. This included significant remuneration committee experience, which we required in order for her to become our new Remuneration Committee Chair following Denise Jagger's departure on 31 December 2023.

At the end of 2023, following Eva's appointment, we again considered the mix of experience, tenure, background, industry knowledge and constructive challenge of our Group strategy. It is the opinion of the Committee, and endorsed by the Board, that the Chairman and all the Non Executive Directors bring independence of judgement and character, a wealth of experience and knowledge, and the appropriate balance of skills, which are appropriate to effect oversight and implementation of the Group's strategy.

As highlighted in this year's internal Board Evaluation process, we continued our aim to establish working relationships with both our fellow Board members and more employees within the Group. We achieved this through a

“Stability and continuity will be key during the current period of economic uncertainty.”

COMMITTEE MEMBERS' ATTENDANCE DURING THE YEAR ENDED 31 DECEMBER 2023

Anna Seeley

Lennart Sten

Elizabeth Edwards

Paris property tour in May, an onsite strategy meeting in September and a UK property tour in November, where we also met both formally and informally a number of key members of the team across a broad range of functions below Board level. It reiterates to us the value of in-person meetings, impromptu discussions and time outside of formal meetings to get to know each other better.

We continued to focus on diversity and succession planning, which included reviewing our pipeline of internal talent. Our process for this review is set out later in this report. We received a comprehensive presentation from Fredrik Widlund on succession planning at executive and below Board level, which the Committee discussed at the full Board. This provided the Committee and the Board with an insight into the depth of our talent pool where we have fantastic employees, and it also highlighted some of the challenges we face in retaining the next generation of senior leaders with a relatively flat organisational structure. Our focus on gender and ethnic diversity at Board level continues; at the year end, over one third were women and together the Board has a broad range of skills and experience to support the implementation of our strategy. Additionally, Elizabeth Edwards serves as our Senior Independent Director and Eva Lindqvist chairs our Remuneration Committee. We recognise the importance of ethnic diversity in Board composition and it will continue to form part of our considerations in future appointments, in line with our Diversity, Equity and Inclusion policy.

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.

Our process for Board appointments starts with the Committee's review of Board composition, taking into account the skills, experience and background that it needs to fulfil its objectives. If an appointment is recommended, it is the Committee's policy to use an open advert and/or an external search consultancy for the appointment of the chair and non-executive directors. In line with our diversity, equity and inclusion policy, we expect our external search consultancy to provide us with a diverse selection of candidates from which to short list.

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

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

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

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

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

Induction and ongoing development

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

I set out our induction programme, which has been designed to involve a full overview of the Group and how it operates:

- Individual meetings with the Non Executive Chairman, Chief Executive Officer and the Chief Financial Officer.
- A programme of meetings with country leaders and senior managers across the Group to understand key operational matters
- Bespoke tours of the Group's portfolio and offices in the UK, Germany and France

As part of ongoing development, the Board aims to hold one Board meeting a year either in France or Germany, preceded by a property tour, so that it can gain first hand knowledge into the activities, challenges and opportunities across the portfolio.

PROFESSIONAL DEVELOPMENT AT A GLANCE

TRAINING AND INFORMATION SESSIONS

SITE VISITS, BOARD DINNERS AND BREAKFAST MEETINGS

BRIEFING MATERIAL ON BOARD PORTAL

DEEP DIVES ON KEY TOPICS

MANAGEMENT AND ONE-TO-ONE MEETINGS

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

ADDITIONAL INFORMATION

Nomination Committee Report continued

Our individual portfolio tours and Board meetings allow Directors to engage directly with a range of employees below Board level, which we believe is important in relationship building, understanding our talent pipeline, people and culture. It also raises the profile and understanding of the role of the Board and its governance responsibilities. Meetings are also arranged with key advisors such as the external auditor, valuers and brokers on an ongoing basis both at Board level and individually.

Ongoing training and development beyond the induction process is encouraged, with updated schedules of events produced at each Board meeting.

This year, the Board was able to visit our portfolio in Paris where they also met with a number of our property team, allowing them to gain a greater understanding of our properties and meet more employees below Board level. We also undertook a UK property tour in November, visiting a number of our London properties and were able to meet with our property teams and tenants at each location.

We are fortunate to have a Board that has established relationships and I am pleased to see the strength of those relationships develop.

Succession planning

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

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

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

SUCCESSION PLANNING REVIEW PROCESS

1

Individual CEO meetings with Heads of Functions

2

Assessment of teams and high performers

3

Identification of individuals' development needs and timeline

4

Group-wide report compiled

5

CEO presents to the Nomination Committee

6

Nomination Committee presents key findings to the Board

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

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

Board composition and skills

As explained previously, following the appointment of Eva Lindqvist in September and the retirement of Chris Jarvis in April, we are confident in our structure and operation of the Board together with the balance of skills and experience of our directors in order to deliver on our strategy. These factors were highlighted in the 2023 external Board Evaluation process.

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

Of the two non-independent Non-Executive Directors: I am a director of Creative Value Investment Group Limited (CVIG), the investment vehicle for The Sten and Karin Mortstedt Family & Charity Trust; and Bengt Mortstedt remains one of our largest shareholders.

The Committee notes that while Board composition has not complied with Provision 11 of the Code during the year, it believes that the composition reflects the skills required to meet the current needs of the Group to ensure it will support the delivery of its strategy.

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

As an additional process this year, because we recognise that during the year both the Chair, Lennart Sten, and Elizabeth Edwards, Senior Independent Director, have now served more than nine years, the Board (in their absence) considered their ongoing independence. We took into account their other roles outside of the Group, their time commitment and independent leadership and contribution to discussions at Board meetings and concluded that they remained independent.

We explained in last year's report that the Board strongly believes, during a period of economic uncertainty and with the addition of Eva Lindqvist, providing continuity is essential and therefore Lennart and Elizabeth will remain in post-beyond nine years. We will keep this decision under regular review during 2024.

Training

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

Diversity

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

The Committee has met its target for female representation at Board level during 2023 (44% at the year-end) and continues to monitor and support the aims and objectives of the Parker Review and the FTSE Women Leaders Review. We are wholly supportive of the changes to the Listing Rules and we note our Board is well on the way to compliance with gender diversity, and one senior board position is already held by a woman.

On recruitment, our policy is that we expect our search consultants to ensure, where possible, there is a diverse selection of candidates. We ensure that this is not for just gender but also all diversity characteristics; a policy that we encourage throughout the Group when recruiting. To this end, we ask our search firms for all recruitment levels across the Group to aim for a long list of at least 50% women and appropriate diversity representation.

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

The Board recognises that there is work to be done in relation to gender diversity, especially at senior management level. We believe this will be a gradual process as the workplace evolves and policies, such as in the area of parental leave, are aligned to offer equal benefits.

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

Anna Seeley,
Chair, Nomination Committee

8 March 2024

OUR FOCUS FOR THE YEAR AHEAD

- Oversee induction of new Board member
- Annual review of our succession plans for the Board
- Annual review of succession plans and talent pipeline below Board level
- Ongoing Board development
- Implement findings from external Board Evaluation process

Nomination Committee Report continued

Board Diversity Policy

Objectives

POLICY OBJECTIVES	IMPLEMENTATION
Ensure the Board comprises an appropriate balance of skills, experience and knowledge required to oversee and support the management of the Company effectively.	An executive search firm, Sapphire Partners, was used for the appointment of a further Non-Executive Director during 2023 to ensure a diverse level of candidates. The Committee continues to monitor the composition of the Board and meets at least annually to review and discuss it.
Ensure consideration is given to candidates for Non-Executive Director Board appointments from a wide pool, including those with no listed company Board experience.	The brief that is given to our independent executive search firms is to ensure that this Policy objective is met. When considering appointments to the Board, the Committee endeavours to consider candidates with a broad range of experiences. For the appointment of Eva Lindqvist, we used Sapphire Partners, a search firm specialising in ensuring diverse candidates.
Ensure Board appointment 'long lists' contain diverse candidates, including diversity of social and ethnic backgrounds, and cognitive and personal strengths.	The brief that is given to our independent executive search firms is to ensure that this Policy objective is met. When considering appointments to the Board, the Committee endeavours to consider candidates with a broad range of experiences. We ensured that this was adhered to during our appointment process in 2023.

Targets

POLICY TARGETS	PROGRESS AGAINST TARGET
40% women representation on the Board.	44% female representation on our Board at 31 December 2023. 38% at the date of this report. Currently at least one third female representation on our Board as at the year end.
Minimum of one Board Director from an ethnic minority background.	In line with the Principles of the Parker Review, when the Board seeks to appoint a Non-Executive Director, it will expect its independent consultants to ensure candidates come from a diverse range of backgrounds. Currently not met.
One senior Board position held by a woman.	Elizabeth Edwards is our Senior Independent Director and therefore this target has been met.

Data on diversity of the board and executive management

A) Table for reporting on gender identity or sex

	NO OF BOARD MEMBERS	PERCENTAGE OF THE BOARD	NUMBER OF SENIOR POSITIONS ON THE BOARD (CEO, CFO, SID AND CHAIR)	NUMBER IN EXECUTIVE MANAGEMENT	PERCENTAGE OF EXECUTIVE MANAGEMENT
Men	5	56	3	7	100
Women	4	44	1	–	–
other	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

B) Table for reporting on ethnic background

White British or other White (including minority-white groups)	9	100	4	6	86
Mixed/Multiple Ethnic Groups	–	–	–	1	14
Asian/Asian British	–	–	–	–	–
Black/African/Caribbean/Black British	–	–	–	–	–
Other ethnic group, including Arab	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

Snapshot of Company skills & diversity at 31 December 2023

GENDER DIVERSITY BOARD

1. MALE 56%
2. FEMALE 44%

LENGTH OF TENURE (YEARS)

1. 0 – 5 4
2. 6 – 10 5

COMPOSITION OF THE BOARD

1. EXECUTIVE 2
2. INDEPENDENT 5
3. NON-INDEPENDENT 2

EXECUTIVE COMMITTEE

AGE RANGES (TOTAL EMPLOYEES)

1. MALE 2
2. FEMALE 0

ETHNICITY (UK EMPLOYEES)

SENIOR LEADERSHIP TEAM

1. 20 – 29 23%
2. 30 – 39 23%
3. 40 – 49 31%
4. 50 – 59 18%
5. 60 – 79 5%

1. WHITE 55%
2. ASIAN 18%
3. BLACK 2%
4. MIXED 7%
5. DID NOT RESPOND 18%

1. MALE 7
2. FEMALE 0

Nomination Committee Report continued

Review of Board effectiveness

Appointment of consultants

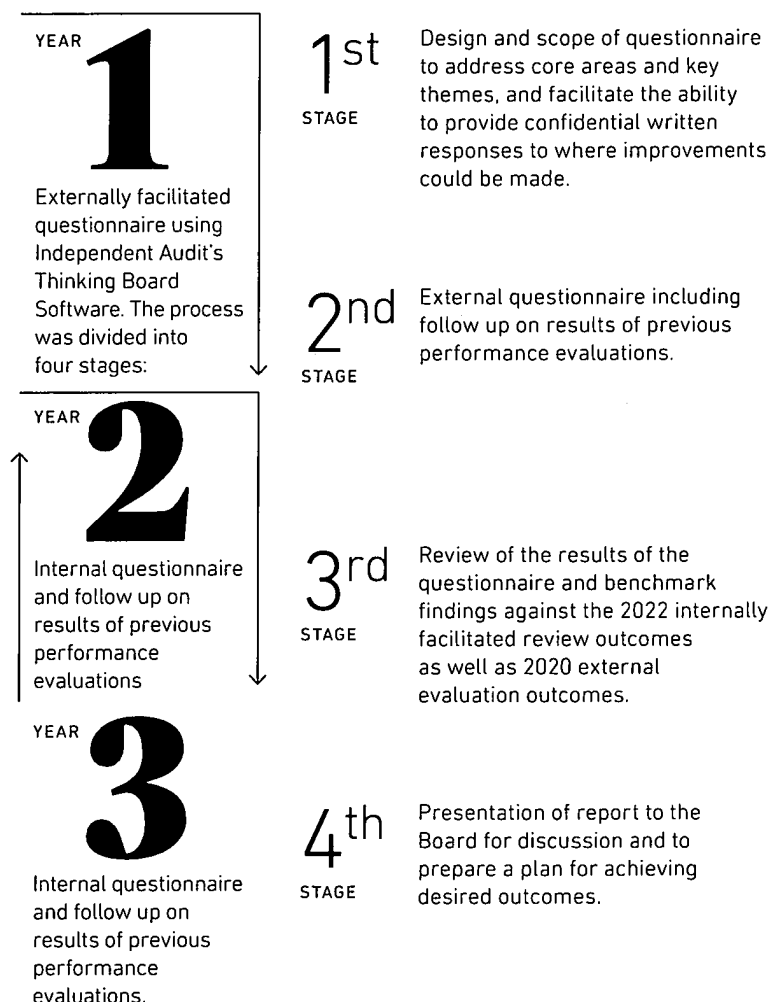
The Board appointed Independent Audit Limited to undertake the review of the effectiveness of the Board for 2023, using their online governance assessment service Thinking Board. They have no connection with CLS or any individual director.

Key to Independent Audit Limited's appointment was their ability to compare the results of the 2023 review with those of the 2020 review, which gave the Board a greater insight into how its effectiveness has evolved over the medium term.

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

Based on the results of the 2023 review, this approach met the Board's objective.

EVALUATION PROCESS



Board Effectiveness Framework

The external process covered the key areas of: Board Leadership and Company Purpose; Division of Responsibilities; and Composition, Succession and Evaluation.

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

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

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

The review was presented to the Board for discussion at its January 2024 meeting.

Engagement

Strategy

Leadership

Governance

Succession

Challenge

Risk

Engagement

Structure

Role

Dynamics

Composition

2023 EXTERNAL BOARD EVALUATION RESULTS AND OBJECTIVES FOR THE FORTHCOMING YEAR

Four key areas within the internal Board Evaluation Framework

		2024 OBJECTIVE
1. STRATEGY, RISK & FINANCE	The Board was clear on what it needs to achieve the organisation's purpose. Whilst there was a clear understanding of risk, additional time should be dedicated to assessing emerging risks in order to better scenario plan. The Board noted the improvements in risk reporting, especially cyber risks, and their documentation.	Enhanced focus on "big trends" and resulting key risks, looking at major shifts in the property market and meeting customers' needs and expectations. Review resilience of the future business model.
2. PEOPLE, CULTURE & STAKEHOLDERS	There was agreement that the Board ensures the leadership team is effective and an acknowledgement that the Executive team has risen to the challenge. The Board works well with management although there was a desire to spend more informal time together, and find opportunities for management to benefit more from the NEDs' expertise. Further work was need to ensure culture was monitored and embedded, and to hear more about what matters to employees. There was a strong sentiment that the Board incorporates environmental, social and governance (ESG) considerations into the strategic decision-making, with nearly all respondents believing this works well.	More monitoring of culture to provide assurance that the agreed values are being embedded. Ensure regular feedback on employee matters to ensure it is in line with values and long-term success of the business. Continue the programme of more contact with senior leaders below Board level and better interaction with employees at all levels.
3. MIX, INFORMATION AND DEVELOPMENT	The Board performed well in bringing the right people to board discussions. There was recognition of the positivity in having senior managers at Board meetings, whether sitting in or making presentations, acknowledging it is excellent for their own development.	More time for deep dives on progress around specific objectives. Develop channels to feedback on the operation and value of the Board within the organisation. Review and update directors' responsibilities.
4. MEETINGS, DYNAMICS AND COMMITTEES	Board meetings worked well, assisted by the fact they are face-to-face, with effective management of the agenda. Similarly, discussions are inclusive, with free-form comments praising the open dialogue, focus and quality of communication. Debates are felt to remain structured and to the point. All three committees are functioning well in terms of effective chairing, quality of discussions and the support they receive.	Continue to consider the skills of the Board for future NED appointments, specifically with experience of European asset management in an entrepreneurial environment. Increase interaction with the Chair through dedicated one to one sessions. Facilitate opportunity to spend more time with executive and management teams to share experiences.

OBJECTIVES AND OUTCOMES ARISING FROM 2022 EXTERNAL BOARD EVALUATION RESULTS

OBJECTIVES	OUTCOMES
Continue to have: more contact with senior leaders below Board level; and better interaction with employees at all levels.	Implemented focus sessions, within the meeting agenda, on key areas of the business which has enabled it to meet with many senior leaders below Board level to present on their area of expertise. In May and November, the Board went on Paris and London property tours respectively, supported by our wider asset, property and facilities management teams.
Continue to focus on the documentation of internal controls. Continue to develop the discussions around risks.	Key and emerging risks discussed in March and August. Annual strategy meeting in October focused on strategic opportunities and risks. At the Audit Committee meeting in November, a comprehensive update on the documentation and testing of internal controls was presented.
Continue focus on employee engagement and communications below Board through various activities including property tours and informal meetings.	Employee engagement through the Workforce Advisory Panel, property tours and informal meetings including "Meet the Chair" and other CSR initiatives to which Board members were invited.
Develop informal communication channels between the Board members. More interaction with the Chair and more contact with the business.	The Board now meets in-person throughout the year. At its May meeting and November Board meetings, the Board met for dinner with members of the Senior Leadership Team, which enabled informal conversations between members. The Chair initiated various ad-hoc calls during the year, speaking with each Board member individually.

Audit Committee Report

Ensuring oversight, risk management and integrity of financial reporting

Dear shareholder

On behalf of the Audit Committee, I am pleased to present the report of the Committee for the year ended 31 December 2023. This report is intended to provide an insight into the work of the Committee during the year.

Role of the Committee

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

Membership and attendance

Eva Lindqvist was appointed to the Committee on 22 September 2023 following her appointment to the Board. She joins the Committee and has experience of other audit committees through her non-executive director positions.

Denise Jagger left the Board and therefore the Committee on 31 December 2023.

My experience means I have recent and relevant financial experience, and my fellow Committee members all have significant experience of the real estate and other commercial sectors. Further details of our experience can be found on pages 60 to 61.

The Committee met four times during 2023.

This year the Committee has focussed on a number of significant financial judgements.

Political and Economic risk

The potential for prolonged higher interest rates and elevated levels of inflation were key considerations for the Committee when assessing the changing risk environment. This year, our focus was to ensure that, in light of the challenging market conditions, the assumptions made by the valuers underpinning the valuations were adequately robust. We received presentations from our valuers in each region and had the benefit of reviewing their reports in advance. This enabled the Committee to challenge the valuers where there was a significant valuation variance from prior period ends. The Committee is of the view that the valuations are appropriate.

Going Concern

A significant focus for the Committee this year has been our review of the Going Concern assessment.

At the half year and the year end, the Committee noted that in the "Severe but plausible" scenario, the Group is reliant upon its ability to both refinance maturing debt and to complete a number of investment property disposals in the going concern period in challenging market conditions. Management remain confident that, whilst sufficient refinancing and property disposals would be achieved, the planned refinancings of facilities falling due within the going concern review period, and planned property disposals, were outside management's direct control. Consequently we supported the conclusion that a material uncertainty existed in the "Severe but plausible" scenario that could cast significant doubt on the Group's ability to continue as a going concern.

The Auditors had reviewed Management's paper on the assessment of the Group's going concern, they also concluded that a material uncertainty existed.

During the year, Management have executed all scheduled refinancings and have also refinanced a significant proportion of 2024 loans early.

“ This year we have focused on enhancing, documenting and testing our internal controls and risk reviews through the implementation of a new digital platform. ”

COMMITTEE MEMBERS' ATTENDANCE DURING THE YEAR ENDED 31 DECEMBER 2023

Elizabeth Edwards	●●●●
Bill Holland	●●●●
Denise Jagger	●●●●
Eva Lindqvist	●

Notwithstanding the material uncertainty after due consideration, the Committee is therefore satisfied that the assessment of the going concern basis and statements made in connection with it are appropriate. In addition, having taken into account the key judgements made in relation to the going concern period, and the current progress on both the refinancings and sales, the Committee agreed that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due and to continue as a going concern for the period to at least 31 July 2025.

Sustainability

Given the increased focus on sustainability from investors and tenants, we reviewed the sustainability data and assurance, looking at the sources of data for key reporting areas which had external or other forms of assurance and how these sources map to key submissions such as the Strategic Objective KPI, our Net Zero Carbon Pathway, GRESB and this Annual Report.

A new sustainability data platform is being implemented which will provide instant management information in relation to energy (and therefore carbon) consumption, and it will go live in April 2024. We noted some of the data issues centred around the automatic data link between the smart meter and the existing platform which were being resolved in time for the go-live date.

During 2023, we reviewed the scope and process for sustainability data assurance and concluded that, for the time being, it would remain separate to financial auditing.

Corporate Governance

We are closely monitoring the impact of the withdrawal of proposed legislation covering additional corporate and company reporting requirements. We will continue to monitor developments to ensure that CLS is thoroughly prepared for any future legislative or regulatory changes.

Cyber Risks

During the year, we received presentations from our Head of IT outlining the steps the Group had taken to reduce the potential for a cyber security incident. This included penetration testing, which showed that our security defences were sufficiently robust, and the IT training to assist employees in preventing risks entering our IT environment has been effective. Our Group's SecurityScorecard rating remains at 96 (A rated), which places us in the top 2% of companies monitored by our cyber security partner.

Establishment and review of effectiveness of internal controls

The Board recognises that it is responsible for maintaining and monitoring the Group's system of internal controls and reviewing its effectiveness. In order to do so, it is supported by the work of the Committee.

During the year, Management undertook a comprehensive internal controls testing programme covering financial and operational areas, and reviewed our risk analysis that had been documented on our CoreStream software. It was noted that whilst there were no major control failings, minor process improvements had been made as a result and the risks remained appropriate.

Key features of our system of internal control include:

- a comprehensive system of financial reporting and business planning;
- a defined schedule of matters for decision by the Board, revisited by the Board at least annually;
- an organisational structure with clearly defined levels of authority and division of responsibilities;
- formal documentation and approval procedures;
- the close involvement of the Senior Leadership Team in all aspects of day-to-day operations, including regular meetings with line managers to review all operational aspects of the business and risk management systems;
- annual Board review of Group strategy including forecasts of the Group's future performance and progress against strategy;
- formal sign-off on the Group's Anti-Facilitation of Tax Evasion, Whistleblowing, Securities Dealing and Anti-bribery policies by all employees annually.
- The programme of internal controls testing consisted of sample testing across the Group for the following processes:
 - Accounts payable: authorisations, approval limits, segregation of duties;
 - Accounts receivable: authorisations, approval limits, credit management; and
 - Payroll: access controls, reconciliations, authorisations and segregation of duties.

Financial reporting and significant financial judgements

Our consideration of the remaining significant judgements in the financial statements is set out on page 80 and includes property valuations, revenue recognition and management override of controls.

Bill Holland
Chair, Audit Committee

8 March 2024

OUR FOCUS FOR THE YEAR AHEAD

- Ensure valuations and assumptions underpinning the valuations are appropriate
- Monitor principal and emerging risks to ensure the risk register remains appropriate and mitigations are in place
- Review and monitor internal controls and receive regular updates on internal controls testing
- Receive regular reviews on the implementation of MRlx, a new property and finance software system, and Corestream, our risk management software
- Foster a good working relationship with the external auditor, with a focus on the key issues outlined in each audit report during the year
- Monitor the impact of changes to accounting and governance laws and regulations
- Monitor sustainability data reporting and processes

Audit Committee Report continued

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 2024 and August 2023 we reviewed the full year and half-year results, respectively. This was in conjunction with the presentation of supporting external audit reports and reviews from EY, our external auditor, on those financial statements. Our discussions focused on the significant financial judgements which are explained in the next table. In November 2023 the Company received a letter from the Financial Reporting Council (FRC) to say that it had reviewed the Company's Annual Report and Financial statements for the year ended 31 December 2022. The FRC review was based solely on the annual report and accounts and does not benefit from detailed knowledge of our business or an understanding of the underlying transactions entered into. Their letter provided no assurance that the annual report and accounts are correct in all material respects, because the FRC's role is not to verify the information provided to it but to consider compliance with reporting requirements. We are pleased, however, that the FRC did not raise any material issues or ask any questions. The FRC did recommend some areas for improvement, including identifying the significant judgements to disclose in the financial statements, how we communicate alternative performance measures, disclosures of valuation techniques for equity investments and greater focus on areas of climate related disclosures. The Audit Committee were grateful for the recommendations and have appropriately incorporated them into this year's financial statements.
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 2023 annual report and accounts at our Committee meetings in February and March 2024 and reported our conclusions to the Board that they contained sufficient information for shareholders to assess the Group's performance and strategic operations. We also considered the Alternative Performance Measures (APMs) that CLS uses alongside statutory figures and concluded that these should remain unchanged from last year and that these assist in providing stakeholders with additional useful information on the underlying trends, performance and position of the Group. Note 5 and the Supplementary disclosures to the financial statements give a full description and reconciliation of our APMs. Additionally, having considered how the report was formulated, reviewed internally and by the external Auditor, we considered that the 2023 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 103.
Reviewing our risks, risk management systems and internal financial controls	The Committee assists the Board in undertaking a robust assessment of the Group's principal and emerging risks. It receives reports at its meetings which identify principal risks and any movements in them, which it then reviews and reports to the Board on its findings, for wider discussion and approval. The ways in which the Group's principal and emerging risks are identified and addressed are set out on pages 51 to 53. As explained above, during the year, in addition to reviewing the established framework for internal controls and risk management systems, the Committee received and discussed reports from management on the operation and testing of the Group's internal controls. We reviewed the overall status of the principal risks and uncertainties, the changes in risk profile in 2023, and the current direction of travel for 2024. It was noted that in 2023, the risk profiles remained largely unchanged. In regard to the current direction of travel of the risks faced, financing was deemed to be the sole risk that may increase throughout the year due to current uncertainties with the market, specifically around interest rates and inflation. We maintain robust controls which help to mitigate financing risk, through weekly treasury updates with Executives and maintaining strong relationships with over 26 lenders. We also continued to monitor the roll-out of the Group's new property and finance system, which is now live in the UK and France. German implementation is expected to be in Q3 2024. The system is now starting to provide the operational efficiencies expected, following a significant amount of testing and development.

AREAS OF RESPONSIBILITY	KEY AREAS DISCUSSED AND REVIEWED BY THE COMMITTEE DURING THE YEAR IN DISCHARGING ITS RESPONSIBILITIES
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 Group, and the regular updates the Committee receives on internal controls testing, the Committee is confident that there remains no requirement for an in-house internal audit function. How assurance on internal controls is achieved is set out on page 77.
Conducting the audit tender process and making recommendations to the Board, about the appointment, reappointment and removal of the external auditor , and approving the remuneration and terms of engagement of the external auditor	As a result of the tender process in 2021, EY were appointed as the Group's external auditor following the publication of the Group's final results and were formally appointed at the 2022 AGM. They were reappointed at the 2023 AGM and will stand again for re-appointment at the 2024 AGM. The Committee reviewed the fee for the 2023 audit at its meeting in November 2023 and confirmed that it was appropriate.
Reviewing and monitoring the external auditor's independence and objectivity	The Committee receives a report from the external auditor on their continued independence, contained in their reports at the full year and half year, and at the planning meeting in November. Following consideration, the Committee considers EY remains independent and objective in its external audit of the Group.
Reviewing the effectiveness of the external audit process , taking into consideration relevant UK professional and regulatory requirements	We reviewed EY's reports on the external audit strategy and findings from the review of the half-yearly financial report and from the audit of the annual report and accounts. We found the reports to be comprehensive and sufficiently detailed and focused. We also met with the auditor prior to the Board's final approval of those financial statements in order to receive reports on the external audit process. The Committee is pleased to report that there were no issues of a material nature that needed to be brought to the Board's attention. After the external audit process has taken place the Committee meets with internal stakeholders to review the effectiveness of the external audit process. This is fed back to our external audit partner. We consider that EY provided an effective audit and that key accounting and auditing judgements had been identified and reported in line with regulatory and professional requirements. This allowed us to recommend their reappointment to the Board.
Developing and implementing a policy on the engagement of the external auditor to supply non-audit services , ensuring there is prior approval of non-audit services, considering the impact this may have on independence , taking into account the relevant regulations and ethical guidance, and reporting to the Board on any improvement or action required	The Committee has developed a policy on the supply of non-audit services to safeguard auditor independence and objectivity. The policy reflects the requirements of the FRC's ethical standard. During the year non-audit services undertaken by the external auditor amounted to £76,000 (2022: £51,000) and related to the half-year review, which is considered to be an audit related assurance service, and the fee in relation to access to a knowledge database product owned by EY. The Committee concluded that the external auditor's independence was not impaired. The Committee considers that it has complied with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Audit Committee Report continued

Financial reporting and significant financial judgements

SIGNIFICANT ISSUES CONSIDERED BY THE COMMITTEE RELATING TO THE FINANCIAL STATEMENTS	HOW THESE ISSUES WERE ADDRESSED BY THE COMMITTEE
Property valuations	The Committee met with the Group's UK, German and French valuers during the year and extended an invitation to the whole Board to attend. During the meeting we discussed the methodology used for the six monthly valuations of the Group's properties and received in-depth reports on the local markets in which the properties were located. We discussed the risks and opportunities of the key properties in each location that were of significant value or had the largest changes in valuations to better understand our long-term plan for each property. Independently, the external auditor also met with the Group's valuers using real estate specialists and provided the Committee with a summary of their review contained within their reports at the half-year and year end. The Committee was satisfied with the explanations provided by the valuers in relation to the portfolio and that the methodology, assumptions and judgements used were appropriate. The Committee recommended to the Board that the valuations were suitable for inclusion in the financial statements and the work of the auditor was appropriate.
Going concern and viability statements	As described above, the Committee considered management's assessment of the Group's going concern and viability statements. In accordance with Provisions 30 and 31 of the UK Corporate Governance Code, our going concern and Viability Statements, and the methodology used in its preparation, can be found on pages 54 to 57.
Revenue recognition	The Committee considered the main areas of judgement exercised by management in accounting for revenue, including the treatment of rent, lease incentives and service charge income. The external auditor confirmed that they had audited the timing of revenue recognition, treatment of rents, service charge income, other property-related income and lease incentives and assessed the risk of management override. Based on the audit procedures performed, they did not identify any matters to bring to the Committee's attention. The Committee, having consulted with the external auditor, concurred with the judgements applied by management and was satisfied that revenue is appropriately recognised and reported.
Significant transactions	The Committee considered there to be no significant transactions during the year that were outside the ordinary course of business.
Management override of controls	The Committee assessed the framework for financial controls, which are regularly updated by management and brought to the Committee for review and approval. The Committee found no concerns arising from its review. The external auditor performed planned audit procedures on the key areas which may be susceptible to management override. This included identifying fraud risks during the audit planning stages, making inquiries of management about risks of fraud and the associated controls, considering the effectiveness of management's controls designed to address the risk of fraud and performing specific procedures regardless of identified risks, including journal entry testing. The external auditor confirmed to the Committee that they did not identify any matters that suggested there had been instances of management override during the year.

Remuneration Committee Report

Aligning reward with performance in challenging times

Dear shareholder

I am pleased to present the Report of the Remuneration Committee (the 'Committee') for the year ended 31 December 2023. I joined the Committee on 22 September 2023 and assumed the responsibility as Committee Chair on 1 January 2024, taking over from Denise Jagger who had been Committee Chair since April 2020. I would like to thank Denise for her significant contribution as Committee Chair and for working with me on the content of this report and providing a very comprehensive handover.

This report sets out the implementation of the Company's current Directors' Remuneration Policy ("Policy") for the year ended December 2023, which was approved by 99.17% of shareholders at the Annual General Meeting held on 27 April 2023.

The sections contained in this report are:

- the Annual Statement from the Chair of the Remuneration Committee; and
- the Annual Report on Remuneration which explains how we have paid our Directors under the current Policy this year and how our framework aligns with our wider strategy and corporate governance best practice, as well as how we consider remuneration of the wider workforce in relation to executive pay.

As in previous years, the Annual Report on Remuneration and this Annual Statement are subject to a single advisory shareholder vote at the AGM, which will be held on 25 April 2024.

Role of the Committee

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

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

The Committee's Terms of Reference, which are reviewed annually, are available on the Company's website.

Membership and attendance

At the year end, the Committee comprised three independent Directors and the Chair of the Board, who was independent on appointment. The Committee therefore complies with the provisions of the Code.

As set out above, Denise stepped down from the Board and the Committee on 31 December 2023. I became Committee Chair on 1 January 2024.

During 2023, the Committee met three times and held a number of informal discussions with the Executive Directors and the full Board. We believe it is important that during the year the Committee keeps up-to-date to enable timely discussions where business decisions may affect remuneration. Both myself and my predecessor met with our retained remuneration consultant, PricewaterhouseCoopers LLP ('PwC'), to discuss best practice generally and to ensure that we were updated on current and emerging thinking and that we were applying best practice. PwC also attended Committee meetings to share their experience and provide an update on wider remuneration trends as context for the Committee's decision making.

“99% shareholder approval for our Policy shows close alignment to remuneration structures that support long-term performance.”

COMMITTEE MEMBERS' ATTENDANCE DURING THE YEAR ENDED 31 DECEMBER 2023

Denise Jagger	●●●●
Bill Holland	●●●●
Eva Lindqvist	●
Lennart Sten	●●●●

Remuneration Committee Report continued

2023 Remuneration Policy

This is the first year of the implementation of our new Policy. Following a successful consultation where my predecessor corresponded with a number of shareholders and shareholder representative bodies, we were pleased with its endorsement by 99.17% of shareholders at last year's AGM. The changes we made were primarily aimed at supporting the Committee's strategy whilst simplifying our remuneration structure and moving closer to established best practice for a company of our size and operation.

2023 Group performance and outcomes

2023 has been exceptionally challenging for the real estate industry as a whole.

We have had to contend with a number of macro-economic events such as rising interest rates, the highest level of inflation in a generation and an emerging post-Covid landscape of continuing changes to expectations of employees and employers regarding attendance at a single place of work and hence levels of office use. Unsurprisingly, these significant macro events had an impact on the overall results of the Group and the achievement of KPIs.

The Board's focus for the executive team was to complete our refurbishment projects to a high standard, both in terms of fit out but also incorporating sustainability requirements, and continuing to drive lettings. We have been highly successful at securing additional rental income through lettings, which were ahead of ERV, and delivering our refurbishments to an excellent standard, which the Board has seen first-hand during property visits in Paris and London.

During the year we were able to execute our planned refinancings ahead of schedule. We also successfully diversified our portfolio of loans with two revolving credit facilities.

We have seen an increase in our lettings volume and index linked leases, which has increased our net rental income thereby offsetting inflationary pressures, but our financing costs have also risen due to higher interest rates. The investment market has yet to return to pre-pandemic levels, which has caused some delays in the sale of some properties and as a result we also continue to pause acquisitions. Equally, we have not been immune from the declines seen in property values across the real estate sector over the course of the year, but it is clear that our teams have been doing all they can to mitigate that impact.

Our continued focus on our tenants' needs and on developing effective working relationships is delivering benefits in that we are able to deploy our in-house resource quickly and effectively as our tenants' needs evolve.

Our 2022 final dividend was payable in May 2023 and our 2023 interim dividend in October 2023. On both occasions, the Board carefully considered the overall performance of the Group and concluded that it was appropriate to pay the dividends in line with our existing dividend policy. Given the overall performance of the Group, the Board has decided to propose a maintained final 2023 dividend which, together with the interim dividend, results in a flat in the full year dividend, which is 1.30x covered by EPRA earnings.

The Committee considered these efforts and achievements to ensure they were reflected in remuneration outcomes as set out below.

Annual Bonus key performance indicators

EPRA EPS was 10.3 pence, which was on target, resulting in a bonus of 50% of the maximum available bonus for this element being achieved. This was driven by increased net rental income but offset by higher financing costs.

Total Accounting Return, based on EPRA NTA, was -20.8%, and therefore below the threshold at which a bonus is earned. This was because NTA decreased from 329.6 pence per share to 253.0 pence per share, almost entirely as a result of revaluation declines. This resulted in nil payout under this element.

EPRA vacancy rate was 11.0%, which was below target but above the threshold at which a bonus is earned, resulting in a bonus of 34.4% of the maximum available bonus for this element being achieved. Although we also saw strong lettings demand across the existing portfolio with significant lease deals in all three countries, there were a large number of refurbishments made available to let during the year which resulted in the vacancy rate being higher than anticipated.

The Strategic Objective measure was reviewed and performance assessed by the Committee as set out below.

ESG SPECIFIC PERFORMANCE	As reported in the sustainability report, the Group exceeded its target to reduce carbon emissions and energy use in line with the Net Zero Carbon ("NZC") pathway model by 4% (like for like). The Group also completed all of the planned photovoltaic ("PV") installation projects across the portfolio.
OPERATIONAL	The Group successfully executed all of its key Treasury objectives in this area.
DIGITISATION	The Group is undergoing a transformative information system upgrade and has already successfully implemented it in the UK and France. The focus of this objective was to implement the system in Germany and Luxembourg. This objective was substantially complete; the implementation was delayed as we wait for necessary system changes from the third party provider and to ensure that the resultant system is implemented to the required standard. The Committee noted that this delay was outside of management's control.

Following discussion, the Committee agreed that in the round the Executive Director's performance against the strategic objectives had been excellent, such that it approved to award 100% of the maximum available bonus for this element.

The Committee determined that, taken as a whole, the attainment against our annual bonus KPIs broadly reflected the performance of the Group and the associated shareholder experience. We also noted that some external factors (outside management's control) had impacted the ability to achieve the stretching targets which had been set at the start of the year. For example, the extent to which macro elements such as the decline in property values during the year, impacted the NTA, and the speed at which interest rates increased during the year, and impacted our EPS performance. Taking these factors into account, the Committee concluded that no discretionary adjustment was warranted in relation to the formulaic outcome from the annual bonus scheme.

As a result, the overall bonus outcome for the CEO was £345,824 and CFO was £184,925, representing 46.9% of the maximum potential bonus. In line with Policy, the Executive Director's annual bonus will be paid in cash on the basis they are below 100% of salary. See page 88 for breakdown of the amounts.

Performance Incentive Plan – Element A (run off)

Following the introduction of the new Policy, this scheme is now in run off and no further contributions are being made. As confirmed in last year's Remuneration Report, 50% of the balance will be paid out in respect of plan year 3 (2023) and the remaining balance in respect of plan year 4, (2024). The value of notional shares in the Bonus Pool, which is linked to share price performance, fell by 36%, resulting in a reduction in its value for the CEO of £38,956 and CFO of £15,904. This resulted in a payout of £37,458 and £15,292 for the CEO and CFO respectively.

LTIPs

The 2020 LTIP Awards were granted on 13 May 2020 and performance was assessed over a 3 year period ending on 31 December 2022. As reported last year, the relative TSR element was below median and therefore resulted in nil vesting under this element of the award. The relative EPRA NTA per share was between median and upper quartile and therefore resulted in a 59.7% vesting under this element of the award. The overall vesting for the 2020 LTIP was 29.9%. The Committee considered that the formulaic vesting outcome reflected the underlying performance of the Company and that no windfall gains were made.

The 2021 LTIP Awards were granted on 10 March 2021 and performance was assessed over a 3 year period ending on 31 December 2023. CLS' TSR was below median and therefore resulted in nil vesting under this element of the award. The final assessment against the relative EPRA NTA per share performance condition is pending as this can only be considered when all comparator group companies have published their 2023 EPRA NTA per share figures. When available, the Committee will assess the achievement against the performance targets under both measures to determine the final vesting level. As part of this process, the Committee will consider whether the formulaic vesting outcome is a fair and appropriate reflection of the underlying performance of the Company including whether any windfall gains have been made.

The fourth grant under the LTIP was made in March 2023, with the same award levels as in 2022 at 150% of salary for the CEO and 120% of salary for the CFO. This was below the maximum level permissible under the new Policy (200% of salary), recognising the reduction in share price since the 2022 grant. The Committee will review whether there has been any windfall gains upon vesting in 2026 and make appropriate adjustments at that time if this is the case.

Remuneration Committee Report continued

For completeness here, we note that the 92,401 shares granted to the CEO and 26,358 shares granted to the CFO in 2020 under Element B of the PIP vested on 5 March 2023. No further awards vest for either participant under this plan.

Discretion

The Committee confirms that it did not exercise discretion in relation to the formulaic outcomes of the 2023 annual bonus, the PIP Element A run off or the 2020 LTIP award.

Implementation of Policy for 2024

Salary increase

In line with our Policy, the Committee reviewed base salaries for the Executive Directors against the relevant comparator groups and considered what was appropriate given the current economic environment and increases awarded to our general employee population. As a result, a 3% uplift was awarded to both Fredrik Widlund and Andrew Kirkman, mirroring the percentage increase awarded to the wider workforce. The increases will apply from 1 January 2024.

Variable pay

The award levels under the annual bonus remain unchanged at 150% of salary and 125% of salary for the CEO and CFO respectively.

Reflecting on the current economic climate and the fall in CLS' share price since the grant of the 2023 LTIP, the Committee has determined that this would not be an appropriate time to increase the LTIP award towards the Policy maximum of 200% of salary. Therefore, the 2024 LTIP awards will remain unchanged at 150% and 120% of salary for the CEO and CFO respectively. This will be kept under review for 2025 and, as reported previously, the Committee intends to use the approved Policy increase only when this is appropriate.

Performance Measures

The Committee reviewed the 2024 performance measures for the annual bonus and LTIP, and proposed a reweighting of the annual bonus metrics as set out below:

- EPRA EPS – 40% weighting (no change)
- Total Accounting Return (based on EPRA NTA) – 15% weighting (previously 20%)
- EPRA vacancy rate – 25% weighting (previously 20%)
- Strategic objectives (including ESG) – 20% weighting (no change)

The Remuneration Committee acknowledges the difficulty in setting annual bonus targets in such a volatile economic environment and the

weighting of the TAR measure has been reduced to reflect this and the continued uncertainty regarding property valuations. Due to the pause in acquisitions, the Board expects growth over 2024 to be predominantly organic, with greater emphasis on ensuring higher occupancy during the year. As a result, the weighting of the EPRA vacancy has been increased. The Committee will review the balance of measures again for 2025.

The strategic performance element in the annual bonus provides flexibility to set objectives for the CEO and CFO, against which the Committee will assess performance using a combination of quantitative and qualitative measures. The strategic performance element also links the Executive Directors' pay to ESG objectives which both reflects broader investor views and ensures that the Executive Directors are rewarded for effective delivery against the company's ESG strategy.

There are no changes to the weightings of the LTIP metrics at 35% on Relative TSR and 65% on Relative EPRA NTA per share growth. The FTSE350 Supersector Real Estate Index (excluding certain companies which are less directly comparable) remains the benchmark against which both measures are assessed.

Corporate governance

Over 2023 and previous years, we have taken the following steps:

- Overseen the implementation of our Remuneration Policy so that it remains aligned with best practice and designed to encourage long-term value creation for shareholders;
- Reviewed our terms of reference to ensure the Committee has appropriate oversight of the Directors' and senior management's pay as well as the operation of reward arrangements throughout the organisation;
- Reviewed pension levels for Executive Directors to ensure that these were aligned with the wider workforce;
- Implemented a post-employment shareholding requirement such that the minimum shareholding requirement must be retained for two years post cessation, with a mechanism in place to enforce this; and
- Assessed workforce pay policies and practices to ensure that they are aligned to our wider culture and remain an effective driver of Group success. The Committee continues to review and monitor governance developments and market context regularly in order to ensure the appropriateness of our reward and remuneration policies.

Performance of the Committee

The Committee undertakes a review of its performance each year. During 2023, this review was undertaken externally by way of a questionnaire and concluded that the Committee continued to perform effectively and had unfettered access to the information and advice it needed to make informed decisions on all matters related to remuneration.

Advisors to the Remuneration Committee

To ensure that the Group's remuneration practices are in line with best practice, the Committee's independent external remuneration advisors are PwC. PwC attends meetings of the Committee by invitation.

During the year, the Committee sought advice from PwC in relation to emerging issues and development of best practice as well as specifically in the application of our own policies related to remuneration. On occasion, the CEO and COO were invited to parts of Remuneration Committee meetings to hear from PwC about the broader landscape and trends in executive pay and emerging practices, and respond to questions from the Committee.

Such attendances 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 2023 were £131,250 excluding VAT which were an increase on the previous year (2022: £122,000) due to additional services around our policy review and renewal. Going forwards they will fall and be subject to a fixed scope and fee, particularly in years of no review.

Concluding remarks

The Group has continued to face headwinds as a result of the current economic climate and in this context the Committee believe that Executive Director pay outcomes are reflective of the results contained in this annual report. We believe our approach to pay aligns with the Company's strategies of growing profitability and delivering appropriate returns. 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 2024 AGM in respect of the advisory vote on the Annual Report on Remuneration.

Finally, I want to recognise that the Company's performance would not be possible without the hard work shown by our employees during these challenging times. To all staff – thank you for your dedication and commitment to making CLS the strong business it remains today.

Eva Lindqvist

Chair, Remuneration Committee
8 March 2024

OUR FOCUS FOR THE YEAR AHEAD

- Oversee the implementation of the Remuneration Policy in relation to the Executive Directors and the workforce generally
- Monitor performance against KPIs
- Continue to ensure consistency of approach and fair pay conditions across the Group and seek expert advice and market data to inform decisions
- Ensure Company performance is appropriately reflected in any performance-related pay element of remuneration
- Receive updates from HR in relation to developments in employee benefit structures to ensure compliance with the Code

Remuneration Committee Report continued

Linking our 2023 Remuneration Policy to our Strategy

COMPANY STRATEGY	We acquire the right properties - Invest in high-yielding properties, predominantly offices, with a focus on cash returns - Diversify market risk by investing in geographical areas with differing characteristics We deliver value through active management and cost control - Maintain high occupancy rates - Maintain a diversified customer base underpinned by a strong core income stream - Maintain strict cost control We secure the right finance - Target a low cost of debt - Utilise diversified sources of finance to reduce risk - Maintain high level of liquid resources We continually assess whether to hold or sell properties - Focus on holding those properties with the potential to add value through active asset management - Sell those properties which are low yielding or where the risk/reward ratio is unfavourably balanced We reward shareholders, customers and employees - Grow dividend in line with growth of the business - Provide cost effective accommodation by investing profits back into the business - Reward employees for their work and loyalty
REMUNERATION PRINCIPLES	OUR GROUP STRATEGY INFORMS OUR REMUNERATION PRINCIPLES AND OUR STRUCTURE SUPPORTS THESE OBJECTIVES COMPETITIVE - Salaries are targeted to be at a conservative level and variable pay is targeted at above median so that combined, total remuneration should be competitive when compared with companies of similar size and scale, i.e. peers in the FTSE 350/Small Cap real estate sector. - LTIP ensures more competitive market positioning, provided that the executive team delivers long-term sustainable performance. PERFORMANCE LINKED - A significant part of the Executive Directors' reward is determined by the Company's success in delivering its strategy. - Failure to achieve threshold levels of annual and long-term performance may result in no bonus and/or no vesting of the LTIP. - The fixed element of the Policy remains conservative against industry and sector peers. - The Committee retains discretion to adjust pay outcomes if they do not reflect wider business performance in line with best practice. SHAREHOLDER ALIGNED - A considerable part of the reward is paid in shares combined with significant shareholding requirements. - Annual bonus over 100% of salary will be deferred in shares and vest after 3 years subject to continued employment. - In the case of the LTIP, deferral applies over a period of 5 years from grant. This allows the build up and retention of meaningful shareholdings by the Executive Directors. - Post-employment shareholding requirement increases lock-in over longer term and incentivises effective long-term decision making. SIMPLE AND TRANSPARENT - All aspects of the remuneration structure are clear to participants and openly communicated. - The annual bonus is aligned to market practice. - The LTIP is also aligned to standard market practice and simple to understand. - The overall framework for remuneration is therefore aligned with good governance. Link to Code Provision 40 factors: - Alignment to culture. - Proportionality. Link to Code Provision 40 factors: - Predictability. - Alignment to culture. Link to Code Provision 40 factors: - Risk. - Alignment to culture. - Clarity. Link to Code Provision 40 factors: - Simplicity. - Clarity. OUR CHOSEN INCENTIVE PLAN MEASURES CLEARLY SUPPORT THE COMPANY STRATEGY
ANNUAL BONUS (2023)	EPRA Earnings Per Share (40%) Total Accounting Return (20%) EPRA Vacancy rate (20%) Strategic Objective (20%)
LTIP	Relative Total Shareholder Return (35%) Relative EPRA NTA growth per share (65%) OUR CHOSEN INCENTIVE PLAN MEASURES CLEARLY SUPPORT THE COMPANY STRATEGY AND CULTURE, WHILST BEING MARKET CONSISTENT

Aligning our 2023 Remuneration Policy with provision 40 of the 2018 UK Corporate Governance Code

The Code requires the Committee to determine the Policy and practices for Executive Directors in line with a number of factors set out in Provision 40. The following table sets out how the Remuneration Committee's Policy is intended to be implemented in 2024, aligns with Provision 40 of the Code. The objective is to ensure that the remuneration policy operated by the Company is aligned to all stakeholder interests including those of shareholders.

Provision 40 factor	How the Policy aligns with the factor
Clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	- The Company's performance-linked remuneration is based on supporting the implementation of the Company's strategy as measured through its core KPIs. There is transparency over the performance metrics in place for both the annual bonus 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 is made clear in the Directors' Remuneration Report.
Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	- Market aligned annual bonus plan is of a standard structure, is simple and its operation is well understood. - The LTIP is a market standard structure which is familiar to participants and shareholders alike.
Risk – remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	- The Policy includes: - setting defined limits on the maximum awards which can be earned; - requiring the deferral of a substantial proportion of the incentives in shares for a material period of time; - aligning the performance conditions with the strategy of the Company; - ensuring a focus on long-term sustainable performance through the LTIP; and - ensuring there is sufficient flexibility to adjust payments through malus and clawback and an overriding discretion to depart from formulaic outcomes. - These elements mitigate against the risk of target-based incentives by: - limiting the maximum value that can be earned; - deferring the value in shares for the long-term which helps ensure that the performance earning the award was sustainable and thereby discouraging short term behaviours; - aligning any reward to the agreed strategy of the Company; - ensuring that the use of an LTIP supports a focus on the sustainability of the performance over the longer term; - providing an opportunity to reduce or cancel the awards if the behaviours giving rise to the awards were inappropriate; and - providing an opportunity to reduce or cancel the awards, if it appears that the criteria on which the award was based do not reflect the underlying performance of the Company.
Predictability – the range of possible values of rewards to individual Directors and any other limits or discretions should be identified and explained at the time of approving the policy.	- The Remuneration Committee has a 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 on page 162 of 2022 annual report.
Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear.	- One of the key strengths of the approach of the Company to remuneration is the direct link between the Company strategy and the value received by Executives. - The Company has clearly articulated the potential reward to the Executives compared to the value that has to be delivered to shareholders for that reward to be earned. - Our KPI measures linked to annual bonus outcomes mean pay fluctuates with performance.
Outcomes should not reward poor performance.	
Alignment to culture – incentive schemes should drive behaviours consistent with Company purpose, values and strategy.	- The LTIP rewards long-term sustainable performance in an inherently cyclical market. - This focus on long-term sustainable value is a key tenet of the Company's strategy and its culture and values. - The Strategic objectives, including ESG measures, within the bonus supports company purpose in relation to its ESG strategy. - Executive directors remuneration outcomes are considered in the context of outcomes across the wider workforce. - The Committee is committed to fair pay across the workforce.

Remuneration Committee Report continued

Annual Report on Remuneration

Our overall structure is as follows and the outcomes are set out below:

	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed pay	Salary, Pension and Benefits				
Annual bonus	KPI driven outcomes	Payment will be in cash up to 100% of salary and any balance over 100% of salary will be deferred into shares and vest after 3 years, subject to continued employment			
LTIP	3-year performance period			2-year post-vesting holding period	

Unless otherwise stated, narrative and tables are unaudited

Single total figure for Executive Directors' remuneration (Audited)

The following table shows an analysis of remuneration in respect of qualifying services for the 2022 and 2023 financial years for each Executive Director:

2023

Executive Director	Salary £000	Taxable benefits £000 ⁵	Bonus £000 ³		LTIP £000 ⁴	Pension £000	Other fees £000 ⁶	Total rem £000	Total fixed £000 ⁷	Total variable £000 ⁸
			Cash £000	Deferred shares £000						
Fredrik Widlund¹	541	5	349	–	35	–	22	952	546	406
Andrew Kirkman²	340	7	186	–	14	7	7	561	354	207

2022

Executive Director	Salary £000	Taxable benefits £000 ⁵	Bonus (PIP) £000 ³		LTIP £000 ⁴	Pension £000	Other fees £000 ⁶	Total rem £000	Total fixed £000 ⁷	Total variable £000 ⁸
			Cash £000	Deferred shares £000						
Fredrik Widlund¹	532	5	69	–	211	–	18	835	537	298
Andrew Kirkman²	322	7	28	–	100	4	–	461	333	128

1 Mr Widlund would have received total pension contributions of £49,183 (2022: £48,300). In accordance with the Policy, the entire amount was paid as a salary supplement (this element of salary is not bonusable or pensionable).

2 Mr Kirkman would have received total pension contribution of £31,560 (2022: £29,567). In accordance with the Policy, £24,060 (2022: £24,610) was paid as salary supplement and £7,499 (2022: £4,000) was paid to his SIPP (this element of salary is not bonusable or pensionable).

3 The Bonus total for 2023 includes all bonus earned during 2023 under the Policy, which is paid in cash up to 100% of salary, with any additional bonus deferred into shares for 3 years: Mr Widlund £345,824; Mr Kirkman £184,925. Includes 50% of the dividends attributable to deferred shares during the year under PIP A Account: Mr Widlund £2,807; Mr Kirkman £1,146.

4 The 2022 and 2023 LTIP columns consist of 50% of the value of the opening balance of deferred notional shares under PIP A Account. This approach reflects the fact that this value is subject to forfeiture over the remaining life of the PIP cycle. The value of the notional shares under Element A has been based on the average market value of a share for the 30-day period to 31 December of £1.533 for 2022 and £0.981 for 2023 in accordance with the rules of the PIP. The 2022 LTIP column has also been restated to include the 2020 LTIP awards vesting value (see "LTIP in single figure calculation" on page 92).

5 Taxable Benefits relate to the provision of private medical insurance.

6 Other fees relate to: Mr Widlund: £21,160 (2022: £17,767) in respect of the dividend equivalents following the vesting of Mr Widlund's 2020 Element B Award and £1,076 (2022: £1,425) in respect of Mr Widlund's Matching Shares that vested during the year under the All Employee Share Incentive Plan. Mr Kirkman: £6,036 (2022: nil) in respect of the dividend equivalents following the vesting of Mr Kirkman's 2020 Element B Award and £1,371 (2022: £499) in respect of Mr Kirkman's Matching Shares that vested during the year under the All Employee Share Plan.

7 Total fixed column is the total of salary, pension and benefits.

8 Total variable column is the total of bonus cash and deferred shares, LTIP and other fees.

Annual Bonus Plan (audited)

The table below sets out the annual opportunity and outcomes for the Executive Directors.

	CEO	CFO
Maximum Bonus award (% salary) in 2023	150%	125%
Maximum Bonus award (£) in 2023	£737,757	£394,506
KPIs achievement as % of maximum	46.9%	46.9%
Bonus as a % of 2023 salary	70.3%	58.6%
Total Bonus based on achievement above	£345,824	£184,925
Bonus payable in cash (maximum 100% of salary)	£345,824	£184,925
Bonus deferred into shares (where bonus is over 100% of salary)	Nil	Nil

A breakdown of the KPI achievements are set out below:

2023 KPI	Weighting	Threshold performance (25% payout)	On Target Performance (50% payout)	Good Performance (75% payout)	Maximum Performance (100% payout)	2023 Achievement	% of maximum earned	CEO	CFO
EPRA EPS	40%	9.53p	10.30p	11.07p	11.85p	10.3p	50.0%	£147,551	£78,901
Total Accounting Return*	20%	(5.20)%	(2.60)%	0.00%	2.60%	(20.8)%	0%	£0	£0
EPRA Vacancy rate	20%	12.80%	8.00%	6.40%	4.80%	11.0%	34.4%	£50,721	£27,122
Strategic Objective	20%	Assessed by Remuneration Committee (see details below)					100%	£147,551	£78,901
Total	100%							£345,824	£184,925

* Based on EPRA NTA.

Assessment of strategic objectives

The new Strategic Objective was reviewed and performance assessed by the Committee as set out below.

- ESG specific performance**

As reported in the sustainability report, the Group exceeded its target to reduce carbon emissions and energy use in line with the Net Zero Carbon ("NZC") pathway model by 4% (like for like). The Group also completed all of the planned PV projects across the portfolio.

- Operational**

The Group successfully executed all of its key Treasury objectives in this area, with all 2023 refinancings completed and additional credit facilities implemented.

- Digitisation**

The Group is undergoing a transformative information system upgrade and has already successfully implemented it in the UK and France. The focus of this objective was to implement the system in Germany and Luxembourg. The implementation was delayed as we wait for necessary system changes from the third party provider and to ensure that the resultant system is implemented to the required standard. The Committee was comfortable that this delay was outside of management's control.

Following discussion, the Committee agreed that in the round the Executive Director's performance against the strategic objectives had been excellent, such that it approved to award 100% of the maximum available bonus for this KPI.

The Committee determined that the achievement of the annual bonus targets reflected the underlying performance of the Group and therefore did not exercise any discretion to change the formulaic outcome.

Remuneration Committee Report continued

Performance Incentive Plan (PIP) – 2023 Element A (run off)

The schematic below illustrates the ongoing operation of PIP Element A in run-off:

Year	2021	2022	2023	2024
Cycle 4	1st year	2nd year	3rd year	4th year

As set out in the Policy, with the introduction of the Annual Bonus Plan, no further contributions will be made to the PIP Element A. In line with the rules of the scheme, 50% of the balance will be released at the end of 2023 and the remaining balance at the end of 2024.

The following table sets out for cycle 4, the PIP Element A Accounts for the participants and shows the number of deferred notional shares which formed the opening balance at 1 January 2023 and their opening value, the payments from the accounts in respect of 2023 and the value of the notional shares as at 31 December 2023.

PIP Plan Element A Accounts (cycle 4)	CEO	CFO
Number of deferred notional shares in Account at the start of Year 3	70,616	28,829
Value of deferred notional shares at the start of year 3 ¹	£108,258	£44,197
Change in value of deferred notional shares	£(38,956)	£(15,904)
Value of deferred notional shares at end of year 3	£69,302	£28,293
Plus dividends attributable to deferred notional shares during year 3	£5,614	£2,292
Cumulative Account	£74,916	£30,585
Less: 2023 payment out of the Account	£37,458	£15,292
Value of deferred notional shares carried forward into Year 4	£37,458	£15,292
Number of deferred notional shares carried forward into Year 4 ^{2,3}	38,168	15,582

- 1 The price used to calculate the opening value of shares was the average mid-market value of a share for the 30-day period to 31 December 2022, which was £1.533 per share.
 2 The price used to calculate the closing value of shares was the average mid-market value of a share for the 30-day period to 31 December 2023, which was £0.981 per share.
 3 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.

Long-Term Incentive Plan (LTIP)

Vesting outcome for 2020 LTIP award (audited)

The 2020 LTIP Awards were granted on 13 May 2020 with targets based on CLS' performance versus the constituent companies of the FTSE 350 Supersector Real Estate Index under two equally weighted measures: Relative Total Shareholder Return growth ("TSR") and Relative EPRA Net Tangible Asset growth per share ("EPRA NTA per share") both assessed over 3 years ending on 31 December 2022.

As explained in the 2022 Annual Report, the final assessment against the relative EPRA NTA per share performance condition was pending as it could only be considered when all comparator group companies had published their 2022 EPRA NTA per share figures. This assessment was undertaken by the Committee during the year and the final outcomes against both performance targets were as follows:

- The relative TSR performance was below median and therefore resulted in nil vesting under this element of the award.
- The relative EPRA NTA per share performance was between median and upper quartile and therefore resulted in a 59.7% vesting under this element of the award.

Full details are set out below:

Measure	Performance target			Actual performance		
	Weighting	Median (25% vesting)	Upper quartiles (100% vesting)	CLS performance	LTIP vesting outcome of element	LTIP vesting outcome after weighting
Relative TSR growth	50%	(18.4)%	(4.9)%	(42.2)%	nil	nil
Relative EPRA NTA per share growth	50%	(8.2)%	11.7%	1.0%	59.7%	29.85%
Vesting of LTIP (as a % of maximum)	100%		n/a			29.85%

The Committee considered that the formulaic vesting outcome fairly reflected the underlying performance of the Company and that no windfall gains were made, such that it approved vesting of 29.85%. The LTIP value for 2022 has been restated in line with the table below:

Executive Director	Date of Grant	Shares awarded	Vesting %	Number of shares vesting	Dividend equivalent shares	Value of shares vesting*	Value attributable to share price appreciation	Vesting date	End of holding period
Fredrik Widlund	13 May 2020	379,918	29.85%	113,405	20,522	£171,694	Nil	13 May 2023	13 May 2025
Andrew Kirkman	13 May 2020	185,737	29.85%	55,442	10,033	£83,939	Nil	13 May 2023	13 May 2025

* Value based on closing price on 13 May 2023 of £1.282 per share.

Vesting outcome for 2021 LTIP award (audited)

The 2021 LTIP Awards were granted on 10 March 2021. CLS' performance is measured against the constituent companies of the FTSE 350 Supersector Real Estate Index under the same two equally weighted measures as the 2020 awards: Relative TSR and Relative EPRA NTA per share.

The relative TSR element was assessed over a 3 year performance period ending on 31 December 2023. CLS's TSR growth was below median and therefore this resulted in nil vesting for this element, as set out in the table below.

The final assessment against the relative EPRA NTA per share performance condition is pending as this can only be considered when all comparator group companies have published their 2023 EPRA NTA per share figures. When available, the Committee will assess the achievement against the performance targets under both measures to determine the final vesting level of the 2021 awards. In line with the Company's shareholder approved remuneration policy, the Committee will also consider whether the formulaic 2021 LTIP vesting outcome fairly reflected the underlying performance of the Company, including the consideration of windfall gains having arisen, before determining final vesting.

As explained above, the vesting outcomes in the tables below only relate to the relative TSR element. The final vesting outcome will be presented in the 2024 annual report on remuneration:

Measure	Weighting	Performance target		Actual performance		
		Median (25% vesting)	Upper quartiles (100% vesting)	CLS performance	LTIP vesting outcome of element	LTIP vesting outcome after weighting
Relative TSR growth	50%	(0.3)%	6.8%	(48.5)%	nil	nil
Relative EPRA NTA per share growth	50%	tbc	tbc	tbc	tbc	tbc
Vesting of LTIP (as a % of maximum)	100%		n/a			tbc

Executive Director	Date of Grant	Shares awarded	Estimated Vesting percentage	Estimated Number of shares vesting	Estimated value of shares vesting	Estimated value attributable	Vesting date	End of holding period
Fredrik Widlund	10 March 2021	314,899	tbc	tbc	tbc	tbc	10 March 2024	10 March 2026
Andrew Kirkman	10 March 2021	153,955	tbc	tbc	tbc	tbc	10 March 2024	10 March 2026

Remuneration Committee Report continued

Reconciliation of LTIP with single figure table for 2023

	CEO	CFO
LTIP in single figure table		
Comprising 50% of the opening balance of the PIP Element A account from cycle 4	£54,129	£22,098
Value of LTIP due to share price increase/(decrease)	£(19,478)	£(7,952)
Estimated Value of 2021 LTIP Award ¹	Nil	Nil
Total LTIP	£34,651	£14,146

1. Estimated value of the 2021 LTIP awards only includes the Relative TSR element as the Relative EPRA Net Asset per share target has not yet been assessed.

Restatement of LTIP single figure for 2022

	CEO	CFO
LTIP in single figure table		
Comprising 50% of the opening balance of the PIP Element A account from cycle 4	£54,554	£22,226
Value of LTIP due to share price increase/(decrease)	£(15,011)	£(6,115)
Value of vested 2020 LTIP Award ¹	£171,694	£83,939
Total LTIP	£211,237	£100,050

1. 2020 LTIP vesting value as per section above.

LTIP awards granted in 2023

The 2023 LTIP awards were granted on 13 March 2023 in the form of nil-cost options. In line with the previous Policy, the awards had a face value of 150% of base salary for the CEO and 120% for the CFO. The normal vesting date of the LTIP Awards will be 13 March 2026, being the third anniversary of the award date. Dividend equivalents will be payable on vested shares. On completion of the vesting period, assuming that awards vest, they will be subject to a further two-year holding period.

The award levels were significantly below the maximum level that is permissible under the new Policy (200% of salary), recognising the reduction in share price since the 2022 LTIP grant. In addition, the outcome will be reviewed at vesting to ensure no windfall gains have occurred as a result of changes in the share price between the grant and vesting.

As set out in the table below, the number of shares granted under the award was calculated using a share price of £1.374, being the quoted closing price of the Company's Ordinary Share on 10 March 2023.

Scheme interests awarded under the LTIP (audited)

Name	Role	Base salary at date of grant	Face value of 2023 LTIP award (% of base salary)	Face value of 2023 LTIP award	Value at vesting (threshold vesting of 25%)	Number of shares granted	Vesting date	End of holding period
Fredrik Widlund	CEO	£491,838	150%	£737,757	£184,439	536,941	13 March 2026	13 March 2028
Andrew Kirkman	CFO	£315,605	120%	£378,726	£94,682	275,637	13 March 2026	13 March 2028

The LTIP awards will vest based on the satisfaction of the following performance conditions which are each measured over a three year period ending on 31 December 2025:

	Threshold	Maximum
Award vesting ² (% maximum)	25%	100%
Total Shareholder Return relative to selected ¹ FTSE 350 Real Estate Super Sector Constituents (35%)	Median	Upper Quartile
EPRA NTA growth per share relative to selected ¹ FTSE 350 Real Estate Super Constituents (65%)	Median	Upper Quartile

1. The Committee refined its approach to the peer group for both metrics, such that it continues to be based on the FTSE350 Supersector Real Estate Index but now excludes certain companies that are deemed to be less relevant for comparison. The comparator group for 2023 constitutes 21 companies.

2. Straight-line interpolation between threshold and maximum performance levels.

Total pension entitlements

The Executive Directors are entitled to participate in a defined contribution pension scheme, into which the Company contributes up to 10% of base salary. No Directors were participants in the scheme as at 31 December 2023 (2022: none). As a result of the applicable HMRC limits, Fredrik Widlund instead received the full 10% contribution as a salary supplement and Andrew Kirkman received part of his 10% contribution as a salary supplement and the balance as a contribution to his Self Invested Personal Pension Plan (see Note 2, Single Total Figure for Executive Directors' Remuneration (Audited)).

Overall 2023 remuneration

The Committee is satisfied that the current Policy operated as intended and that the overall 2023 remuneration paid to Executive Directors set out above was appropriate.

External appointments

Mr Widlund was appointed as a Trustee of Morden College, a social and housing charity, on 31 August 2018, for which no remuneration is paid. On 1 January 2021, Mr Kirkman was appointed as a non-executive director of A2Dominion Housing Group Limited, a housing association, for which he is paid £13,500 per annum.

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

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

The following table sets out the fees received for 2023 and 2022:

	Base membership fees		Other committee fees		Additional fees		Taxable benefits ^a		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Elizabeth Edwards ¹	55	55	10	10	1	1	–	1	66	67
Bill Holland ²	45	45	15	15	–	–	2	1	62	61
Denise Jagger ³	45	45	15	15	–	–	7	5	67	65
Christopher Jarvis ⁴	15	45	–	–	–	–	4	4	19	49
Eva Lindqvist ⁵	11	–	3	–	–	–	2	–	16	–
Bengt Mortstedt	45	45	–	–	–	–	30	28	75	73
Anna Seeley ⁶	120	120	–	–	–	–	–	–	120	120
Lennart Sten ⁷	220	220	–	–	–	–	–	–	220	220

- Ms Edwards received the following annual fees: Board membership £45,000; Senior Independent Director £10,000 (included in base membership fee); Audit Committee membership £5,000; Nomination Committee Membership £5,000; and Workforce Advisory Panel £1,125 (included in Additional Fees).
- Mr Holland received the following fees: Board membership £45,000; Audit Committee Chair £10,000; Remuneration Committee membership £5,000.
- Ms Jagger received the following fees: Board membership £45,000; Remuneration Committee Chair £10,000; Audit Committee membership £5,000. Ms Jagger stepped down from the Board on 31 December 2023.
- Mr Jarvis stepped down from the Board on 27 April 2023 and his fees are pro-rated (£14,538).
- Eva Lindqvist was appointed to the Board on 22 September 2023. She received the following pro-rated fees: Board membership £11,250; Audit Committee membership £1,250; Remuneration Committee membership £1,250.
- Ms Seeley received the annual following fees: Non-Executive Vice-Chair fee of £120,000 (inclusive of all Committee fees).
- Mr Sten received the following annual fees: Non-Executive Chairman fee of £220,000 (inclusive of all Committee fees).
- In accordance with the Company's expenses policy, Non-Executive Directors receive reimbursement for their reasonable expenses for attending Board meetings. In instances where those costs are treated by HMRC as taxable benefits, the Company also meets the associated tax cost to the Non-Executive Directors through PAYE. Ms Edwards received such benefits of £381, which, being less than £500, is therefore not included in the above table.

Payments to past directors (audited)

John Whiteley retired from the role of CFO on 30 June 2019. Details of payments for Mr Whiteley can be found on page 98 of the 2019 annual report. £6,362 was paid to Mr Whiteley in respect of the dividend equivalents following the vesting on 8 March 2023 of shares granted in 2020 in respect of PIP Element B earned in 2019, which had already been disclosed in that year's single figure of remuneration and remain subject to a two-year holding period. There are no further payments to be made to Mr Whiteley.

Payments for loss of office (audited)

No payments for loss of office were made in 2023.

Remuneration Committee Report continued

Directors' interests in shares (audited)

The Executive Directors' interests against the shareholding requirement under the Policy is provided below, with an indication of whether the requirement has been met. Under the Policy the Committee has implemented minimum shareholdings for the Executive Directors, which requires that the Chief Executive Officer should build a holding with a value of at least 250% of salary and the Chief Financial Officer at least 200% of salary within 5 years of the Policy being approved. At 31 December 2023, the interests of the Directors in the ordinary shares of 2.5 pence each of the Company were:

Director	Unconditional shares	Vested but unexercised LTIP awards	SIP shares (partnership)	SIP shares (matching)	Total interests ³	Shareholding (%) salary ³	Shareholding requirement ⁴	Conditional PIP Element A shares	LTIP unvested awards
Fredrik Widlund ¹	652,583	–	6,429	6,429	665,441	133	N	70,616	1,201,256
Andrew Kirkman ²	466,237	–	4,890	4,890	476,017	144	N	28,829	600,422
Elizabeth Edwards	9,809	–	–	–	–	n/a	n/a	–	–
Bill Holland	18,931	–	–	–	–	n/a	n/a	–	–
Denise Jagger	–	–	–	–	–	n/a	n/a	–	–
Eva Lindqvist	–	–	–	–	–	n/a	n/a	–	–
Bengt Mortstedt	26,063,140	–	–	–	–	n/a	n/a	–	–
Anna Seeley	12,273	–	–	–	–	n/a	n/a	–	–
Lennart Sten	111,350	–	–	–	–	n/a	n/a	–	–

- On 8 March 2023, 92,401 Conditional PIP Element B shares vested of which 43,682 were sold to settle Mr Widlund's tax liabilities. On 19 May 2023, 133,927 LTIP shares vested and were exercised on 5 June 2023, of which 62,946 were sold to settle Mr Widlund's tax liabilities. As at the date of this report: the SIP balance for Mr Widlund consists of: 6,429 Partnership Shares and 6,429 Matching Shares. As set out on page 88 a closing balance of 38,168 Conditional PIP Element A notional shares will be awarded on 8 March 2024.
- On 8 March 2023, 26,358 Conditional PIP Element B shares vested of which 12,461 were sold to settle Mr Kirkman's tax liabilities. On 19 May 2023, 65,475 LTIP shares vested and were exercised on 4 June 2023, of which 30,774 were sold to settle Mr Kirkman's tax liabilities. As at the date of this report: the SIP balance for Mr Kirkman consists of: 4,890 Partnership Shares and 4,890 Matching Shares. As set out on page 88 a closing balance of 15,582 Conditional PIP Element A notional shares will be awarded on 8 March 2024.
- Shares counting towards total interests and therefore shareholding requirement include beneficially owned, pre-tax number of vested but unexercised awards and all SIP shares, but excludes the notional shares awarded under PIP Element A and unvested LTIP awards. Shareholding values based on 30-day average share price up to 31 December 2023, £0.981.
- Mr Widlund met the shareholding requirement of 250% of salary in 2021 and it is noted that his total interests increased during the year by 76,931 shares but the overall value decreased by £249,387. Mr Kirkman met the shareholding requirement of 200% of salary in 2022 and it is noted that his total interests increased by 24,796 shares but the overall value decreased by £223,516.

As part of Policy, a post-cessation of employment shareholding requirement has been implemented for the Executive Directors requiring the minimum shareholding requirement or actual shareholding on cessation if lower to be retained for two years. The Committee has determined that to ensure enforcement of this requirement, approval must be sought by the Company for any sales during this period. These restrictions would be set out in an agreement with the individual at the appropriate time.

Other than as set out in the notes above, there have been no movements in interests held by Directors between 31 December 2023 and the date of this report.

Total returns to shareholders 2014–2023

To comply with the remuneration regulations, the Company's TSR performance is compared to the TSR performance of the FTSE 350 and the FTSE 350 Supersector Real Estate indices over the last 10 years (see total return shareholders graph on page 1). The Committee believes that these are the most appropriate indices.

Executive Director service contracts and Non-Executive Director letters of appointment

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

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

Details of the service contracts for those who served as Executive Directors during the year are as follows:

	Date of current service contract	Notice period
Fredrik Widlund	3 November 2014	12 months
Andrew Kirkman	30 March 2019	12 months

The table below sets out the dates that each Non-Executive Director was first appointed and the notice period by which their appointment may be terminated early by either party.

Director	Date of appointment	Date of resignation	Notice period
Elizabeth Edwards	13 May 2014		3 months
Bengt Mortstedt	7 March 2017		3 months
Denise Jagger	1 August 2019	31 December 2023	3 months
Bill Holland	20 November 2019		3 months
Anna Seeley	11 May 2015		3 months
Christopher Jarvis	25 November 2008	27 April 2023	3 months
Lennart Sten	1 August 2014		3 months
Eva Lindqvist	22 September 2023		3 months

Historical CEO remuneration

The table below sets out total CEO remuneration for 2023 and prior years, together with the percentage of maximum awarded under the annual or long-term incentive elements of the Policy at that time. 2023 includes the annual bonus awarded and the 2021 LTIP TSR element which completed its performance period on 31 December 2023.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
CEO total remuneration (£000)	349	656	828	1,062	1,117	1,078	830	944	835	952
Element A of PIP – % of maximum	89.0%	81.0%	76.0%	93.3%	62.7%	87.3%	43.3%	31.1%	18.4%	n/a
Annual Bonus Plan	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	46.9%
Element B of PIP – % of maximum	n/a	n/a	76.0%	93.3%	62.7%	87.3%	n/a	n/a	n/a	n/a
LTIP – % of maximum	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	29.9%	nil

n/a is shown in years where the Company did not operate either the PIP Element A, B or LTIP.

Annual Percentage change in Directors' and employee remuneration

The table below shows how the annual percentage change in each Directors' salary/fees, benefits and bonus between 2020, 2021, 2022 and 2023 compared with the percentage in each of those components of pay for employees. Only the executive directors are employees of CLS Holdings plc. All other employees are employed by wholly owned CLS Holdings plc subsidiaries.

	Percentage change 2023/22			Percentage change 2021/22			Percentage change 2020/21			Percentage change 2019/20		
	Salary/fees %	Taxable benefits %	Bonus %	Salary/fees %	Taxable benefits %	Bonus %	Salary/fees %	Taxable benefits %	Bonus %	Salary/fees %	Taxable benefits %	Bonus %
Fredrik Widlund	3	–	406	3.2	(46.3)	(37.0)	1.0	12.5	(27.3)	19	–	(72)
Andrew Kirkman	3	–	492	3.4	–	(36.3)	1.6	16.7	(27.9)	108	(87)	(56)
Elizabeth Edwards	–	(201)	–	–	100.0	–	4.8	–	–	8	n/a	–
Christopher Jarvis	–	(12)	–	–	300.0	–	(8.2)	(50.0)	–	(18)	(71)	–
Bengt Mortstedt	–	4	–	–	75.0	–	0.0	128.6	–	–	(76)	–
Denise Jagger	–	21	–	–	66.7	–	0.0	–	–	157	–	–
Bill Holland	–	46	–	–	(50)	–	0.0	–	–	883	n/a	–
Anna Seeley	–	–	–	–	–	–	–	(40.0)	–	50	–	–
Lennart Sten	–	–	–	–	–	–	1.7	100.0	–	86	n/a	–
Eva Lindqvist	100	100	–	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Employees	(3)	2	(36)	(1.5)	12.6	(25.8)	1.4	(5)	2.7	(5)	(10)	–

Remuneration Committee Report continued

There were no changes to the Board/Committee fees for the years ended 2021, 2022 and 2023. However, as a result of the Board and Committee changes during 2020, Ms Edwards, Ms Jagger and Mr Holland received additional remuneration for their new responsibilities (see page 93, single total figure for Non-Executive Directors Table Notes).

The Group's pay review, taking effect from 1 December 2023 for UK employees, awarded a standard percentage increase in wages and salaries of 3% to all employees (including the Executive Directors).

The nature and level of benefits to employees in the year ended 31 December 2023 was broadly similar to those of the previous year.

CEO pay ratio

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

Year	Method	Pay ratio		
		25th	Median	75th
2023	Option A	15:1	13:1	8:1
2022	Option A	15:1	12:1	7:1
2021	Option A	16:1	12:1	7:1
2020	Option A	14:1	11:1	8:1
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 88.

The remuneration figures for the employee at each quartile were determined as at 31 December 2023. Each employee's pay and benefits were calculated using each element of employee remuneration on a full-time equivalent basis, consistent with the CEO noting that the value of SIP matching shares is included based on the value at grant rather than at vesting for the CEO. 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 percentiles are as shown in the table below.

Pay data	Base salary	Total pay and benefits
CEO	£491,839	£951,880
Employee at 25th percentile	£53,000	£64,808
Employee at 50th percentile	£64,480	£72,204
Employee at 75th percentile	£95,000	£116,247

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

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

The ratios for 2022 have been restated in line with the CEO's 2022 single figure of remuneration which now includes the full vesting outcome of the 2020 LTIP awards. The ratios are very similar for 2023 compared to 2022 (restated) on the basis that both the CEO's single figure of remuneration and employee pay have increased to a similar extent. The CEO's single figure of remuneration increased in 2023 due to the increased payout under the annual bonus, although currently there is no vesting under the 2021 LTIP (noting that the Committee is yet to determine the outcome of the relative EPRA NTA growth per share condition). The Committee is satisfied that the median pay ratio is consistent with pay and progression policies for all CLS UK employees and a reflection across the Group.

We expect the ratios to fluctuate in future years as the value of shares vesting under LTIP awards, for both the CEO and other participants, to vary from year to year.

Relative importance of the spend on pay

	2023 (£'000)	2022 (£'000)	Percentage change Increase/ (decrease)
Remuneration paid to employees of the Group	8,865	8,104	9.4
Distributions to shareholders	31,583	32,388	(2.5)
Share buyback	Nil	25,758	(100)
Group revenue	148,787	138,617	7.3

Wider workforce considerations cascade of pay through the organisation

The Group aims to provide a remuneration package for all employees which is market competitive and operates the same core structure as for Executive Directors. The Company's remuneration philosophy for all senior management from the Executive Directors downwards is that all employees should have a significant annual element of performance-based pay.

For all employees, the Group operates a performance-based annual bonus scheme. The Company also has a Share Incentive Plan (SIP) in order to increase levels of share-ownership throughout the Company and to allow employees to share in the success of the Company. Additionally, the Group's pension contributions to an employee's pension scheme are determined by their length of service from a minimum of 5% of salary up to a maximum of 10%.

Executive Directors and senior management are participants in the LTIP, with the number of employees eligible to participate being 12. For the wider workforce, the LTIP is replaced by a time-based, company growth related loyalty bonus. This ensures a focus on long-term sustainable value creation to align experience with those of shareholders.

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

	Number of employees	Fixed Remuneration (including pension)	Annual bonus	Loyalty bonus	Bonus deferral	LTIP	Share Incentive Plan	Shareholding guidelines
Executive Directors	2	Y	Y	–	Y	Y	Y	Y
Senior Leadership (excl. Executive Directors)	5	Y	Y	–	–	Y	Y	–
Senior Management (excl. Senior Leadership Team)	5	Y	Y	–	–	Y	Y	–
Wider Workforce		Y	Y	Y	–	–	Y	–

Employee engagement

We regularly communicate with our employees on a range of issues, including executive pay, through a variety of channels including all employee meetings, employee surveys, managers' meetings and through our dedicated Intranet. Additionally, in 2019, Elizabeth Edwards was designated the Non-Executive Director responsible for overseeing employee engagement and chairs the Workforce Advisory Panel, consisting of representatives from across the organisation and at varying levels of seniority. This provided the opportunity for an open discussion between employees and the Board. The annual report of the work of the Workforce Advisory Panel during the year can be found on page 65. During the year, the Board reviewed the effectiveness of the current mechanism for seeking wider workforce views. Given that the practice of employee engagement has been successfully established through a number of channels, it was concluded to be more efficient and effective to move to a process of holding separate discussions in each country led by the designated Non-Executive Director. This will enable us to gain a deeper level of understanding and insight into the issues on a country by country basis rather than through team representatives, thereby enabling us to address any issues locally and with the appropriate nuance.

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.

Remuneration Committee Report continued

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 60 UK employees as at 31 December 2023 and is therefore not required to disclose the Gender Pay Gap information under the regulations.

The Committee notes that results based on a relatively small sample of employees would not be meaningful and therefore has decided not to disclose the Company gender pay gap. Overall the Committee feels assured that the quality of processes behind individual pay decisions are effective in delivering an equal pay environment (like pay for like work) for the wider workforce.

Statement of implementation of policy in following financial year

The table below sets out the intended implementation of our Policy for 2024. The full Policy, as approved at our 2023 AGM, can be found on our website together with a summary of the changes from the previous policy.

Element of remuneration	CEO	CFO
Salary	3% increase for 2024, which is the average workforce increase (3%) 2024 salary: £506,594 (2023: £491,839)	3% increase for 2024, which is the average workforce increase (3%) 2024 salary: £325,074 (2023: £315,606)
Pension	10% of salary employer contribution in line with Policy and maximum wider workforce contribution rate.	
Benefits	Standard benefits in line with Policy	
Annual bonus – Quantum	Maximum opportunity of 150% of salary (no change)	Maximum opportunity of 125% of salary (no change)
Annual bonus – Structure	• Payment will be in cash up to 100% of salary subject to the satisfaction of performance criteria. • Any balance over 100% of salary will be deferred (at that point) into shares and vest after 3 years, subject to continued employment. • 25% of maximum paid for threshold performance and 50% for target performance. • Malus and clawback provisions apply.	
Annual bonus – Performance measures	Reweighting of existing metrics as set out below: • EPRA EPS – 40% weighting (no change) • Total Accounting Return (based on EPRA NTA) – 15% weighting (previously 20%) • EPRA vacancy rate – 25% weighting (previously 20%) • Strategic objectives (including ESG) – 20% weighting (no change) In line with market practice for traditional annual bonus arrangements and with the bonus increasingly being driven by commercially sensitive targets, the Committee has decided not to disclose detailed annual bonus targets for 2024. However, full and transparent disclosure of the targets and performance outcomes will continue to be set out on a retrospective basis in next year’s Directors’ Remuneration Report.	
LTIP – Quantum	150% of salary award (no change, albeit policy maximum is 200% of salary)	120% of salary (no change, albeit policy maximum is 200% of salary)
LTIP – Structure	• Awarded in nil cost options or conditional awards with performance measured over 3 years. • Vested awards will be subject to a further 2 year holding period post-vesting. • Malus and clawback will operate over the full 5 year lock-in period.	
LTIP – Performance measures	• Relative TSR – 35% weighting • Relative EPRA NTA Growth – 65% weighting The peer group for both metrics is based on the FTSE350 Supersector Real Estate Index and excludes certain companies that are deemed to be less relevant for comparison. The comparator group constitutes around 20 companies. 25% of awards vest for median performance rising on a straight-line basis to 100% for upper quartile performance.	
Non-Executive Directors (Including Non-Executive Chairman and Non-Executive Vice Chair)		
Fees	Non-Executive Directors are paid a base fee and are eligible to receive Committee Chair and membership fees, SID fee and Workforce Advisory Panel daily fee. Non-Executive Directors do not participate in any variable remuneration. See the section below for further details on fee levels and changes for 2024.	

The Committee does not expect to deviate from Policy during the year.

The run-off of legacy for the PIP Element A awards will be as set out on page 151 of the 2022 annual report.

Non-Executive Directors (Including Non-Executive Chairman and Non-Executive Vice Chair) (audited)

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

	Fees 2024 £000	Fees 2023 £000	Change %
Chairman fees	235	220	6.8
Non-Executive Vice Chair	128	120	6.7
NED Base Membership fee	50	45	11
Senior Independent Director	10	10	0
Audit Committee Chair	10	10	0
Remuneration Committee Chair	10	10	0
Committee membership	5	5	0
Designated workforce NED	£850 p/d	£750 p/d	13

No additional fees are paid to the Chair of the Nomination Committee as the role is currently carried out by the Vice Chair.

Fees are reviewed in line with remuneration policy renewal and were last reviewed in 2019. Following a review, which took into account the time period since the last review (during which time our employees received annual inflationary adjustments) and current market positioning, the fees were increased as set out in the table above to ensure we remain able to attract and retain appropriately skilled and experienced non-executive directors. The daily rate for work undertaken by the designated workforce NED was also increased by a similar amount.

See page 93 for total fees received in 2023 by each of the Non-Executive Directors based on their respective responsibilities.

Long-Term Incentive Awards to be granted in 2024

The table below describes how the LTIP will be implemented in 2024. 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%
Relative Total Shareholder Return (35%)	Median	Upper Quartile
Relative EPRA NTA growth per share (65%)	Median	Upper Quartile

Straight line interpolation between performance levels.

As set out above, the comparator group will still constitute around 20 companies that are constituents of the FTSE350 Supersector Real Estate Index

Consideration by the Committee of matters relating to Directors' remuneration for 2023

The consideration of matters relating to Directors' Remuneration for 2023 is on pages 81 to 99.

Shareholder voting

The following table represents the voting outcome for the Directors' Remuneration Report at the 2023 Annual General Meeting and the current Policy that was also approved at the 2023 Annual General Meeting.

	Directors Remuneration Report (2023 AGM)		Directors Remuneration Policy (2023 AGM)	
	Number of votes	% of votes cast	Number of votes	% of votes cast
For	347,002,378	98.45	349,550,240	99.17
Against	5,479,088	1.55	2,931,226	0.83
Total votes cast	352,481,466		352,481,466	
Votes withheld	101,878		101,878	

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2023.

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

Review of business

- The Group income statement for the year is set out on page 116.
- The Group objectives, business model and strategy are set out on pages 17 and 18. KPIs are set out on pages 22 and 23.
- Important events (including post-balance sheet events) affecting the Company are set out on pages 2 to 106.
- The principal and emerging risks and uncertainties are set out on pages 51 to 53.
- The use of financial instruments are set out on page 29, and in note 21 to the Group financial statements.
- The risk management objectives are detailed in note 21 to the Group financial statements. See also pages 48 to 53.
- The Group's likely future developments are set out on pages IFC to 11.

Directors

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

All Directors will be subject to annual re-election at the 2024 Annual General Meeting in accordance with the UK Corporate Governance Code. In his role as independent Non-Executive Chairman, Lennart Sten recommends the re-election of the retiring Directors at the 2024 Annual General Meeting, given their experience, performance and continued important contribution to the long-term success of the Company. The Senior Independent Non-Executive Director recommends the re-election of Mr Sten.

Directors' remuneration and interests in shares are set out on pages 81 to 99.

Related party transactions are set out in note 32 to the Group financial statements.

Dividends

An interim dividend of 2.60 pence per share was paid on 3 October 2023. The Directors are proposing a final dividend of 5.35 pence per share making a total dividend for the year ended 31 December 2023 of 7.95 pence per share. The final dividend will be paid on 2 May 2024 to shareholders who are on the register of members on 23 March 2024.

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 2024 Annual General Meeting to give the Company authority to make market purchases of up to 39,741,026 shares, being 10% of the current issued share capital.

Share capital

Changes in share capital are shown in note 23 to the Group financial statements. As at 31 December 2023, 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 397,410,268 held voting rights and 41,367,512 shares were held as treasury shares, and all of which ranked pari passu. The rights (including full details relating to voting), obligations and any restrictions on transfer relating to the Company's shares, and the powers of the Directors in that regard, are set out in the Company's Articles of Association.

Major interests in the Company's shares

As at the date of this report the Company's top 10 shareholders, including those who have notified the Company of their interests above 3% in the Company's issued share capital, are:

	No. of shares	%
The Trustee of The Sten and Karin Mortstedt Family & Charity Trust	219,917,524	55.34%
Bengt Mortstedt	26,063,140	6.60%
Allianz Global Investors	14,189,200	3.57%
BlackRock	13,813,471	3.48%
Janus Henderson Investors	9,431,067	2.37%
Amati Global Investors	8,990,406	2.26%
Columba Threadneedle Investment	8,534,912	2.15%
Vanguard Group	7,640,279	1.92%
Invesco	7,572,937	1.91%
Hargreaves Lansdown, stockbrokers (EO)	4,853,373	1.22%

Details of the Directors' interests in shares are shown in the Remuneration Committee Report on page 96. 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 2023, Creative Value Investment Group Limited ('CVIG'), the investment vehicle for The Sten and Karin Mortstedt Family & Charity Trust, held through its wholly owned subsidiaries 55.34% of the Company's shares in issue and was therefore seen as a controlling shareholder under the Listing Rules.

Pursuant to Listing Rule 9.8.4, the Company has entered into a relationship agreement which shall only be terminated in the event that CVIG ceases to be a controlling shareholder or if the Company ceases to be admitted to listing on the premium segment of the Official List. Throughout the period under review, the Company has complied with the mandatory independence provisions and procurement obligations in the relationship agreement, and as far as the Company is aware, CVIG has also complied.

Property portfolio

A valuation of all the investment properties, properties held for sale and hotel in plant, property and equipment in the Group at 31 December 2023 was carried out by Cushman and Wakefield for the UK, and Jones Lang LaSalle in Germany and France, which produced an aggregate market value of £2,062.9 million (2022: £2,352.7 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 103 and forms part of this report. It applies to the Company and its subsidiaries. It does not include associates. The Group has no joint ventures.

Employees, environmental and social issues

The Group's policies on employment, environmental and social issues (including the information required by the Companies Act 2006 (strategic report and Directors' report) Regulations 2013), including charitable donations, are summarised in the Environmental, Social and Governance Review on pages 32 to 47. No political donations to any parties, organisations or candidates, or political expenditure were made during 2023. The Group has also published a Sustainability Strategy and Net Zero Carbon pathway documents which are available on line at www.clsholdings.com.

Charitable donations during the year totalled £85,559 (2022: £89,976). As part of the Group's ESG strategy, it sponsors charitable events and organisations relating to the real estate industry and, more specifically, assists charities and organisations with donations and staff involvement initiatives in the areas where our properties are located. Further details can be found on page 40.

Engagement with suppliers, customers and others in a business relationship with the Company

The statement in respect of the Company's engagement with suppliers, customers and others throughout the year is set out in the stakeholder engagement sections on pages 24 to 45 and our Prompt Payment Code is detailed in the environmental, social and governance review on page 40.

Human rights

The Board ensures the Group upholds and promotes respect for human rights in all its current operating locations and aims to prevent any negative human rights impact. As the Group operates in the UK, Germany and France it is subject to the European Convention on Human Rights and the UK Human Rights Act 1998. The Group respects all human rights and in conducting its business regards those rights relating to non-discrimination and fair treatment to be the most relevant and to have the greatest potential impact on its key stakeholders, which are deemed to be customers, employees and suppliers. The Board has also noted its moral and legal obligations under the Modern Slavery Act 2015. The Board has a zero tolerance approach towards modern slavery, and throughout the year the Company has contacted its first tier contractors and suppliers to ensure their compliance with the Act. Our full statement on Modern Slavery can be found on our website at www.clsholdings.com. The Group's policies seek to ensure that employees comply with the relevant legislation and regulations in place to promote good practice. The Group's policies are formulated and kept up to date and communicated to all employees through the Group Intranet and, where appropriate, individual presentations. In the year to 31 December 2023, 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 re-appoint Ernst & Young LLP as Auditor to the Company will be proposed at the forthcoming Annual General Meeting.

2024 Annual General Meeting

The 2024 Annual General Meeting will be held on Thursday, 25 April 2024. 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

Notwithstanding the material uncertainty 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 pages 54-57. 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 160
9.8.4(4)	Long-term incentive schemes with directors	Pages 81-99
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 101

The following table is included to comply with the additional disclosure requirements under the Listing Rule 9.8.6

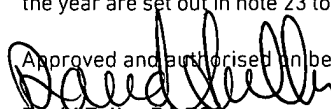
Listing Rule	Information required	Disclosure
9.8.6(1)	Directors' (and Connected Persons') interests in CLS shares at year end and at not more than one month prior to the date of the AGM notice	Page 94
9.8.6(2)	Interests in CLS shares disclosed under DTR5 at year end and not more than one month prior to the date of AGM notice	Page 100
9.8.6(3)	The going concern statement	Page 54-57
9.8.6(4)(a)	Amount of authority to purchase own shares available at year end	39,721,086 shares
9.8.6(4)(b)	Off-market purchases of own shares during the year	None
9.8.6(4)(c)	Off-market purchases of own shares since year end	None
9.8.6(4)(d)	Non-pro-rata sales of treasury shares during the year	None
9.8.6(5)	Compliance with the Main Principles of the UK Corporate Governance Code	Page 59
9.8.6(6)(b)	Details of non-compliance with the UK Corporate Governance Code	Pages 59, 66 and 69
9.8.6(7)	Directors proposed for re-election: the unexpired term of any director's service contract and a statement about directors with no service contracts	Page 95
9.8.6R	Climate-related financial disclosures consistent with the TCFD recommendations and recommended disclosures	Pages 41-47

Employee Benefit Trust

Altum Trustees Limited (the "Trustee") continues as Trustee of CLS Holdings plc's Employee Benefit Trust (the "EBT"). The EBT is used to purchase the Company's shares in the market from time to time for the benefit of employees, including to satisfy outstanding awards under Company's various share plans.

During the year, the EBT made market purchases of 341,340 shares (2022: 336,423 shares). On 6 June 2023, 199,402 treasury shares were transferred to the EBT. The EBT released these shares to satisfy vested share plan awards. As at 31 December 2023, the EBT did not hold any shares either purchased on the market or previously held in treasury.

A dividend waiver is in place from the Trustee in respect of all dividends payable by the Company's on shares which the EBT may hold. Further details regarding the EBT and of treasury shares issued pursuant to CLS Holdings plc employee share plans during the year are set out in note 23 to the financial statements.

Approved and authorised on behalf of the Board

 David Fuller BA FCG
 Company Secretary

8 March 2024

Directors' responsibility statement

Directors' responsibilities

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

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

In preparing the Parent Company financial statements, the Directors are required to:

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

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

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

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

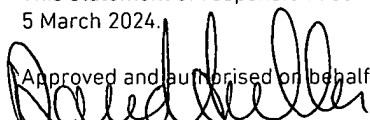
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

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

This statement of responsibilities was approved by the Board on 5 March 2024.

Approved and authorised on behalf of the Board

 David Fuller BA FCG
 Company Secretary

8 March 2024

Independent Auditor's Report to the members of CLS Holdings Plc

Opinion

In our opinion:

- CLS Holdings plc's Group financial statements and Parent Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2023 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of CLS Holdings plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2023 which comprise:

GROUP	PARENT COMPANY
Group balance sheet as at 31 December 2023	Company balance sheet as at 31 December 2023
Group income statement for the year ended 31 December 2023	Company statement of changes in equity for the year ended 31 December 2023
Group statement of comprehensive income for the year ended 31 December 2023	Related notes 1 to 15 to the financial statements including a summary of significant accounting policies
Group statement of changes in equity for the year ended 31 December 2023	
Group statement of cash flows for the year ended 31 December 2023	
Related notes 1 to 32 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2 – Going Concern in the financial statements, which indicates that the going concern assumption is dependent upon the timing and value of both the refinancing of the debt maturing and investment property disposals during the going concern period to 31 July 2025. The Group and Company acknowledges that these refinancings and disposals are dependent on circumstances outside their control. As stated in note 2, these events or conditions, along with the other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's and Company's ability to continue as a going concern. Consequently, we determined Going Concern to be a Key Audit Matter (see below).

Our opinion is not modified in respect of this matter.

We draw attention to the viability statement in the Annual Report on page 56, which indicates that an assumption to the statement of viability is for the Group to be able to refinance its existing loans and achieve the planned disposals of assets. The Directors consider that the material uncertainty referred to in respect of going concern may cast significant doubt over the future viability of the Group should these events not complete.

Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate, albeit, as set out above, a material uncertainty exists. Our evaluation of the Directors' assessment of the Group and Parent Company's ability to continue to adopt the going concern basis of accounting included the following:

- We assessed the risk around going concern in planning our audit, at the interim and again at the year-end phase.
- We assessed the appropriateness of the going concern period to 31 July 2025 ("the going concern period"), which takes into consideration the maturity of loans maturing (amounting to £311m) and the planned disposals (of £307m) in that period.
- We obtained an understanding of the process followed by management to prepare the Group's going concern assessment, including challenging the completeness of risks identified in management's assessment and identifying and assessing scenarios that may arise as a result of the current economic and financial environment, including forecast inflation levels and interest rates, and other macro-economic factors which may adversely affect future occupancy and income and cost levels and the impact of a further fall in property valuations on compliance with loan covenants.
- We obtained the Base case and the Severe but plausible case covering the going concern period prepared by management and provided to the Board. We tested the mathematical accuracy of the models and verified the opening available cash balance in management's cash flow forecast by comparing it to the year-end cash balance, which was subject to our audit procedures.
- We obtained an understanding of how management prepared the two scenarios: the Base case is based on the Group's forecast cash flows approved by the Board at its November 2023 meeting, updated for actual results to date. The Severe but plausible case starts from the Base case by flexing key assumptions further; it applies more severe assumptions including lower rents; increased service charge costs, higher property and administration expenses; falling property values, higher interest rates and failing to achieve planned refinancing and disposals.
- We challenged the appropriateness of each of the key assumptions in the two scenarios by agreeing them to supporting evidence and searching for contradictory evidence, using our understanding of the Group's business, evidence gained during the audit, knowledge of the wider real estate market and input from our real estate valuation and debt specialists. We assessed the historical forecasting accuracy as an input into determining the ability of management to forecast for the going concern period.
- We checked that the terms and conditions of the Group's loan agreements had been appropriately incorporated into the going concern scenarios and modelling, including the maturity profile of the Group's borrowings and the requirements in relation to covenant compliance.
- We performed testing to evaluate whether the covenant requirements of the debt facilities would be breached under the Base case and the Severe but plausible case prepared by management and applied additional stress tests to observe their impact on liquidity.
- We challenged the mitigations used by management in both the Base case and the Severe but plausible case, including certain refinancing and repayment of debt, property disposals, dividend distribution and capital expenditure, by comparing to actual cash flows in 2023, obtaining supporting evidence from management and searching for contrary evidence. We also challenged to what extent these mitigations are within management's control.
- We challenged management whether there is a realistic prospect that the Group would be able to complete the refinancings of the debt maturing in the going concern period within the timescale required. The refinancing or repayment of the debt maturing during the going concern period (£311.3m) is a critical assumption in management's going concern assessment. Our audit procedures included considering management's refinancing track record and any evidence of the progress of ongoing refinancing. We also obtained the perspective of our debt advisory specialists in the UK, France and Germany on the market appetite for refinancing such of loans.
- We also challenged management whether the Group would be able to complete the planned property disposals (including the properties classified as held for sale of £172.7m) included in their going concern assessment within the timescale required. Our audit procedures included considering evidence of the progress to date of planned disposals.
- We read the disclosures in the Annual Report and Financial Statements in relation to going concern to assess whether they appropriately disclose the risks, the impact on the Group's operations and results and the availability of mitigating actions to be taken.

The results of the Severe but plausible downside scenario modelled by management indicate that a material uncertainty exists that may cast significant doubt on the Group's and Company's ability to continue as a going concern.

Independent Auditor's Report

to the members of CLS Holdings Plc continued

In relation to the Group and Parent Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to:

- the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting; and
- the Directors' identification in the financial statements of the material uncertainty related to the Group's ability to continue as a going concern over the period to 31 July 2025.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including 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.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.

Overview of our audit approach

Audit scope	• The Group operates in the United Kingdom, Germany and France. We performed an audit of the complete financial information. We determined that each of these three principal business regions are within the Group audit, which was designated as a full scope region. • The region where we performed full or specific audit procedures accounted for 100% of EPRA Earnings, 100% of Revenue and 100% of Total assets.
Key audit matters	• Valuation of the property portfolio. • Rental income and other property related income recognition. • Going concern basis used in the preparation of the financial statements.
Materiality	• Overall Group materiality of £19.5m which represents 0.9% of total assets as at 31 December 2023. Overall materiality is applied to account balances not related to rental income, revenue from hotel and student accommodation, administrative expenses and other expenses (and their related balance sheet accounts). • Specific materiality of £2m which represents 5% of EPRA earnings for testing of balances that significantly impact that measure. Specific materiality is applied to account balances related to rental income, revenue from hotel and student accommodation, administrative expenses and other expenses (and related balance sheet accounts). • Parent Company materiality of £5.5m which represents 0.9% of total assets in the Parent Company balance sheet. Parent Company materiality is applied to all balances within the Parent Company.

An overview of the scope of the Parent Company and Group audits

Tailoring the scope

All the audit work performed in relation to the Parent Company was undertaken by the Group audit team in the UK.

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determined our audit scope for each geographic region within the Group (the United Kingdom, Germany and France). Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account the size, risk profile, organisation of the Group and effectiveness of group-wide controls, changes in the business environment, potential impact of climate change and other factors such as recent internal audit results when assessing the level of work to be performed. We did not identify components, but rather, full scope audit work was performed directly by a single integrated audit team on the consolidated results.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we utilised an integrated team across all three material geographic regions where the Group operates (the United Kingdom, Germany and France) and so our audit procedures accounted for 100% (2022: 100%) of the Group's EPRA Earnings (as defined by the European Public Real Estate Association 'EPRA'), the Group's Revenue and the Group's Total assets.

Below is the contribution of each geographic region to the Group's results:

	UNITED KINGDOM	GERMANY	FRANCE
EPRA Earnings	30% of the Group	59% of the Group	11% of the Group
Revenue	51% of the Group	38% of the Group	11% of the Group
Total assets	46% of the Group	42% of the Group	12% of the Group

Climate change

Stakeholders are increasingly interested in how climate change will impact CLS Holdings plc. The Group has determined that the most significant future impacts from climate change on its operations will be from transitional and physical risks, in the context of the Group's net zero carbon plan. These are explained on pages 41-42 in the required Task Force for Climate related Financial Disclosures and on pages 43 to 46 in the principal risks and uncertainties. The Group has also explained their climate commitments on pages 32 to 47. All of these disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements.

The Group has explained in their accounting judgements and key sources of estimation uncertainty note to the financial statements (Note 3) that, in preparing the financial statements, the Group has considered the impact of climate change in their financial statements including how this aligns with their commitment to achieve net zero carbon emissions by 2030.

Our audit work considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, their climate commitments, and disclosures. We also focussed on assessing whether the effects of material climate risks disclosed on pages 41 and 42 and the significant judgements and estimates disclosed in note 3, have been appropriately reflected in the property portfolio valuation and associated disclosures and in the models of future cash flows which are used to assess the Group's ability to continue as a going concern. Details of our procedures and findings on the valuation of the property portfolio are included in our Key Audit Matters below. We performed our own risk assessment, supported by our internal climate change specialists, to determine the risk of material misstatement in the financial statements from climate change which needed to be considered in our audit.

We also challenged the Directors' considerations of climate change risks in their assessment of going concern and viability and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Independent Auditor's Report

to the members of CLS Holdings Plc continued

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 our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the Key Audit Matters to be communicated in our report.

RISK	OUR RESPONSE TO THE RISK	KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE
Valuation of the property portfolio (2023: £2,062.9m, 2022: £2,352.8m) <i>Refer to the Audit Committee Report (page 80); Material accounting policies (pages 122 - 123); and Notes 11, 12, 13 and 14 of the Consolidated Financial Statements (pages 132 - 136)</i> The valuation of the property portfolio requires significant judgement and use of estimates by management and the external valuers. Any input inaccuracies or unreasonable bases used in these estimates (such as in respect of market rental income and yields applied) could result in a material misstatement of the income statement and balance sheet. There is also a risk that management may influence the significant judgements and estimates in respect of property valuations in order to achieve property valuation and other performance targets to meet market expectations or bonus targets.	Our audit procedures over the valuation of the property portfolio included: - We obtained an understanding of the Group's processes and controls around the valuation of the property portfolio. - We evaluated the competence of the external valuers which included consideration of their qualifications and expertise. Further we obtained a confirmation from the external valuers that they had not been subject to undue influence from management. - We met with the external valuers to discuss their valuation approach and the estimates they made in assessing the property valuation. Such estimates included the market rental income and yields applied. - We reviewed the external valuations reports for unusual items or caveats. - We tested the accuracy of the input data by agreeing these inputs (i.e. contracted rent, lease expiry, lease space) with the tenancy schedules which have been used and tested in our rental income procedures. We tested source documentation provided by the Group to the external valuers, such as underlying lease data or signed contracts. - We conducted analytical reviews including assessing the assumption and valuation movements year-on-year with reference to explanations in movements provided by the external valuer and assessing the evidence we have found during the audit (both corroborating and contradicting). - We challenged both management and the external valuer where we identified unexpected movements. - We tested the mathematical accuracy of the tenancy schedules and valuation calculations. - We performed site visits for a sample of properties, to confirm existence and understand the state of repair of the properties. - We assessed the adequacy of the disclosures of estimates and valuation assumptions in note 12 that were made in accordance with IFRS 13 – Fair Value Measurement. - We risk assessed the property portfolio to determine the extent of our other audit work: - Higher risk assets – such as those under development, with complex leasing arrangements, in markets under greater stress, exposed to greater risk through climate change or with unexpected valuation movements – amounted to 55% of property value. - Lower risk assets amounted to 45% of property value. - We then performed the following work on each category of property: - Higher risk assets – our real estate valuation specialists challenged the valuation approach and assumptions for this category of properties. They compared the market rental income and yields applied to each property valuation to an expected range of assumptions taking into account available market data and asset specific considerations. This included assessing the external valuers; considerations of climate change factors and market factors such as the macroeconomic environment and its impact on the occupational and investment markets. Our real estate valuation specialists performed a recalculation or developed a comparative calculation considering a combination of some or all the external valuer's assumptions, to test the external valuer's estimate. Where properties were considered to be at the upper end of our reasonable range, we sought additional evidence from the external valuer. - Lower risk – our work was similar to the above but conducted by the core audit team rather than our real estate valuation specialists.	We have tested the inputs, assumptions and methodology used by external valuers. We concluded that the methodology applied is reasonable and that the valuations are an appropriate assessment of the fair value of the property portfolio at 31 December 2023. We concluded that the fair value of the properties is in the higher end of what we consider to be the reasonable range of values. We have reviewed the disclosures in the financial statements including the accounting judgements and key sources of estimation uncertainty and sensitivities and consider them to be appropriate.

RISK	OUR RESPONSE TO THE RISK	KEY OBSERVATIONS COMMUNICATED TO THE AUDIT COMMITTEE
Rental income and other property related income recognition (2023: £148.7m, 2022: £139.7m) <i>Refer to the Audit Committee Report (page 80) and Material accounting policies (page 124)</i> Misstatements that occur in relation to revenue recognition of rental income, including through incorrect treatment of the lease incentives, and other property-related income from student accommodation and hotel operations, could materially impact the revenue recognised.	Our audit procedures over rental income and other property related income included obtaining an understanding of the Group's processes and controls around rental income and other property related income recognition. Rental Income We performed substantive procedures over rental income. This involved: • Obtaining the tenancy schedules for the Group. • Setting an expectation of annual rental income per property using the lease data in the tenancy schedule and comparing this to the revenue recognised. We set a tolerance threshold to assess whether rental income was being recorded in line with our expectations. • Selecting a sample of lease agreements and agreeing the key lease terms input into the tenancy schedule. • In addition, we traced a sample of the lease agreements through to related invoices and their cash collections. • We obtained the schedules used to calculate straight-lining of rental income and reconciled it to the general ledger. We tested the arithmetical accuracy of these schedules, and we agreed on a sample basis the lease information in the schedules back to lease agreements. • For any lease incentive clauses noted from our inspection of these lease agreements, we traced them through to the lease incentive calculation to confirm completeness. Hotel We performed substantive audit procedures and tested a sample of transactions through to invoice and cash collections. Student accommodation We performed substantive analytical procedures, this involved: • Obtaining the rent roll for student accommodation. • Setting an expectation of revenue for the year using the rent roll and approved rate cards and compared this to the revenue recognised. We set a tolerance threshold to assess whether rental income was being recorded in line with our expectations. • Selecting a sample of lease agreements and agreed the key lease terms input into the rent roll for student accommodation. In addition, we traced a sample of the lease agreements through to its related cash collections.	Based upon the audit procedures performed, we concluded that rental income has been appropriately recognised on a straight line basis and other property related income has been recognised in accordance with the Group's accounting policy.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

The table below sets out the materiality, performance materiality and threshold for reporting audit differences applied on our audit:

	BASIS	MATERIALITY	PERFORMANCE MATERIALITY	AUDIT DIFFERENCES
Overall	0.9% of total assets (2022: 0.9% of total assets)	£19.5m (2022: £22.5m)	£9.7m (2022: £11.2m)	£1.0m (2022: £1.1m)
Specific materiality	5% of EPRA earnings (2022: 5% of EPRA earnings)	£2.0m (2022: £2.3m)	£1.0m (2022: £1.1m)	£0.1m (2022: £0.1m)
Parent Company	0.9% of total assets (2022: 0.9% of total assets)	£5.5m (2022: £3.9m)	£2.8m (2022: £1.9m)	£0.3m (2022: £0.2m)

Independent Auditor's Report

to the members of CLS Holdings Plc continued

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined that an asset-based measure would be the most appropriate basis for determining overall materiality given that key users of the Group's financial statements are primarily focused on the valuation of the Group's assets. Based on this, we determined that it is appropriate to set the overall materiality at 0.9% of Total assets.

We determined that for rental income, revenue from hotel and student accommodation, administrative expenses and other expenses and related balance sheet accounts, a misstatement of less than overall materiality for the financial statements as a whole could influence the economic decisions of users.

We determined that materiality for these areas should be based upon 5% of EPRA Earnings as that is considered an important performance metric and aligned with industry earnings measures.

This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

During the course of our audit, we reassessed initial materiality to reflect year end balances and this did not result in any significant change.

Performance materiality

The application of materiality is at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality be set at 50% (2022: 50%) of our planning materiality, namely £9.7m and £1.0m (2022: £11.2m and £1.1m) for overall and specific materiality respectively. We have set performance materiality at this percentage based on our risk assessment procedures and the likelihood that misstatements may occur within the financial statements.

Audit work in each region is undertaken based on a percentage of total performance materiality. The performance materiality set for each region is based on the relative scale of the region to the Group as a whole and our assessment of the risk of misstatement.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1.0m (2022: £1.1m), as well as uncorrected audit differences in excess of £0.1m (2022: £0.1m) that related to our testing accounts to which we applied the specific materiality. These amounts were set at 5% of planning materiality. We also reported any differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 1-103, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- 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 and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Corporate Governance Statement

We have reviewed the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Parent Company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Aside from the impact of the matters disclosed in the Material uncertainty related to going concern section, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 54-55 and 102;
- Directors' explanation as to its assessment of the Parent Company's prospects, the period this assessment covers and why the period is appropriate set out on page 54;
- Director's statement on whether it has a reasonable expectation that the Group and Parent Company will be able to continue in operation and meets its liabilities set out on page 102;
- Directors' statement on fair, balanced and understandable set out on page 103;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 51-53;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 48-53; and;
- The section describing the work of the Audit Committee set out on pages 76-80.

Independent Auditor's Report to the members of CLS Holdings Plc continued

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement set out on page 103, 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 and 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.

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant that are directly relevant to the presentation of the Annual Report and Accounts are those that relate to the reporting framework (UK adopted international accounting standards, the Companies Act 2006 and UK Corporate Governance Code). The most significant that indirectly affect the financial statements where non-compliance would have a material effect are relevant tax regulations, (including the UK REIT regulations) and laws related to landlords with tenancies.
- We understood how CLS Holdings plc is complying with those frameworks by making enquiries of management and by identifying the Group's policies and procedures regarding compliance with laws and regulations. We also identified those members of management who have the primary responsibility for ensuring compliance with laws and regulations, and for reporting any known instances of non-compliance to those charged with governance. We corroborated our enquiries through our review of Board minutes and papers provided to the Board and the Audit Committee, as well as consideration of the results of our audit procedures across the Group to either corroborate or provide contrary evidence which was then followed up. Our assessment included the tone from the top and the emphasis on a culture of honest and ethical behaviour.
- We assessed the susceptibility of the financial statements to material misstatement, including how fraud might occur by reviewing the Company's risk register and enquiring with management and the Audit Committee during the planning and execution phases of our audit. We considered the programmes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how management monitors those programmes and controls.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved;
 - Enquiry of management, and when appropriate, those charged with governance regarding their knowledge of any non-compliance or potential non-compliance with laws and regulations that could affect the financial statements;
 - Reading minutes of meetings of those charged with governance;
 - Obtaining and reading correspondence from legal and regulatory bodies, including the FRC, HMRC and the tax authorities in all the locations the Group operates in;
 - Journal entry testing, with a focus on journals indicating unusual transactions based on our understanding of the business; and
 - Engaged our own specialists to read and assess legal advice taken by management on identified matters of non-compliance with laws and regulations and evaluated the adequacy of actions required to remediate non-compliance.

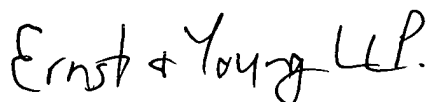
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the Audit Committee we were appointed by the Company on 28 April 2022 to audit the financial statements for the year ending 31 December 2022 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is two years, covering the years ended 31 December 2022 to 31 December 2023.
- The audit opinion is consistent with the additional report to the Audit Committee.

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.



Peter McIver (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
8 March 2024

Group income statement for the year ended 31 December 2023

	Notes	2023 £m	2022 £m
Revenue	4	148.7	139.7
Costs		(35.7)	(31.9)
Net rental income	4	113.0	107.8
Administration expenses		(18.2)	(15.7)
Other property expenses		(15.6)	(16.2)
Operating profit before revaluation and disposals		79.2	75.9
Net revaluation movements on investment property	12/14	(302.7)	(136.5)
Net revaluation movements on equity investments		(1.3)	(3.8)
Profit on sale of investment property		1.4	0.5
Operating loss		(223.4)	(63.9)
Finance income	8	1.6	10.1
Finance costs	9	(41.3)	(26.8)
Foreign exchange loss		(0.3)	(0.3)
Impairment of goodwill		–	(1.1)
Loss before tax		(263.4)	(82.0)
Taxation	10	13.6	0.1
Loss for the year attributable to equity shareholders		(249.8)	(81.9)
Basic and diluted earnings per share	5/24	(62.9)p	(20.2)p

The notes on pages 119 to 152 are an integral part of these Group financial statements.

Group statement of comprehensive income for the year ended 31 December 2023

	Notes	2023 £m	2022 £m
Loss for the year		(249.8)	(81.9)
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Revaluation of property, plant and equipment	26	2.2	1.9
Foreign exchange differences	26	(12.3)	28.5
Deferred tax on revaluation of property, plant and equipment	18	(0.6)	(0.4)
Total items that may be reclassified to profit or loss		(10.7)	30.0
Total other comprehensive (expense)/income		(10.7)	30.0
Total comprehensive expense for the year attributable to equity shareholders		(260.5)	(51.9)

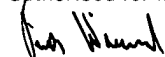
The notes on pages 119 to 152 are an integral part of these Group financial statements.

Group balance sheet

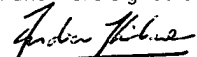
at 31 December 2023

	Notes	2023 £m	2022 £m
Non-current assets			
Investment properties	12	1,850.5	2,295.0
Property, plant and equipment	13	41.8	39.6
Intangible assets		2.9	2.8
Equity investments		1.4	2.7
Deferred tax	18	–	2.8
Derivative financial instruments	20	3.6	8.5
		1,900.2	2,351.4
Current assets			
Trade and other receivables	15	16.7	15.8
Derivative financial instruments	20	0.7	–
Cash and cash equivalents	16	70.6	113.9
		88.0	129.7
Assets held for sale	14	172.7	20.3
Total assets		2,160.9	2,501.4
Current liabilities			
Trade and other payables	17	(68.6)	(58.6)
Current tax		(0.3)	(2.0)
Borrowings	19	(193.9)	(173.4)
		(262.8)	(234.0)
Non-current liabilities			
Deferred tax	18	(88.7)	(110.5)
Borrowings	19	(876.7)	(932.5)
Leasehold liabilities		(3.5)	(3.6)
		(968.9)	(1,046.6)
Total liabilities		(1,231.7)	(1,280.6)
Net assets		929.2	1,220.8
Equity			
Share capital	23	11.0	11.0
Share premium		83.1	83.1
Other reserves	26	106.7	115.4
Retained earnings		728.4	1,011.3
Total equity		929.2	1,220.8

The financial statements of CLS Holdings plc (registered number: 02714781) were approved by the Board of Directors and authorised for issue on 8 March 2024 and were signed on its behalf by:



Mr F Widlund
Chief Executive Officer



Mr A Kirkman
Chief Financial Officer

The notes on pages 119 to 152 are an integral part of these Group financial statements.

Group statement of changes in equity for the year ended 31 December 2023

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
	Note 23		Note 26		
Arising in 2023:					
Total comprehensive expense for the year	–	–	(10.7)	(249.8)	(260.5)
Share-based payments	–	–	0.5	–	0.5
Dividends to shareholders	–	–	–	(31.6)	(31.6)
Transfer of fair value on property, plant and equipment	–	–	1.5	(1.5)	–
Total changes arising in 2023	–	–	(8.7)	(282.9)	(291.6)
At 1 January 2023	11.0	83.1	115.4	1,011.3	1,220.8
At 31 December 2023	11.0	83.1	106.7	728.4	929.2
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
	Note 23		Note 26		
Arising in 2022:					
Total comprehensive expense for the year	–	–	30.0	(81.9)	(51.9)
Share-based payments	–	–	0.2	–	0.2
Dividends to shareholders	–	–	–	(32.4)	(32.4)
Transfer of fair value on property, plant and equipment	–	–	(3.5)	3.5	–
Purchase of own shares	–	–	–	(25.8)	(25.8)
Total changes arising in 2022	–	–	26.7	(136.6)	(109.9)
At 1 January 2022	11.0	83.1	88.7	1,147.9	1,330.7
At 31 December 2022	11.0	83.1	115.4	1,011.3	1,220.8

The notes on pages 119 to 152 are an integral part of these Group financial statements.

Group statement of cash flows for the year ended 31 December 2023

	Notes	2023 £m	2022 £m
Cash flows from operating activities			
Cash generated from operations	27	83.2	70.5
Interest received		1.6	1.3
Interest paid		(35.1)	(24.2)
Income tax paid on operating activities		(3.8)	(4.6)
Net cash inflow from operating activities		45.9	43.0
Cash flows from investing activities			
Purchase of investment properties		–	(83.4)
Capital expenditure on investment properties		(46.4)	(57.2)
Proceeds from sale of properties		17.0	56.2
Income tax paid on sale of properties		(1.8)	(3.2)
Purchases of property, plant and equipment		(0.8)	(0.4)
Purchase of intangibles		(0.3)	(0.8)
Repayment of vendor loan		–	7.7
Foreign currency loss on forward contracts		–	(0.2)
Net cash outflow from investing activities		(32.3)	(81.3)
Cash flows from financing activities			
Dividends paid	25	(31.6)	(32.4)
Purchase of own shares		–	(25.8)
New loans		129.1	144.1
Issue costs of new loans		(1.1)	(1.1)
Repayment of loans		(152.6)	(99.4)
Net cash outflow from financing activities		(56.2)	(14.6)
Cash flow element of net decrease in cash and cash equivalents		(42.6)	(52.9)
Foreign exchange loss		(0.7)	(0.6)
Net decrease in cash and cash equivalents		(43.3)	(53.5)
Cash and cash equivalents at the beginning of the year		113.9	167.4
Cash and cash equivalents at the end of the year	16	70.6	113.9

The notes on pages 119 to 152 are an integral part of these Group financial statements.

Notes to the Group financial statements for the year ended 31 December 2023

1. General information

CLS Holdings plc (the 'Company' or 'Ultimate Parent') 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 an incorporated public limited company and is registered and incorporated in the United Kingdom. Its registration number is 02714781, with its registered address at 16 Tinworth Street, London SE11 5AL. The Company is listed on the London Stock Exchange and domiciled in the United Kingdom. The Company did not change its name during the year ended 31 December 2023 or the year ended 31 December 2022.

2. Material 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 in accordance with the requirements of the Companies Act 2006 and United Kingdom adopted International Accounting Standards and International Financial Reporting Standards (IFRSs).

Going concern

Background

CLS' strategy and business model include regular secured loan refinancings, and capital deployment and recycling through acquisitions, capital expenditure and disposals. Over the last thirty years, the Group has successfully navigated several periods of economic uncertainty, including the recent economic stress resulting from the Covid-19 pandemic, Russia's invasion of Ukraine and the cost-of-living crisis.

The Group continues to have very high rent collection and low bad debts, and has a long-term track record in financing and refinancing debt including £330.6 million completed in 2023 and a further £103.2 million subsequent to year end, of which £88.5 million has been executed and £14.7 million for which credit approval has been obtained by lenders or terms have been agreed.

The Directors note that the interim financial information for the six months ended 30 June 2023 contained disclosure of a Material Uncertainty related to going concern due to the timing and amounts of the planned refinancing of debt and disposals of property being then outside of Management's control. In this context the Directors set out their considerations and conclusions in respect of going concern for these financial statements below.

Going concern period and basis

The Group's going concern assessment covers the period to 31 July 2025 ("the going concern period"). The period chosen takes into consideration the maturity date of loans totalling £311.3 million that expire by July 2025. The going concern assessment uses the business plan approved by the Board at its November 2023 meeting as the Base case. The assessment also considers a Severe but plausible case.

Forecast cash flows – Base case

The forecast cash flows prepared for the Base case reflect the challenging economic backdrop and include assumptions regarding forecast forward interest curves, inflation and foreign exchange, and includes revenue growth, principally from contractual increases in rent, and increasing cost levels in line with forecast inflation.

The Base case is focussed on the cash and working capital position of the Group throughout the going concern period. In this regard, the Base case assumes continued access to lending facilities in the UK, Germany and France, and specifically that debt facilities of £311.3 million expiring within the going concern period will be refinanced as expected (£261.5 million) or will be repaid (£49.8 million), some of which are linked to forecast property disposals. The Board acknowledges that these refinancings are not fully within its control; however, they are confident that refinancings or extensions of these loans will be executed within the required timeframe, having taken into account:

- existing banking relationships and ongoing discussions with the lenders in relation to these refinancings;
- CLS' track record of prior refinancings, particularly in the 12 months to 31 December 2023 when £330.6 million was successfully refinanced or extended; and
- recent refinancings subsequent to the year end that have been executed, credit approved by lenders, or where the terms have been agreed, totalling £103.2 million of the £311.3 million noted above.

The Base case also includes property disposals in the going concern period in line with the Group's business model and the forecast cash flows approved by the Board in November 2023. The Board acknowledges that property disposals are not fully within its control; however, they are confident these transactions will be completed within the going concern period, based on their history of achieving disposals (with disposals of £73.5m achieved since 2022). The value of the properties available for disposal is significantly in excess of the value of the debt maturing during the going concern period.

Notes to the Group financial statements for the year ended 31 December 2023

continued

2. Material accounting policies continued

2.1 Basis of preparation – continued

Going concern continued

Forecast cash flows – Base case continued

The Group's financing arrangements contain Loan to Value ('LTV'), Interest Cover Ratio ('ICR') and Debt Service Coverage Ratio ('DSCR') covenants. In the Base case, minimal cure payments have been forecast given that the Group expects to maintain its compliance with the covenant requirements.

The near-term impacts of climate change risks within the going concern period have been considered in both the Base and the Severe but plausible case and are expected to be immaterial.

Forecast cash flows – Severe but plausible case

A Severe but plausible case has been assessed which has been produced by flexing key assumptions further including: lower rents, increased service charges, higher property and administration expenses, falling property values, higher interest rates and reduced achievements of refinancings and disposals.

These flexed assumptions are more severe than CLS experienced during the 2007-2009 global financial crisis and other downturns such as that experienced in 2020-2022 during the Covid-19 pandemic. A key assumption in this scenario is a reduction in property values of 10% until December 2024, impacting forecast refinancings, sales and cash cures. This is in addition to the reduction experienced of 12.5% in 2023 and 17.1% since June 2022.

Assumptions around refinancing and investment property disposals are adjusted to only include those agreed or considered significantly advanced by management. In addition, a reduction in property values of 10% results in additional cure payments of £12.1 million being necessary for the Group to remain in compliance with its covenant requirements.

Due to the severity of the assumptions used in this scenario, which is severe but plausible and therefore not remote, the liquidity of the Group is exhausted even after putting in place controllable mitigating actions as set out below.

Mitigating actions

In the Severe but plausible case, CLS is assumed to take mitigating actions in terms of depositing cash to equity cure some loans, scaling back uncommitted capital expenditure (without impacting revenue streams over the going concern period) and reducing the dividend to the Property Income Distribution required under the UK REIT rules as well as drawing its existing £50 million of currently unutilised facilities. If needed, further disposals could be considered as there are no sale restrictions on CLS' £2.1 billion of properties, albeit the timing and the amount of these potential disposals are not in the Group's control.

Additionally, the Directors note that the properties that require refinancing in the going concern period are on a non-recourse basis to the Group. Accordingly, in extremis, the lender could enforce their security on an individual property with no claim on the rest of the Group's assets.

Material Uncertainty related to going concern

As described above, the Group is reliant for liquidity purposes upon its ability to both refinance the debt maturing and to complete a number of property disposals in the going concern period in more challenging market conditions.

Whilst the Directors remain confident, due to the reasons highlighted above, that a combination of sufficient refinancings and property disposals will be achieved, the timing and value of both the planned refinancing of facilities falling due within the going concern review period, and planned property disposals, is outside of management's control and consequently a material uncertainty exists that may cast significant doubt on the Group's and Company's ability to continue as a going concern.

Notwithstanding this material uncertainty on the going concern assumption, given our track-record and reputation, the Directors are confident that the debt falling due for repayment in the going concern period will be refinanced or settled in line with their plans for the reasons set out above, rather than requiring repayment on maturity, or will be extinguished as part of property disposals in the period. In extremis, the loans requiring refinancing are provided on a non-recourse basis. Therefore, the Directors continue to adopt the going concern basis in preparing these Group and Company financial statements.

The financial statements do not contain the adjustments that would result if the Group and Company were unable to continue as a going concern.

2. Material accounting policies continued

2.1 Basis of preparation – continued

Historical cost and fair value

The financial statements have been prepared on the historical cost basis, except for investment and other properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell the asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

Presentational and functional currency

The consolidated financial statements, including the results and financial position, are presented in pounds Sterling, which is the functional and presentational currency of CLS Holdings plc.

The amounts presented in the financial statements are rounded to the nearest £0.1 million.

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 2023. 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:

- Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of accounting policies
- Amendments to IAS 8 – Definition of Accounting Estimates
- Amendments to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction
- Amendments to IAS 12 – International tax reform – Pillar Two model rules
- IFRS 17 – Insurance 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:

- Amendments to IAS 1 – Classification of liabilities as current or non current
- Amendments to IAS 7 and IFRS 7 – Disclosures: Supplier finance arrangements
- Amendments to IFRS10 and IAS 28 – Sale or contribution of assets between an investor and its associate or joint venture
- Amendments to IFRS 16 – Lease liability in a sale and leaseback
- Amendments to IAS 21 – Lack of exchangeability

Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions in which the Group operates. However, the legislation does not apply to Group as its consolidated revenue is lower than £750 million.

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

Where property is acquired, via corporate acquisitions or otherwise, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business. The Group determines that it has acquired a business when the acquired set of activities and assets/liabilities include an input and a substantive process that, together, significantly contribute to the ability to create outputs i.e. rental income and capital appreciation. The acquired process is considered substantive if it is critical to the ability to continue earn rental income and drive capital appreciation, and the inputs acquired include an organised workforce with the necessary skills, knowledge, or experience to perform that process or it significantly contributes to the ability to continue producing rental income and drive capital appreciation and is considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing rental income and capital appreciation.

Where such acquisitions are not determined to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity or assets and liabilities is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date.

(I) Subsidiary undertakings

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Notes to the Group financial statements for the year ended 31 December 2023

continued

2. Material accounting policies continued

2.2 Business combinations – continued

(II) 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 in a business combination. It is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually.

2.3 Assets held for sale

Assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell, except for investment properties held for sale which are measured at fair value.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available-for-sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after sale.

2.4 Foreign currency

(I) Foreign currency transactions

Transactions in foreign currencies are translated into Sterling using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Sterling at the exchange rate ruling at that date, and differences arising on translation are recognised in the income statement.

For financial assets measured at fair value through profit and loss, exchange differences are recognised in the income statement in the 'finance costs or finance income' line item.

(II) Consolidation of foreign entities

The results and financial position of all Group entities which have a functional currency different from Sterling are translated into Sterling as follows:

- (a) assets and liabilities are translated at the closing rate at the date of the balance sheet;
- (b) income and expenses for each income statement are translated at the average exchange rates; and
- (c) all resulting exchange differences are recognised directly in equity in the cumulative translation reserve.

2.5 Investment properties

Investment property comprises principally offices that are not occupied substantially for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation. These buildings are substantially rented to tenants and not intended to be sold in the ordinary course of business.

Investment properties are measured initially at cost, including directly attributable transaction costs. Transaction costs include transfer taxes and professional fees for legal and other services. 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 expenditure on the development between the date of gaining planning consent and the date of practical completion.

The Group recognises sales and purchases of investment property when control passes on completion of the contract. Gains or losses on the sale of properties are calculated by reference to the carrying value at the end of the previous year, adjusted for subsequent capital expenditure.

Investment properties are carried at fair value, based on market value as determined by professional external valuers at the balance sheet date. Investment properties being redeveloped for continuing use as investment properties, or for which the market has become less active, continue to be classified as investment properties and measured at fair value. Changes in fair values are recognised in the income statement.

Transfers are made to (or from) investment property only when there is evidence of a change in use.

Lease incentives are not held as separate assets or liabilities on the balance sheet but are instead included within the investment property balance.

2. Material accounting policies continued

2.6 Property, plant and equipment

Property, plant and equipment is measured initially at cost, being the consideration paid, including related transaction costs. Property is subsequently measured at fair value, based on market value as determined by professional external valuers at the balance sheet date. Fixtures and fittings and head office fit-out are stated at historical cost less accumulated depreciation and any impairment loss.

Any increase arising on the revaluation of land and buildings held as property, plant and equipment is credited to the fair value reserve via other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase in value is credited to the income statement to the extent the decrease was previously expensed. On disposal of an asset the revaluation reserve relating to that asset becomes realised and is transferred in equity to retained earnings.

Land is not depreciated. Depreciation on the property, plant and equipment that is depreciated is calculated using the straight-line method to allocate cost less estimated residual values over the estimated useful lives or lease length, as follows:

Fixtures and fittings	4–5 years
Head Office fit-out	10 years
Hotel	250 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

2.7 Financial instruments

(I) Derivative financial instruments

The Group uses derivative financial instruments, including swaps and interest rate caps, to help manage its interest rate and foreign exchange rate risks. Derivative financial instruments are initially recorded at, and subsequently revalued to, fair value. Revaluation gains and losses are recognised in finance income or finance cost in the income statement.

(II) Financial assets at fair value through profit and loss (FVTPL)

Financial assets at FVTPL are measured at fair value. Revaluation gains and losses are recognised in the income statement.

(III) 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.

(IV) Trade and other receivables/Trade and other payables

Trade and other receivables are recognised initially at their transaction price if they do not contain any significant financing components. 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 transaction price which is approximate to their fair value and subsequently measured at amortised cost.

(V) Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequently, borrowings are stated at amortised cost with any difference between the amount initially recognised and the redemption value being recognised in the income statement over the period of the borrowings, using the effective interest rate method.

When debt refinancing occurs, existing liabilities are treated as being extinguished when the new liability is substantially different from the existing liability. To determine if a liability is substantially different, the Group considers the transaction as a whole, taking into account both qualitative and quantitative characteristics.

Borrowing costs attributable to the construction of a qualifying asset are capitalised at the weighted average borrowing rate for the applicable region on direct expenditure incurred between the date of gaining planning consent and the date of practical completion.

Notes to the Group financial statements for the year ended 31 December 2023

continued

2. Material accounting policies continued

2.8 Revenue

The Group's revenue includes rental income, service charge income and other property related income.

(I) Rental income

Rental income from operating leases is recognised on a straight-line basis over the lease term. Direct costs associated with securing the rental income are also recognised on a straight-line basis over the lease term.

Fixed or contractually defined rental increases, which can take the form of actual amounts or agreed percentages, are recognised on a straight-line basis over the term. Rental increases related to a price index are recognised when the increase takes place.

Lease incentives being offered to tenants to enter into a lease, such as an initial rent-free period or a cash contribution to fit out or similar costs, are part of the net consideration for the use of the property and are therefore recognised on the same straight-line basis.

Where the total consideration due under a lease is modified, for example to remove a break or extend the term, the revised remaining consideration due is recognised on a straight-line basis over the remaining term of the lease. Lease modifications are accounted for from the effective date of modification. Initial direct costs associated with the original lease continue to be recognised and amortised over the remaining term of the modified lease.

(II) Service charge income

Service charge income relates to expenditure that is directly recoverable from tenants and is recognised in the period in which it is earned as tenants benefit from the services based on actual service charge costs incurred.

(III) Other property income

Other property income relates to income from the Group's student accommodation and hotel in addition to dilapidations receipts and surrender premiums.

Income from the Group's student accommodation relates to rents received from tenants for the provision of student accommodation. Income is recognised on a straight-line basis over the lease term. See rental income policy for more detail.

Hotel revenue is recognised as the rooms are occupied and services rendered. Where the supply of service has only been partially completed at the balance sheet date, turnover represents the value of the service provided to date based on a portion of the contract value.

Dilapidations income is payable by tenants when the Group agrees with the tenant to perform required remedial works to fulfil the contractual obligations of the lease. Dilapidation income is recognised when the amounts become contractually due, usually at the time an agreement between parties is reached. Surrender premiums are payable when a lease is terminated prior to expiry. Surrender premiums for the early termination of a lease are recognised as revenue when the amounts become contractually due.

2.9 Taxation

Current tax is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the balance sheet liability method on temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the values used for tax purposes. Temporary differences are not provided for when they arise from initial recognition of goodwill or from the initial recognition of assets and liabilities in a transaction that does not affect accounting or taxable profit and does not give rise to equal taxable and deductible temporary differences.

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.

2. Material accounting policies continued

2.9 Taxation – continued

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be used. The deferred tax assets and liabilities are only offset if they relate to income taxes levied by the same taxation authority, there is a legally enforceable right of set-off and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in the income statement except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or equity respectively.

The group has applied the exemption in IAS 12 'Income Taxes' to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

2.10 Leases

The Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases.

The Group as a lessee

The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets for all leases, except for short-term leases and leases of low-value assets.

(I) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term which, if in respect of investment property, forms part of the cost of that property on initial recognition. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses either the borrowing rate of the loan attached to the property at the lease commencement date or, if the property is not financed, then the operating segment's incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

(II) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). The Group leases properties that meet the definition of investment property. These right-of-use assets are presented as part of the line item 'Investment property' in the statement of financial position.

(III) Short-term leases and low value assets

The Group applies the short-term lease recognition exemption to its short-term leases of equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Notes to the Group financial statements for the year ended 31 December 2023

continued

3. Accounting judgements and key sources of estimation uncertainty

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.

Going Concern

For the purposes of the going concern assessment, the Group makes judgements in determining future cash flows which are based on assumptions. The most significant judgements relate to the terms and ability to refinance loan facilities and recycle capital. These judgements are made by management based on recent performance, external factors and management's knowledge and expertise of cashflow drivers. See note 2 for more details.

Key sources of estimation uncertainty

Valuation of properties

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 market rentals ('ERV'), future development costs and an appropriate equivalent yield and capitalisation rates as appropriate (see notes 12 and 13 for more detail). The valuers also make reference to market evidence of transaction prices for similar properties.

Other estimates

Climate change

In preparing the financial statements, the Group has considered the impact of climate change, taking into account the relevant disclosures in the Strategic Report, including those made in accordance with the recommendations of the Taskforce on Climate Related Financial Disclosure (see pages 41 to 47). These considerations included the limited exposure in terms of our properties to potential physical climate risks along with a commitment to invest £65 million in our Net Zero Carbon pathway. On this basis, the Group has concluded that climate change did not have a material impact on the financial reporting judgements and estimates, consistent with the assessment that this is not expected to have a significant impact on the Group's going concern or viability assessment. The Group considers that this will remain the case until approximately 2030 after which the differing climate scenarios diverge resulting in different risk profiles, the impact and mitigations of which will be captured in the Climate Resilience strategy being developed (see page 32 for more detail).

4. Segment information

Each property represents an operating segment which the Group aggregates into two reporting segments with similar characteristics – investment properties and other investments. Other investments comprise the hotel at Spring Mews and other small corporate investments. Central administration relates to the operating costs of the Group's headquarters and are not allocated to any reporting segment. The Group manages the investment properties division on a geographical basis due to its size and geographical diversity. Consequently, the Group's principal reporting segments are:

Investment properties: United Kingdom
Germany
France

Other investments

Year ended 31 December 2023	2023					
	Investment properties			Other investments £m	Central administration £m	Total £m
	United Kingdom £m	Germany £m	France £m			
Rental income	46.4	43.2	13.2	–	–	102.8
Other property-related income	8.9	0.6	0.9	5.5	–	15.9
Service charge income	13.4	11.7	4.9	–	–	30.0
Revenue	68.7	55.5	19.0	5.5	–	148.7
Service charges and similar expenses	(16.3)	(14.0)	(5.4)	–	–	(35.7)
Net rental income	52.4	41.5	13.6	5.5	–	113.0
Administration expenses	(7.5)	(3.2)	(1.3)	(0.1)	(6.1)	(18.2)
Other property expenses	(8.6)	(4.2)	(0.4)	(2.4)	–	(15.6)
Revenue less costs	36.3	34.1	11.9	3.0	(6.1)	79.2
Net revaluation movements on investment property	(186.6)	(90.6)	(25.5)	–	–	(302.7)
Net revaluation movements on equity investments	–	–	–	(1.3)	–	(1.3)
Profit/(loss) on sale of investment property	0.4	(1.6)	(0.1)	2.7	–	1.4
Segment operating (loss)/profit	(149.9)	(58.1)	(13.7)	4.4	(6.1)	(223.4)
Finance income	0.1	–	–	1.5	–	1.6
Finance costs	(25.2)	(11.9)	(4.0)	–	(0.2)	(41.3)
Foreign exchange gain/(loss)	–	–	0.1	(0.4)	–	(0.3)
Segment (loss)/profit before tax	(175.0)	(70.0)	(17.6)	5.5	(6.3)	(263.4)

Notes to the Group financial statements for the year ended 31 December 2023

continued

4. Segment information continued

	2022					
	Investment properties			Other investments	Central administration	Total
Year ended 31 December 2022	United Kingdom £m	Germany £m	France £m	£m	£m	£m
Rental income	48.5	38.0	12.9	–	–	99.4
Other property-related income	8.2	0.2	–	4.9	–	13.3
Service charge income	11.2	11.3	4.5	–	–	27.0
Revenue	67.9	49.5	17.4	4.9	–	139.7
Service charges and similar expenses	(13.1)	(14.1)	(4.7)	–	–	(31.9)
Net rental income	54.8	35.4	12.7	4.9	–	107.8
Administration expenses	(6.4)	(2.8)	(1.4)	(0.2)	(4.9)	(15.7)
Other expenses	(8.1)	(4.2)	(0.7)	(3.2)	–	(16.2)
Revenue less costs	40.3	28.4	10.6	1.5	(4.9)	75.9
Net revaluation movements on investment property	(79.6)	(41.5)	(15.4)	–	–	(136.5)
Net revaluation movements on equity investments	–	–	–	(3.8)	–	(3.8)
(Loss)/profit on sale of investment property	(0.3)	–	0.8	–	–	0.5
Segment operating loss	(39.6)	(13.1)	(4.0)	(2.3)	(4.9)	(63.9)
Finance income	5.3	1.4	1.4	2.0	–	10.1
Finance costs	(16.4)	(6.8)	(2.4)	(0.8)	(0.4)	(26.8)
Foreign exchange loss	–	–	–	–	(0.3)	(0.3)
Impairment of goodwill	–	(0.3)	(0.8)	–	–	(1.1)
Segment loss before tax	(50.7)	(18.8)	(5.8)	(1.1)	(5.6)	(82.0)

Other segment information

	Assets		Liabilities		Capital expenditure	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Investment properties						
United Kingdom	930.0	1,083.6	548.2	551.7	37.2	36.6
Germany	908.1	1,011.6	510.8	536.4	9.3	9.8
France	265.0	294.3	164.3	185.7	3.1	11.7
Other investments	57.8	111.9	8.4	6.8	0.8	0.4
	2,160.9	2,501.4	1,231.7	1,280.6	50.4	58.5

5. Alternative Performance Measures

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

Introduction

The Group has applied the October 2015 European Securities and Markets Authority ('ESMA') guidelines on APMs and the October 2021 Financial Reporting Council ('FRC') thematic review of APMs in these results, whilst noting the International Organization of Securities Commissions (IOSCO) 2016 guidance and ESMA's December 2019 report on the use of APMs.

An APM is a financial measure of historical or future financial performance, position or cash flows of the Group which is not a measure defined or specified in IFRS.

Overview of our use of APMs

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

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

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. CLS considers the two measures below to be the most relevant as we believe that these will continue to reflect the long-term nature of our property investments most accurately.

- EPRA earnings; and
- EPRA net tangible asset value (NTA).

There has been no change 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, although all other measures are shown within the supplementary unaudited disclosures to the financial statements there has been no change to comparative amounts.

1. EPRA APMs

	2023 Number	2022 Number
For use in earnings per share calculations		
Weighted average number of ordinary shares in circulation	397,330,507	404,410,051
Diluted number of ordinary shares	400,942,040	406,473,292
For use in net asset per share calculations		
Number of ordinary shares in circulation at 31 December	397,410,268	397,210,866

i) Earnings – EPRA earnings

	Notes	2023 £m	2022 £m
Loss for the year		(249.8)	(81.9)
Net revaluation movement on investment property	12/14	302.7	136.5
Deferred tax on revaluations		(16.3)	(4.8)
Net revaluation movement on equity investments		1.3	3.8
Profit on sale of investment property		(1.4)	(0.5)
Current tax thereon		–	1.6
Movement in fair value of derivative financial instruments	8/9	4.2	(8.8)
Impairment of goodwill		–	1.1
Amortisation of intangible assets		0.2	–
EPRA earnings		40.9	47.0
Basic and diluted earnings per share		(62.9)p	(20.2)p
EPRA earnings per share		10.3p	11.6p

Notes to the Group financial statements for the year ended 31 December 2023

continued

5. Alternative Performance Measures continued

ii) Net asset value measures

	2023				2022			
	IFRS NAV £m	EPRA NTA £m	EPRA NRV £m	EPRA NDV £m	IFRS NAV £m	EPRA NTA £m	EPRA NRV £m	EPRA NDV £m
2023								
Net assets	929.2	929.2	929.2	929.2	1,220.8	1,220.8	1,220.8	1,220.8
Other intangibles	–	(2.9)	–	–	–	(2.8)	–	–
Fair value of fixed interest debt	–	–	–	56.7	–	–	–	87.2
Tax thereon	–	–	–	(3.3)	–	–	–	(6.4)
Deferred tax on revaluation surplus	–	90.0	90.0	–	–	108.6	108.6	–
Adjustment for short-term disposals	–	(6.6)	–	–	–	(8.6)	–	–
Fair value of financial instruments	–	(4.3)	(4.3)	–	–	(8.5)	(8.5)	–
Purchasers' costs ¹	–	–	147.7	–	–	–	149.3	–
	929.2	1,005.4	1,162.6	982.6	1,220.8	1,309.5	1,470.2	1,301.6
Per share	233.8p	253.0p	292.5p	247.2p	307.3p	329.6p	370.1p	327.7p

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

6. Loss for the year

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

	Notes	2023 £m	2022 £m
Auditor's remuneration: Fees payable to the Company's Auditor for:			
Audit of the Parent Company and Group accounts		0.5	0.4
Audit of the Company's subsidiaries pursuant to legislation		0.2	0.2
Depreciation of property, plant and equipment	13	0.6	0.6
Amortisation of intangible assets		0.2	–
Employee benefits expense	7	12.1	10.2
Foreign exchange loss		0.3	0.3
Provision against trade receivables	15	–	0.6

Other services provided to the Group by the Company's Auditor consisted of the 2023 interim review of £76k (2022: £50k) and the provision of access to a technical financial reporting database of £1k (2022: £1k).

7. Employee benefits expense

	2023 £m	2022 £m
Wages and salaries	7.6	7.3
Social security costs	1.4	0.8
Pension costs – defined contribution plans	0.3	0.3
Performance incentive plan	1.2	0.8
Other employee-related expenses	1.6	1.0
	12.1	10.2

The Directors are considered to be the only key management of the Group. Information on Directors' emoluments, share options and interests in the Company's shares is given in the Remuneration Committee Report on pages 81 to 99.

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

	2023			2022		
	Property Number	Hotel Number	Total Number	Property Number	Hotel Number	Total Number
Male	50	11	61	47	9	56
Female	48	9	57	46	7	53
	98	20	118	93	16	109

8. Finance income

	2023 £m	2022 £m
Interest income		
Financial instruments carried at amortised cost	1.6	1.3
Movement in fair value of derivative financial instruments	–	8.8
	1.6	10.1

9. Finance costs

	2023 £m	2022 £m
Interest expense		
Secured bank loans	35.5	23.3
Secured notes	–	1.7
Amortisation of loan issue costs	1.6	1.8
Total interest costs	37.1	26.8
Movement in fair value of derivative financial instruments	4.2	–
Total finance costs	41.3	26.8

10. Taxation

	2023 £m	2022 £m
Corporation tax		
Current year charge	5.6	5.8
Adjustments in respect of prior years	(1.9)	(0.5)
	3.7	5.3
Deferred tax (see note 18)		
Origination and reversal of temporary differences	(17.3)	(5.4)
	(17.3)	(5.4)
Tax credit for the year	(13.6)	(0.1)

A deferred tax charge of £0.6 million (2022: charge of £0.4 million) was recognised directly in equity (note 18). The charge for the year differs from the theoretical amount which would arise using the weighted average tax rate applicable to profits of Group companies as follows:

	2023 £m	2022 £m
Loss before tax	(263.4)	(82.0)
Expected tax credit at applicable tax rate	(56.3)	(15.1)
Expenses not deductible for tax purposes	0.3	1.0
Non-deductible loss from REIT	42.9	13.4
Deferred tax on losses not recognised	3.7	1.2
Adjustments in respect of prior years	(3.8)	(0.5)
Other	(0.4)	(0.1)
Tax credit for the year	(13.6)	(0.1)

The weighted average applicable tax rate of 21.4% (2022: 18.5%) 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 25% (2022: 19%).

Notes to the Group financial statements for the year ended 31 December 2023

continued

11. Property portfolio

	Notes	United Kingdom £m	Germany £m	France £m	Total £m
Investment property	12	836.3	768.2	246.0	1,850.5
Property held as property, plant and equipment	13	36.3	1.7	1.7	39.7
Properties held for sale	14	47.3	115.6	9.8	172.7
Property portfolio at 31 December 2023		919.9	885.5	257.5	2,062.9

	Notes	United Kingdom £m	Germany £m	France £m	Total £m
Investment property	12	1,030.0	990.5	274.5	2,295.0
Property held as property, plant and equipment	13	33.6	2.0	1.9	37.5
Properties held for sale	14	7.0	3.6	9.7	20.3
Property portfolio at 31 December 2022		1,070.6	996.1	286.1	2,352.8

12. Investment property

	United Kingdom £m	Germany £m	France £m	Total investment properties £m
At 1 January 2023	1,030.0	990.5	274.5	2,295.0
Acquisitions	–	–	–	–
Capital expenditure	37.2	9.3	3.1	49.6
Disposals	(3.7)	(6.6)	–	(10.3)
Net revaluation movement	(186.1)	(90.6)	(25.5)	(302.2)
Lease incentive adjustments	(0.3)	1.6	(0.2)	1.1
Exchange rate variances	–	(20.3)	(5.7)	(26.0)
Transfer to properties held for sale	(40.8)	(115.7)	(0.2)	(156.7)
At 31 December 2023	836.3	768.2	246.0	1,850.5

	United Kingdom £m	Germany £m	France £m	Total investment properties £m
At 1 January 2022	1,090.5	883.0	273.6	2,247.1
Acquisitions	–	83.4	–	83.4
Capital expenditure	36.6	9.9	11.7	58.2
Disposals	(11.5)	–	–	(11.5)
Net revaluation movement	(79.5)	(41.6)	(15.4)	(136.5)
Lease incentive adjustments	0.9	6.9	–	7.8
Exchange rate variances	–	48.9	14.3	63.2
Transfer to properties held for sale	(7.0)	–	(9.7)	(16.7)
At 31 December 2022	1,030.0	990.5	274.5	2,295.0

Investment properties included leasehold properties with a carrying amount of £65.1 million (2022: £77.7 million).

Interest capitalised within capital expenditure in the year amounted to £1.0 million (2022: £0.5 million).

12. Investment property continued

The property portfolio which comprises investment properties, properties held for sale (note 14), and hotel and other, detailed in note 13, was revalued at 31 December 2023 to its fair value. Valuations were based on current prices in an active market for all properties. The property valuations were carried out by independent external valuers as follows:

	Investment property 2023 £m	Other property 2023 £m	Property portfolio 2023 £m	Investment property 2022 £m	Other property 2022 £m	Property portfolio 2022 £m
Cushman and Wakefield	836.3	83.6	919.9	1,030.0	33.6	1,063.6
Jones Lang LaSalle	1,014.2	128.8	1,143.0	1,265.0	13.5	1,278.5
Directors' valuation	–	–	–	–	3.6	3.6
	1,850.5	212.4	2,062.9	2,295.0	50.7	2,345.7

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

Valuation process

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

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

Valuation techniques

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

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

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

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

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

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

There were no transfers between any of the Levels in the fair value hierarchy during either 2023 or 2022. The Group determines whether transfers have occurred between levels in the fair value hierarchy by re-assessing categorisation at the end of each reporting period.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to a loss of £302.7 million (2022: a loss of £136.5 million) and are presented in the income statement in the line item 'Net movements on revaluation of investment properties'. The revaluation gain for the property, plant and equipment of £2.2 million (2022: gain of £1.9 million) was included within the revaluation reserve via other comprehensive income.

Notes to the Group financial statements for the year ended 31 December 2023

continued

12. Investment property continued

All gains and losses recorded in profit or loss in 2023 and 2022 for recurring fair value measurements categorised within Level 3 of the fair value hierarchy are attributable to changes in unrealised gains or losses relating to investment property held at 31 December 2023 and 31 December 2022, respectively.

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

	ERV				Equivalent yield			
	Average		Range		Average		Range	
	2023 £ per sq. ft	2022 £ per sq. ft	2023 £ per sq. ft	2022 £ per sq. ft	2023 %	2022 %	2023 %	2022 %
UK	34.76	34.01	10.00-56.05	10.00-58.09	6.08	5.61	2.98-13.23	2.94-9.61
Germany	14.40	14.10	9.93-29.70	10.14-25.27	5.24	4.75	4.40-6.20	3.30-5.90
France	21.96	21.69	12.99-43.53	13.26-41.38	6.00	5.13	4.79-7.40	4.05-6.75

Sensitivity of measurement to variations in the significant unobservable inputs

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

A decrease in the equivalent yield by 25 basis points would result in an increase in the fair value of the Group's investment property by £84.8 million (2022: £138.5 million) whilst a 25 basis point increase would reduce the fair value by £85.4 million (2022: £107.0 million). A decrease in the ERV by 5% would result in a decrease in the fair value of the Group's investment property by £79.0 million (2022: £86.8 million) whilst an increase in the ERV by 5% would result in an increase in the fair value of the Group's investment property by £70.7 million (2022: £106.5 million).

Where the Group leases out its investment property under operating leases the duration is typically three years or more. No material variable contingent rents have been recognised in the current or prior year.

Sustainability, climate change, Net Zero Carbon Pathway and EPC compliance

In August 2021, the Group published its Sustainability Strategy which includes a pathway to achieve Net Zero Carbon ("NZC") emissions by 2030 (see pages 37 to 38). Our NZC Pathway is underpinned by individual property energy audits, undertaken by technical experts, which identify energy and carbon saving opportunities. At today's costs, the investment required to upgrade all our assets to meet our SBTi-aligned NZC target amounts to an estimated £65 million over the 10-year period between 2021 and 2030, with over £15 million spent since 2021. We have integrated the energy audits into individual Asset Management Plans to enable strategic decisions about the refurbishment, sale or full redevelopment of our assets to be made. Additional audits are undertaken as and when required (e.g. when a property enters the portfolio) to ensure the robust delivery of the Pathway across the Group's portfolio. Progress against our NZC Pathway, including an update on, is detailed in our separate Sustainability Report. The UK portfolio is already compliant with the 2023 Minimum Energy Efficiency Standard (MEES) requirements, whilst further upgrades are scheduled to ensure our properties achieve the expected target of EPC B by 2030. In France, our Asset Management Plans will ensure we meet the Décret Tertiaire requirements and although there are currently no minimum targets for existing buildings in Germany, our NZC Pathway will see our alignment with the Carbon Risk Real Estate Monitor ("CRREM") energy and carbon intensity pathways, by 2030, across all three regions.

13. 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 2022	25.0	3.2	11.0	3.2	42.4
Additions	–	–	0.1	0.3	0.4
Disposals	–	–	–	(0.1)	(0.1)
Reclassification to held for sale	–	(3.6)	–	–	(3.6)
Revaluation	1.7	0.4	(0.4)	–	1.7
Exchange rate variances	–	–	0.1	0.1	0.2
At 31 December 2022	26.7	–	10.8	3.5	41.0
Additions	0.5	–	–	0.3	0.8
Disposals	–	–	–	–	–
Reclassification to held for sale	–	–	–	–	–
Reclassification (to)/from fixtures and fittings	(0.2)	–	–	0.2	–
Revaluation	3.2	–	(1.2)	–	2.0
Exchange rate variances	–	–	(0.1)	(0.1)	(0.2)
At 31 December 2023	30.2	–	9.5	3.9	43.6
Comprising:					
At cost	–	–	–	3.9	3.9
At valuation	30.2	–	9.5	–	39.7
	30.2	–	9.5	3.9	43.6
Accumulated depreciation and impairment					
At 1 January 2022	–	–	–	(1.1)	(1.1)
Depreciation charge	(0.1)	–	(0.1)	(0.4)	(0.6)
Disposals	–	–	–	0.1	0.1
Revaluation	0.1	–	0.1	–	0.2
At 31 December 2022	–	–	–	(1.4)	(1.4)
Depreciation charge	(0.1)	–	(0.1)	(0.4)	(0.6)
Disposals	–	–	–	–	–
Revaluation	0.1	–	0.1	–	0.2
At 31 December 2023	–	–	–	(1.8)	(1.8)
Net book value					
At 31 December 2023	30.2	–	9.5	2.1	41.8
At 31 December 2022	26.7	–	10.8	2.1	39.6

Notes to the Group financial statements for the year ended 31 December 2023

continued

13. Property, plant and equipment continued

Valuation techniques

The fair value of the hotel and owner-occupied property has been determined using the following approach in accordance with International Valuation Standards:

Hotel	a 10 year discounted cash flow model with an assumed exit thereafter. The projected EBITDA in the 11th year is capitalised at a market yield before being brought back to present day values.
Owner – occupied property	an income capitalisation approach whereby contracted and market rental values are capitalised with a market capitalisation rate

This technique is consistent with the principles in IFRS 13 Fair Value Measurement and uses significant unobservable inputs such that the fair value measurement of the hotel within the portfolio has been classified as Level 3 in the fair value hierarchy.

Sensitivity of measurement to variations in the significant unobservable inputs

All other factors remaining constant, an increase in EBITDA would increase the valuation, whilst an increase in exit capitalised yield would result in a fall in value, and vice versa. A decrease in the exit capitalisation yield by 100 basis points would result in an increase in the fair value of the hotel by £5.5 million, whilst a 100 basis point increase would reduce the fair value by £4.0 million. A decrease in EBITDA by 5% would result in a decrease in the fair value of the hotel by £1.5 million whilst an increase in the EBITDA by 5% would result in an increase in the fair value of the hotel by £1.5 million.

14. Assets held for sale

	2023				2022			
	UK £m	Germany £m	France £m	Total £m	UK £m	Germany £m	France £m	Total £m
At 1 January	7.0	3.6	9.7	20.3	37.3	–	6.9	44.2
Disposals	–	(3.6)	–	(3.6)	(37.3)	–	(6.9)	(44.2)
Transfer from investment property	40.8	115.6	0.3	156.7	7.0	–	9.7	16.7
Transfer from property, plant and equipment	–	–	–	–	–	3.6	–	3.6
Revaluation	(0.5)	–	–	(0.5)	–	–	–	–
Exchange rate variances	–	–	(0.2)	(0.2)	–	–	–	–
At 31 December	47.3	115.6	9.8	172.7	7.0	3.6	9.7	20.3

The balance above comprises 6 properties (2022: 3 properties) that at the year end were being marketed for sale and are expected to be disposed of within 12 months via an open market process. The properties are situated in the UK, Germany and France. The directors expect that the sale proceeds achieved to be similar to their carrying amounts.

15. Trade and other receivables

	2023 £m	2022 £m
Current		
Trade receivables	8.8	5.3
Other receivables	4.4	4.9
Prepayments	1.4	2.7
Accrued income	2.1	2.9
	16.7	15.8

15. Trade and other receivables continued

Trade receivables are shown after deducting a provision of £1.9 million (2022: £2.8 million) which is calculated as an expected credit loss. The movements in this provision were as follows:

	2023 £m	2022 £m
At 1 January	2.8	2.4
Debt write-offs	(0.9)	(0.2)
Charge to the income statement	–	0.6
At 31 December	1.9	2.8

The Group uses a provision matrix to calculate the expected credit loss for trade receivables. The provision rates are based on the Group's historical observed aging of debt and the probability of default. At every reporting date, the provision rates are updated to incorporate the previous 12 months data and forward-looking information such as actual and potential impacts of political and economic uncertainty, if applicable. In addition, on a tenant-by-tenant basis, the Group takes into account any recent payment behaviours and future expectations of likely default events. Specific provisions are made in excess of the expected credit loss where information is available to suggest a higher provision is required, for example individual customer credit ratings, actual or expected insolvency filings or company voluntary arrangements, likely deferrals of payments due, agreed rent concessions and market expectations and trends in the wider macro-economic environment in which our customers operate. An additional review of tenant debtors was undertaken to assess recoverability in light of the political and economic uncertainty.

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

16. Cash and cash equivalents

	2023 £m	2022 £m
Cash at bank	70.6	113.9

At 31 December 2023, cash at bank included £26.1 million (2022: £15.8 million) which was restricted by a third-party charge. £10.7 million of the restricted cash related to tenant deposits (2022: £10.3 million).

17. Trade and other payables

	2023 £m	2022 £m
Current		
Trade payables	4.1	4.6
Social security and other taxes	2.2	2.1
Tenant deposits	10.7	10.3
Other payables	5.7	4.2
Deferred income	20.5	13.0
Accruals	25.4	24.4
	68.6	58.6

Notes to the Group financial statements for the year ended 31 December 2023

continued

18. Deferred tax

	Liabilities				Assets				Total deferred tax £m
	UK capital allowances £m	Fair value adjustments to properties £m	Other £m	Total £m	UK capital allowances £m	Losses £m	Other £m	Total £m	
At 1 January 2022	0.3	107.8	1.8	109.9	–	(2.4)	(0.2)	(2.6)	107.3
(Credited)/charged									
to income statement	–	(4.9)	(0.2)	(5.1)	–	(0.3)	–	(0.3)	(5.4)
to OCI ¹	–	0.4	–	0.4	–	–	–	–	0.4
Exchange rate variances	–	5.3	–	5.3	–	0.1	–	0.1	5.4
At 31 December 2022	0.3	108.6	1.6	110.5	–	(2.6)	(0.2)	(2.8)	107.7
Charged/(credited)									
to income statement	0.4	(17.0)	(0.1)	(16.7)	–	(0.7)	0.1	(0.6)	(17.3)
to OCI ¹	–	0.6	–	0.6	–	–	–	–	0.6
Exchange rate variances	–	(2.3)	–	(2.3)	–	–	–	–	(2.3)
At 31 December 2023	0.7	89.9	1.5	92.1	–	(3.3)	(0.1)	(3.4)	88.7

1 Other Comprehensive Income.

Deferred tax has been calculated based on local rates applicable under local 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 2023 the Group offset tax losses valued at the applicable local tax rate of £12.8 million (2022: £9.8 million) against the deferred tax liability arising on the fair value adjustments to properties. At 31 December 2023 the Group did not recognise deferred tax assets of £13.2 million (2022: £8.0 million) in respect of losses amounting to £76.1 million (2022: £45.6 million) which may be carried forward and utilised against future taxable income or gains. There is no expiry period for the carried forward tax losses.

19. Borrowings

	At 31 December 2023			At 31 December 2022		
	Current £m	Non-current £m	Total borrowings £m	Current £m	Non-current £m	Total borrowings £m
Secured bank loans	193.9	876.7	1,070.6	173.4	932.5	1,105.9

Issue costs of £5.0 million (2022: £5.3 million) have been offset in arriving at the balances in the above tables.

Secured bank loans

Interest on bank loans is charged at fixed rates ranging between 0.8% and 5.1% including margin (2022: 0.8% and 4.4%) and at floating rates of typically SONIA or EURIBOR plus a margin. Floating rate margins range between 1.1% and 2.8% (2022: 1.1% and 2.2%). The bank loans are secured by legal charges over £1,988.8 million (2022: £2,247.6 million) of the Group's properties, and in most cases a floating charge over the remainder of the assets held in the company which owns the property. In addition, the share capital of some of the subsidiaries within the Group has been charged.

19. Borrowings continued

Secured green loans

The Group's debt portfolio includes two sustainability linked loans;

- £150.7m maturing in 2032
- £59.4m maturing in 2033

These loans have a basis point margin incentive for meeting annual sustainability targets which align with our Net Zero Carbon Pathway for the properties which are securing them. The targets have been independently verified to be aligned with the Loan Market Association (LMA) Sustainability-Linked loan principles. The targets set for any given year are based on actual ESG data/milestones achieved in the prior year. Each of the 2023 targets (tested on 31 December 2022 actual results) have been met resulting in lower interest rates being applied to these loans. The reduction in interest rate margin is not considered to be a substantial modification of the loan terms.

Capitalised interest

Interest capitalised within investment property capital expenditure during the year was £1.0 million (2022: £0.5 million) at an average rate of 4.26% (2022: 3.22%).

The Group has complied with all externally imposed capital requirements to which it was subject.

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

	Secured bank loans £m
At 31 December 2023	
Maturing in:	
Within one year or on demand	195.4
One to two years	327.0
Two to five years	331.0
More than five years	222.2
	1,075.6
Unamortised issue costs	(5.0)
Borrowings	1,070.6
Due within one year	(193.9)
Due after one year	876.7

At the year ended 31 December 2022 £175.1 million of borrowings were due for repayment within one year and £350.1 million, was due within one to two years including unamortised issue costs. During 2023, CLS refinanced £330.6 million of which £129.1 million was classified as new loans.

	Secured bank loans £m
At 31 December 2022	
Maturing in:	
Within one year or on demand	175.1
One to two years	350.1
Two to five years	314.4
More than five years	271.6
	1,111.2
Unamortised issue costs	(5.3)
Borrowings	1,105.9
Due within one year	(173.4)
Due after one year	932.5

Notes to the Group financial statements for the year ended 31 December 2023

continued

19. Borrowings continued

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

	At 31 December 2023			At 31 December 2022		
	Sterling £m	Euro £m	Total £m	Sterling £m	Euro £m	Total £m
Fixed rate financial liabilities	238.9	462.4	701.3	241.3	445.8	687.1
Floating rate financial liabilities – swaps	115.3	–	115.3	117.4	–	117.4
Total fixed rate	354.2	462.4	816.6	358.7	445.8	804.5
Floating rate financial liabilities – capped	–	40.6	40.6	–	42.6	42.6
Floating rate financial liabilities	159.9	58.5	218.4	162.2	101.9	264.1
Total floating rate	159.9	99.1	259.0	162.2	144.5	306.7
	514.1	561.5	1,075.6	520.9	590.3	1,111.2
Unamortised issue costs	(3.3)	(1.7)	(5.0)	(3.5)	(1.8)	(5.3)
Borrowings	510.8	559.8	1,070.6	517.4	588.5	1,105.9

Of the Group's total borrowings, 76% (2022: 72%) are considered fixed rate borrowings.

At 31 December 2023, the Group had interest rate swap agreements in place with an aggregate notional amount of £115.3 million (2022: £117.4 million) whereby the Group pays an average fixed rate of interest of 1.89% and receives interest at a daily variable rate. The swap is being used to hedge the exposure to changes in the variable rate of sterling denominated loans.

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

	Weighted average interest rate ¹			Weighted average life		
	Sterling %	Euro %	Total %	Sterling Years	Euro Years	Total Years
At 31 December 2023						
Fixed rate financial liabilities	2.7	2.5	2.5	7.4	2.8	4.4
Floating rate financial liabilities – swaps	4.7	–	4.7	4.7	–	1.0
	3.3	2.5	2.8	5.3	2.8	3.9
Floating rate financial liabilities – capped	–	2.6	2.6	–	3.8	3.8
Floating rate financial liabilities	7.1	5.2	6.6	1.6	2.9	1.9
	7.1	4.2	6.0	1.6	3.3	2.2
Gross borrowings	4.5	2.8	3.6	4.1	2.9	3.5
	Weighted average interest rate ¹			Weighted average life		
	Sterling %	Euro %	Total %	Sterling Years	Euro Years	Total Years
At 31 December 2022						
Fixed rate financial liabilities	2.7	1.6	2.0	8.4	3.0	4.9
Floating rate financial liabilities – swaps	3.2	–	3.2	1.4	–	1.4
	2.9	1.6	2.2	6.1	3.0	4.4
Floating rate financial liabilities – capped	–	2.5	2.5	–	4.8	4.8
Floating rate financial liabilities	4.8	3.5	4.3	1.4	2.5	1.8
	4.8	3.2	4.1	1.4	3.1	2.2
Gross borrowings	3.5	2.0	2.7	4.6	3.0	3.8

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

19. Borrowings continued

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

	Carrying amounts		Fair values	
	2023 £m	2022 £m	2023 £m	2022 £m
Current borrowings	193.9	173.4	193.9	173.4
Non-current borrowings	876.7	932.5	820.0	845.3
	1,070.6	1,105.9	1,013.9	1,018.7

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

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

	2023 £m	2022 £m
Floating rate:		
– expiring within one year	–	30.0
– expiring after one year ¹	50.0	–
	50.0	30.0

¹ £30 million of this facility is secured on selected UK properties.

In addition to the above committed facility, the Group has £nil of uncommitted facilities available (2022: £20 million).

Contractual undiscounted cash outflows

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

	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	Over 5 years £m	Total £m
At 31 December 2023							
Secured bank loans	195.3	327.0	75.5	135.7	119.8	222.2	1,075.5
Interest payments on borrowings ¹	39.4	32.8	14.9	12.3	8.2	17.6	125.2
Effect of interest rate swaps	(2.8)	(0.6)	–	–	–	–	(3.4)
Effect of interest rate caps	(0.8)	(0.4)	(0.3)	(0.1)	–	–	(1.6)
Gross loan commitments	231.1	358.8	90.1	147.9	128.0	239.8	1,195.8
At 31 December 2022							
Secured bank loans	175.1	350.1	121.6	54.9	137.9	271.6	1,111.2
Interest payments on borrowings ¹	35.3	26.5	14.3	11.3	9.4	25.2	122.1
Effect of interest rate swaps	(3.9)	(2.6)	–	–	–	–	(6.5)
Gross loan commitments	206.5	374.0	135.9	66.2	147.3	296.8	1,226.7

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 for the year ended 31 December 2023

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20. Derivative financial instruments

	2023 Assets £m	2023 Liabilities £m	2022 Assets £m	2022 Liabilities £m
Non-current:				
Interest rate caps and swaps	3.6	–	8.5	–
Current:				
Forward foreign exchange contracts	0.7	–	–	–
	4.3	–	8.5	–

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

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

Interest rate caps

The aggregate notional principal of interest rate caps at 31 December 2023 was £40.8 million (2022: £42.7 million). The average period to maturity of these interest rate caps was 2.7 years (2022: 3.7 years).

Interest rate swaps

The aggregate notional principal of interest rate swap contracts at 31 December 2023 was £115.3 million (2022: £117.4 million). The average period to maturity of these interest rate swaps was 0.9 years (2022: 1.4 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 2023 and 31 December 2022 the Group had no outstanding foreign exchange contracts.

Derivative financial instruments cash flows

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

	2023 Assets £m	2023 Liabilities £m	2022 Assets £m	2022 Liabilities £m
Maturing in:				
Less than 1 year	3.8	–	4.3	–
1 to 2 years	1.0	–	3.5	–
2 to 3 years	0.3	–	0.8	–
3 to 4 years	0.1	–	0.6	–
4 to 5 years	–	–	0.1	–
Over 5 years	–	–	–	–
	5.2	–	9.3	–

21. Financial instruments

Categories of financial instruments

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

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

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

- Interest rate swaps and caps are measured at the present value of future cash flows based on applicable yield curves derived from quoted interest rates;
- Foreign currency options and forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts;
- The fair values of non-derivative financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. Financial assets in this category include financial assets at fair value through other comprehensive income or fair value through profit and loss such as 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 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 and equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings. Management perform "stress tests" of the Group's business model to ensure that the Group's objectives can be met and these objectives were met during 2023 and 2022.

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

The gearing ratio at the year end was as follows:

	Notes	2023 £m	2022 £m
Debt	19	1,075.6	1,111.2
Liquid resources	16	(70.6)	(113.9)
Net debt (A)		1,005.0	997.3
Equity (B)		929.2	1,220.8
Net debt to equity ratio (A/B)		108.2%	81.7%

Debt is defined as long-term and short-term borrowings before unamortised issue costs as detailed in note 19. Liquid resources are cash and short-term deposits. Equity includes all capital and reserves of the Group attributable to the owners of the Company.

Notes to the Group financial statements for the year ended 31 December 2023

continued

21. Financial instruments continued

Externally imposed capital requirement

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

Risk management objectives

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

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

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

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

(a) Market risk

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

(i) Interest rate risk

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

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

Scenario	2023 Income statement & equity £m	2022 Income statement & equity £m
Cash +50 basis points	0.4	0.6
Variable borrowings (including swaps and caps) +50 basis points	(2.6)	(0.9)
Cash -50 basis points	(0.4)	(0.6)
Variable borrowings (including swaps and caps) -50 basis points	1.3	1.5

An increase or decrease of 100 basis points on the cash balance would result in a gain/(loss) of £0.7 million/(£0.7 million) from cash and cash equivalents. An increase of 100 basis points on variable borrowings would result in a loss of £1.3 million and a decrease of 100 basis points on variable borrowings would result in a gain of £2.6 million.

(ii) Foreign exchange risk

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

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

21. Financial instruments continued

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

Scenario	2023 Net assets £m	2023 Profit before tax £m	2022 Net assets £m	2022 Profit before tax £m
1% increase in value of Sterling against the Euro	(5.1)	0.9	(6.0)	0.3
1% fall in value of Sterling against the Euro	5.2	(0.9)	6.1	(0.3)

A 10% increase in the value of the Sterling against the Euro would result in a decrease in net assets of £47.1 million and reduction of profit before tax of £8.1 million. A 10% decrease in the value of the Sterling against the Euro would result in an increase in net assets of £57.5 million and an increase of profit before tax of £9.9 million. The sensitivity disclosed related to the foreign operations, as the sensitivity related to financial instruments is not considered significant.

(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 cash rental deposits. At 31 December 2023, the Group held £10.7 million in rent deposits (2022: £10.3 million) against £8.8 million of trade receivables (2022: £5.3 million). The overall credit risk in relation to customers is monitored on an ongoing basis. Moreover, a significant proportion of the Group portfolio is let to Government occupiers which can be considered financially secure.

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

At 31 December 2023 the Group held £4.3 million (2022: £8.5 million) of financial assets at fair value through profit and loss. Management considers the credit risk associated with individual transactions and monitors the risk on a continuing basis. Information is gathered from external credit rating agencies and other market sources to allow management to react to any perceived change in the underlying credit risk of the instruments in which the Group invests. This allows the Group to minimise its credit exposure to such items and at the same time to maximise returns for shareholders.

(c) Liquidity risk

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

The majority of the Group's debt is arranged on an asset-specific, non-recourse basis (mortgage type loans in SPVs). 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. Portfolio loans secured by multiple properties are also used when circumstances require it or to obtain better conditions.

Banking covenants vary according to each loan agreement, but typically include loan-to-value and income related covenants. In addition, the Group has two "green" loans, each of which have a 10-basis point incentive for achieving certain sustainability targets. The Group targets a loan-to-value in the range of 35% to 45%. Balance sheet loan-to-value at 31 December 2023 was 48.5% (2022: 42.2%).

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 Group's loan facilities and other borrowings are spread across a range of 24 banks and financial institutions so as to minimise any potential concentration of risk.

Notes to the Group financial statements for the year ended 31 December 2023

continued

22. Financial assets and liabilities

	Fair value through profit and loss £m	Amortised cost £m	Total carrying value £m
Financial assets:			
Cash and cash equivalents	–	70.6	70.6
Derivative financial assets	4.3	–	4.3
Other assets – current ¹	–	15.3	15.3
	4.3	85.9	90.2
Financial liabilities:			
Secured bank loans	–	(1,070.6)	(1,070.6)
Other liabilities – current ²	–	(45.9)	(45.9)
	–	(1,116.5)	(1,116.5)
At 31 December 2023	4.3	(1,030.6)	(1,026.3)
	Fair value through profit and loss £m	Amortised cost £m	Total carrying value £m
Financial assets:			
Cash and cash equivalents	–	113.9	113.9
Derivative financial assets	8.5	–	8.5
Other assets – current ¹	–	13.0	13.0
	8.5	126.9	135.4
Financial liabilities:			
Secured bank loans	–	(1,105.9)	(1,105.9)
Other liabilities – current ²	–	(43.3)	(43.3)
	–	(1,149.2)	(1,149.2)
At 31 December 2022	8.5	(1,022.3)	(1,013.8)

1 Other assets included all amounts shown as trade and other receivables in note 15 except prepayments of £1.4 million (2022: £2.7 million). All current amounts are non-interest bearing and receivable within one year.

2 Other liabilities included all amounts shown as trade and other payables in note 17 except deferred income and sales and social security taxes of £22.7 million (2022: £15.1 million). All amounts are non-interest bearing and are due within one year.

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

	2023 £m	2022 £m
Net financial assets and liabilities:	1,026.3	1,013.8
Other assets – current	15.3	13.0
Other liabilities – current	(45.9)	(43.3)
Cash and cash equivalents	70.6	113.9
Borrowings and derivative financial instruments	1,066.3	1,097.4

23. Share capital

	Number of shares authorised, issued and fully paid			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
At 1 January 2023	397,210,866	41,566,914	438,777,780	9.9	1.1	11.0
Issue of shares	199,402	(199,402)	–	–	–	–
At 31 December 2023	397,410,268	41,367,512	438,777,780	9.9	1.1	11.0

23. Share capital continued

	Number of shares authorised, issued and fully paid			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
At 1 January 2022	407,395,760	31,382,020	438,777,780	10.2	0.8	11.0
Purchase of own shares (market purchase)	(10,184,894)	10,184,894	–	(0.3)	0.3	–
At 31 December 2022	397,210,866	41,566,914	438,777,780	9.9	1.1	11.0

The Board is authorised, by shareholder resolution, to allot shares or grant such subscription rights (as are contemplated by sections 551(1) (a) and (b) respectively of the Companies Act 2006) up to a maximum aggregate nominal value of £3,311,752 representing one-third of the issued share capital of the Company excluding treasury shares.

24. Earnings per share

The calculation of earnings per ordinary share is based on earnings after tax and the weighted average number of ordinary shares in issue during the year.

	2023 Number	2022 Number
Weighted average number of ordinary shares in circulation	397,330,507	404,410,051
Number of ordinary shares in circulation	397,410,268	397,210,866

For diluted earnings per share, the weighted average number of ordinary shares in issues is adjusted to assume conversion of all dilutive potential ordinary shares. The diluted earnings per share does not assume conversion of potential ordinary shares that would have an antidilutive effect on earnings per share. The diluted loss per share for the period to 31 December 2023 was restricted to a loss of £62.9p per share, as the loss per share cannot be reduced by dilution in accordance with IAS 33, Earnings Per Share.

The Group has three types of dilutive potential ordinary shares, being: unvested shares granted under the Long Term Incentive Plan for executive directors and senior management; unvested shares granted under the Element B plan for executive directors and senior management; and unvested shares granted under the Special Share Award plan to key management. The issue of all these unvested shares is contingent upon satisfying specified conditions such as length of service and company performance.

Employee share plan	2023 Number	2022 Number
Element B/Special Award	820,246	520,901
LTIP	2,880,054	1,674,113
Total potential dilutive shares	3,700,300	2,195,014

25. Dividend

	Payment date	Dividend per share p	2023 £m	2022 £m
Current year				
2023 final dividend ¹	2 May 2024	5.35	–	–
2023 interim dividend	3 October 2023	2.60	10.3	–
Distribution of current year profit		7.95	10.3	–
Prior year				
2022 final dividend	2 May 2023	5.35	21.3	–
2022 interim dividend	3 October 2022	2.60	–	10.6
Distribution of prior year profit		7.95	21.3	10.6
2021 final dividend	29 April 2022	5.35	–	21.8
Dividends as reported in the Group statement of changes in equity			31.6	32.4

¹ Subject to shareholder approval at the AGM on 25 April 2024. Total cost of proposed dividend is £21.3m.

Notes to the Group financial statements for the year ended 31 December 2023

continued

26. Other reserves

	Notes	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Share-based payment reserve £m	Other reserves £m	Total £m
At 1 January 2023		22.7	59.7	3.0	1.9	28.1	115.4
Exchange rate variances		–	(12.3)	–	–	–	(12.3)
Property, plant and equipment:							
– net fair value gains in the year	13	–	–	2.2	–	–	2.2
– deferred tax thereon	18	–	–	(0.6)	–	–	(0.6)
– reserve transfer on disposal of PPE		–	–	1.5	–	–	1.5
Share-based payment credit		–	–	–	0.5	–	0.5
At 31 December 2023		22.7	47.4	6.1	2.4	28.1	106.7

	Notes	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Share-based payment reserve £m	Other reserves £m	Total £m
At 1 January 2022		22.7	31.2	5.0	1.7	28.1	88.7
Exchange rate variances		–	28.5	–	–	–	28.5
Property, plant and equipment:							
– net fair value gains in the year	13	–	–	1.9	–	–	1.9
– deferred tax thereon	18	–	–	(0.4)	–	–	(0.4)
– reclassification of student accommodation		–	–	(3.5)	–	–	(3.5)
Share-based payment credit		–	–	–	0.2	–	0.2
At 31 December 2022		22.7	59.7	3.0	1.9	28.1	115.4

The capital redemption reserve comprises of the nominal value of the Company's own shares acquired as a result of share buyback programmes.

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, owner-occupied property and hotel 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.

Share options exercised in each respective year have been settled using the treasury shares of the Group. The reduction in the treasury share equity component is equal to the cost incurred to acquire the shares, on a weighted average basis. Any excess of the cash received from employees over the reduction in treasury shares is recorded in share premium. In 2023 there were 199,402 treasury shares transferred to the EBT (2022: 10,184,894) to satisfy future awards under employee share plans. At 31 December 2023, the Group held 41,367,512 ordinary shares (2022: 41,566,914) with a market value of £1.1 million (2022: £1.1 million) in treasury. The Company's voting rights and dividends in respect of the treasury shares, including those own shares which the EBT holds, continue to be waived.

27. Notes to the cash flow

	2023 £m	2022 £m
Cash generated from operations		
Operating loss	(223.4)	(63.9)
Adjustments for:		
Net movements on revaluation of investment properties	302.7	136.5
Net movements on revaluation of equity investments	1.3	3.8
Depreciation and amortisation	0.8	0.6
Profit on sale of investment property	(1.4)	(0.5)
Lease incentive debtor adjustments	(1.1)	(7.8)
Share-based payment charge	0.5	0.2
Changes in working capital:		
(Increase)/decrease in receivables	(0.9)	2.3
Increase/(decrease) in payables	4.7	(0.7)
Cash generated from operations	83.2	70.5

27. Notes to the cash flow continued

		Non-cash movements 2023						31 December 2023 £m
Changes in liabilities arising from financing activities	Notes	1 January 2023 £m	Financing cash flows £m	Amortisation of loan issue costs £m	Fair value adjustments £m	New leases £m	Foreign exchange £m	
Borrowings	19	1,105.9	(24.6)	1.6	–	–	(12.3)	1,070.6
Interest rate swaps	20	(5.6)	–	–	3.1	–	–	(2.5)
Interest rate caps	20	(2.9)	–	–	1.1	–	–	(1.8)
Lease liabilities		3.6	–	–	–	–	(0.1)	3.5
		1,101.0	(24.6)	1.6	4.2	–	(12.4)	1,069.8

		Non-cash movements 2022						31 December 2022 £m
Changes in liabilities arising from financing activities	Notes	1 January 2022 £m	Financing cash flows £m	Amortisation of loan issue costs £m	Fair value adjustments £m	New leases £m	Foreign exchange £m	
Borrowings	19	1,031.6	43.6	1.8	–	–	28.9	1,105.9
Interest rate swaps	20	0.4	–	–	(6.0)	–	–	(5.6)
Interest rate caps	20	–	–	–	(2.8)	–	(0.1)	(2.9)
Lease liabilities		3.4	–	–	–	–	0.2	3.6
		1,035.4	43.6	1.8	(8.8)	–	29.0	1,101.0

28. Contingencies

In April 2023, CLS Holdings plc dissolved 8 subsidiaries (the 'Companies'). Before the Companies were dissolved, capital reductions and distributions of the net assets of the subsidiaries, primarily represented by inter-company receivables of £17.1m, to the Parent should have been executed. However, they were not. As a consequence of this, as a matter of Law, on dissolution of these Companies the technical titles to the inter-company receivables were transferred from the Group to the Crown. The Directors have taken legal advice and started the process to restore these Companies. Thereafter, the Directors can execute the capital reductions and make appropriate distributions to the Parent of these Companies assets. Also, based on that legal advice, the Directors consider that it is improbable that the Crown will pursue the CLS group for these assets of the Companies prior to the process of the restoration of the Companies being completed and the technical title to the receivables being returned to the Group. Therefore, the Directors consider that it is not probable that an outflow of cash or other economic resources of £17.1m from the Group will occur, and therefore no provision is recognised at year end, but has been disclosed as a contingent liability.

29. Commitments

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

Operating lease commitments – where the Group is lessor	2023 £m	2022 £m
Within one year	100.9	100.4
Between one and two years	84.0	85.7
Between two and three years	61.0	71.4
Between three and four years	48.6	50.3
Between four and five years	36.7	38.8
More than five years	153.2	135.0
	484.4	481.6

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 2023 the Group had contracted capital expenditure of £6.9 million (2022: £16.7 million). At the balance sheet date, the Group had not exchanged contracts to acquire any investment properties (2022: £nil). There were no authorised financial commitments which were yet to be contracted with third parties (2022: £nil).

Notes to the Group financial statements for the year ended 31 December 2023

continued

30. Post-balance sheet events

In January 2024, CLS secured a £10 million unsecured overdraft facility with RBS.

Subsequent to the year end the previously exchanged sale of Westminster Tower failed to complete. The sale was not recognised in 2023 and the property is now being re-marketed for sale.

31. Subsidiaries

The Group financial statements include the financial statements of CLS Holdings plc and all of its subsidiaries, which are listed below. All are 100% owned unless otherwise stated. Those marked with a * were dissolved during 2023, those marked with a ^ were sold during 2023.

United Kingdom

Registered Office: 16 Tinworth Street, London SE11 5AL

16 Tinworth Street (Residential) Limited	CLS Holdings UK Limited	Elmfield Road Limited	Spring Gardens III Limited
401 King Street Limited	CLS Kings Court Limited	Fetter Lane Apartments Limited	Spring Mews (Block D) Limited
Apex Tower Limited	CLS Lloyds Avenue Limited	Fetter Lane Leasehold Limited	Spring Mews (Hotel) Limited
Base Offices Limited	CLS London Limited	Harman House Limited	Spring Mews (Student) Limited
Brent House Limited	CLS London Properties Limited	Hygeia Harrow Limited	Spring Mews Limited
Cassini Pascal Limited	CLS Northern Properties Limited *	Ingrove Limited	Three Albert Embankment Limited
Centenary Court Limited	CLS One Limited	Instant Office Limited	Vauxhall Square Limited
Central London Securities Limited	CLS Pacific House Limited	Kennington Road Limited	Vauxhall Square One Limited
CI Tower Investments Limited	CLS Prescott Limited	Ladywell House Limited*	Vauxhall Square (Student) Limited
Citadel Finance Limited	CLS Prioory Place Limited	Larkhall Lane Limited	Wandsworth Road Limited
Citadel Holdings plc	CLS Residential Investments Limited	Maidenhead Cloud Gate Limited	
CLS Aberdeen Limited	CLS Scotland Limited *	Mirenwest Limited	
CLS Capital Partners Limited	CLS South London Limited	New Printing House Square Limited	
CLS Chancery House Limited	CLS Spring Gardens Limited	NYK Investments Limited	
CLS Church Road Limited	CLS Staines Limited	One Elmfield Park Limited	
CLS Cliffords Inn Limited	CLS UK Properties plc	Prescot Street Leasco Limited *	
CLS Clockwork Limited	CLS UK Property Finance Limited	Quayside Lodge Limited *	
CLS Crawley Limited	CLS UK Property Finance 2 Limited	Rayman Finance Limited	
CLS England and Wales Limited *	CLS UK Property Finance 3 Limited	Reflex Bracknell Limited	
CLS Gateway House Limited	CLS Watford Limited	Sentinel House Limited	
CLS Germany Limited	CLSH Management Limited	Shard of Glass Limited *	
CLS Gresham Limited	Columbia Bracknell Limited	Sidlaw House Limited *	
CLS Harrow Limited	Coventry House Limited	Southern House Limited	
	Dukes Road Limited		

31. Subsidiaries continued

Jersey

Registered Office: 1st Floor Liberation House, Castle Street, St Helier, Jersey JE1 1GL

CLS Holdings plc Employee Benefit Trust

France

Registered Office: 36 Rue Jules Verne, 92300 Levallois-Perret, Paris

120 Jean Jaures Sàrl	Forum France SCI	Le Sigma Sàrl	SCI Pierre Valette
Avenue du Park SCI	Georges Clemenceau Sàrl	Leclerc SCI	Sego Sàrl
BV France Sàrl	Immobilière 6 Sàrl	Mission Marchand Sàrl	Solferino SCI
Capitaine Guynemer Sàrl	Immobilière 8 Sàrl	Parc SCI	
CLS France Sàrl	Immobilière 10 Sàrl	Petits Hotels Sàrl	
CLS Management Sàrl	Immobilière V SA	Rhone Alpes Sàrl	
Debussy SCI	Jean Walters Sàrl	Rue Stephenson Sàrl*	
De Musset Sàrl	Le D'Aubigny SCI	Scala Sàrl	
Foch SCI*	Le Quatuor SCI	SCI Frères Peugeot	

Germany

Registered Office: Nagelsweg 37, 20097 Hamburg

CLS Germany GmbH
CLS Green Energy GmbH
Jarrestrasse Immobilien GmbH

Luxembourg

Registered Office: 33 Avenue de la Liberté, 1931 Luxembourg

235 Lyon Sarl	CLS Investments 2 Sarl	Gotic Haus Sarl	Satimood Sarl
Aldershofer Sarl	CLS Luxembourg Sarl	Grossglockner Sarl	Schonbrunn Sarl
Albertina Sarl	CLS Metropolis Sarl	Hermalux Sarl	Zillertal Sarl
Cavernet Sarl	CLS Palisade Sarl	Kapellen Sarl	
Chronotron Sarl	CLS Storkower Strasse Sarl	Landstrasse Sarl	
CLS Dortmund Hiltropwall Sarl	CLS Tangentis Sarl	Naropere Sarl	
CLS Hansaalee Sarl	CLS Wendenstrasse Sarl	Network Perlach Sarl	
CLS Immobilien Stuttgart Sarl	Freepost Sarl	Prater Sarl	
CLS Investments Sarl	Garivet Sarl	Salisbury Hill Sarl	

Netherlands

Registered Office: Burgemeester van Reenensingel 101, 2803 DA Gouda

CLS Management BV
Portapert Properties III BV*
Portapert Properties UK BV

Sweden

Registered Office: Skönabäck 122, 274 91 Skurup

Cood Investments AB (58.02%)* Xtraworks AB^
Museion Förvaltning AB
Rasstaf Sweden AB

Notes to the Group financial statements for the year ended 31 December 2023

continued

32. Related party transactions

Transactions with Directors

Distributions totalling £2,161,582 (2022: £2,160,231) were made through dividend payments in the year in respect of ordinary shares held by the Directors and £16,653,658 (2022: £16,530,803) to the majority shareholder.

During the year the following transactions occurred with companies associated to the majority shareholder:

- The Group charged a management fee in relation to providing property management and administration services. A Group company, CLSH Management Limited, invoiced fees totalling £nil (2022: £81). At the balance sheet date £nil was outstanding (2022: £nil).
- The Group recharged salary costs in relation to providing administration services. CLS Holdings plc invoiced costs totalling £60,450 (2022: £63,384). At the balance sheet date £60,450 was outstanding (2022: £63,384).
- The Group paid fees in relation to the provision of company administration and bookkeeping services in Sweden totalling £nil (2022: £23,601). At the balance sheet date £nil was outstanding (2022: £3,570).
- A Group company, CLS Holdings plc executed an unsecured a £20 million revolving credit facility with Creative Value Investment Group Limited, the investment vehicle of The Sten and Karin Mortstedt Family and Charity Trust, for a period of 2 years with an option to extend a further year. As at balance sheet date the amount drawn on this facility was £nil (2022: £nil).

During the year, or previous year, the following transactions associated with the Directors occurred:

- During the year, the Group invoiced rental related charges of £179,790 (2022: £169,944) to IKEA Limited, a company in a group of companies with a common Director. At the balance sheet date £5,946 was outstanding (2022: £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.

	2023 £000	2022 £000
Short-term employee benefits	1,428	960
Post-employment benefits	49	4
Other long-term benefits	7	56
	1,484	1,020

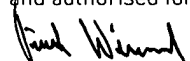
Company balance sheet at 31 December 2023

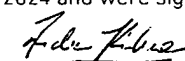
	Notes	2023 £m	Restated 2022 £m Note 4
Non-current assets			
Investment in subsidiary undertakings	8	534.5	440.4
Intangible assets		2.9	2.8
Current assets			
Trade and other receivables	9	77.5	3.6
Total assets		614.9	446.8
Current liabilities			
Trade and other payables	10	(241.3)	(59.5)
Total liabilities		(241.3)	(59.5)
Net assets		373.6	387.3
Equity			
Share capital	11	11.0	11.0
Share premium	12	83.1	83.1
Other reserves	12	28.8	28.3
Retained earnings	12	250.7	264.9
Shareholders' funds	13	373.6	387.3

The Company reported a profit for the financial year ended 31 December 2023 of £17.4 million (2022: restated £32.8 million).

The notes on pages 155 to 159 are an integral part of these Company financial statements.

These financial statements of CLS Holdings plc (registered number: 02714781) were approved by the Board of Directors and authorised for issue on 8 March 2024 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 2023

	Notes	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Arising in 2023:						
Profit for the year	6	–	–	–	17.4	17.4
Share-based payment charge	12	–	–	0.5	–	0.5
Dividends to shareholders	7	–	–	–	(31.6)	(31.6)
Total changes arising in 2023		–	–	0.5	(14.2)	(13.7)
At 1 January 2023		11.0	83.1	28.3	264.9	387.3
At 31 December 2023		11.0	83.1	28.8	250.7	373.6
Arising in 2022:						
Profit for the year - restated (note 4)	12	–	–	–	32.8	32.8
Share-based payment charge	12	–	–	0.2	–	0.2
Dividends to shareholders	7	–	–	–	(32.4)	(32.4)
Purchase of own shares	12	–	–	–	(25.8)	(25.8)
Total changes arising in 2022		–	–	0.2	(25.4)	(25.2)
At 1 January 2022		11.0	83.1	28.1	290.3	412.5
At 31 December 2022		11.0	83.1	28.3	264.9	387.3

The notes on pages 155 to 159 are an integral part of these Company financial statements.

Notes to the Company financial statements for the year ended 31 December 2023

1. General information

These separate Company financial statements are presented as required by the Companies Act 2006 and prepared on the historical cost basis. The Company has applied UK GAAP Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'). 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 all the disclosure exemptions including the following:

- IAS 1 – exemption from capital management disclosures requirements
- IAS 7 – cash flow statement
- IAS 8 – IFRSs issued but not yet effective
- IAS 24 – related party disclosures
- IFRS 2 – share based payments
- IFRS 7 – financial instruments
- IFRS 13 – fair value measurement

Where required, equivalent disclosures are given in the Group financial statements.

Going concern

The Group and Company's going concern assessment covers the period to 31 July 2025. The going concern assessment uses the business plan approved by the Board at its November 2023 meeting as the Base case (see note 2.1 of the Group financial statements). Whilst the Directors consider that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern (see note 2 to the Consolidated financial statements for more details) the financial statements are prepared on a going concern basis. The financial statements do not contain the adjustments that would result if the Company was unable to continue as a going concern.

3. Material accounting policies

The principal accounting policies are summarised below.

3.1 Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less provisions for impairment. Dividend income is recognised when received.

3.2 Impairment

Investments are reviewed for impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. Recoverability of investments are measured by comparison of the carrying amount of the investment and fair value less costs to sell. If such assets are considered to be impaired, the impairment to be recognised is the amount by which the carrying amount exceeds the fair value of the investments.

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.

Notes to the Company financial statements for the year ended 31 December 2023

continued

4. Restatement of prior period

During the preparation of this year's financial statements, the directors noted that the comparative information of CLS Holdings plc at 31 December 2022 required adjustments that change the previously reported net assets and the profit for that year. During the year ended 31 December 2022 two subsidiaries were acquired by CLS Holdings plc from another group company for £26.4m, however this transaction was not recorded by CLS Holdings plc. Therefore, an investment in subsidiaries of £26.4m should have been initially recognised matched with an increase in liabilities to group companies of £26.4m relating to a loan issued to facilitate the transaction. Subsequently, however, the reported net assets of one of the purchased subsidiaries as at 31 December 2022 had fallen and the investment in the subsidiary should have been impaired by £8.5m.

As a consequence, the comparatives at 31 December 2022 have been adjusted as follows:

- Investment in subsidiaries has increased by £17.9m from £422.5m to £440.4m, after taking into account the impairment loss of £8.5m
- Loans due to group companies have increased by £26.4m from £30.9m to £57.3m
- The reported profit for the year 31 December 2022 and net assets and distributable reserves at 31 December 2022 have reduced by £8.5m as:
 - profit for the year decreasing from £41.3m to £32.8m;
 - net assets decreasing from £395.8m to £387.3m; and
 - distributable reserves decreasing from £273.4m to £264.9m

There is no impact on the opening balances as at 1 January 2022. There is no impact on the consolidated financial statements.

5. Accounting judgements and key sources of estimation uncertainty

Accounting judgements

In accordance with IAS 1, the Directors have considered the judgements that have been made in the process of applying the Company's accounting policies, which are described in note 3, and which of those judgements have the most significant effect on the amounts recognised in the financial statements.

Going Concern

For the purposes of the going concern assessment, the Group and Company makes judgements in determining future cash flows which are based on assumptions. The most significant judgements relate to the terms and ability to refinance loan facilities and recycle capital. These judgements are made by management based on recent performance, external factors and management's knowledge and expertise of cashflow drivers. See note 2 to the Consolidated financial statements for more details.

In the opinion of the Directors, they consider the following to be ongoing judgements.

- Impairments to investment in subsidiaries - the recoverable amount is considered to be best estimated by the net asset value at the subsidiaries.

Key sources of estimation uncertainty

The key sources of estimation uncertainty in the preparation of the Company's financial statements is the net asset value at the subsidiaries that is primarily determined by the property values therein (see note 3 in the consolidated financial statements).

6. 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 £17.4 million (2022: restated £32.8 million).

Audit fees for the Company were £0.1 million (2022: £0.1 million).

Details of the Directors employed during the year and of their remuneration is included in the Remuneration Committee Report on pages 81 to 99.

7. Dividend

	Payment date	Dividend per share p	2023 £m	2022 £m
Current year				
2023 final dividend ¹	2 May 2024	5.35	–	–
2023 interim dividend	3 October 2023	2.60	10.3	–
Distribution of current year profit		7.95	10.3	–
Prior year				
2022 final dividend	2 May 2023	5.35	21.3	–
2022 interim dividend	3 October 2022	2.60	–	10.6
Distribution of prior year profit		7.95	21.3	10.6
2021 final dividend	29 April 2022	5.35	–	21.8
Dividends as reported in the Group statement of changes in equity			31.6	32.4

¹ Subject to shareholder approval at the AGM on 25 April 2024. Total cost of proposed dividend is £21.3 million.

8. Investment in subsidiary undertakings

	2023 £m	Restated 2022 £m ¹
At 1 January	440.4	451.4
Additions	208.3	26.4
Disposals	(62.1)	(23.9)
Provision for impairment	(52.1)	(13.5)
At 31 December	534.5	440.4

¹ The prior year additions and provision for impairment have been restated as described in note 4 along with their respective totals.

Certain indicators of impairment were identified by the Company as at 31 December 2023. A determination of the recoverable amount of the investments in subsidiaries were made using the net asset value at the subsidiaries, resulting in an impairment of £52.1 million (2022: £13.5 million). The recoverable amount remains sensitive to the financial performance and financial position of both the Company and its subsidiaries, including the valuation of investment properties of its subsidiaries (see note 12 of Group financial statements).

During the year, the Group performed a recapitalisation of a number of existing subsidiaries, which results in additions of £163.1 million in the year. Included in additions and disposals is £45.2 million of subsidiaries transferred to a new 100% owned holding company.

Notes to the Company financial statements for the year ended 31 December 2023

continued

9. Trade and other receivables

	2023 £m	2022 £m
Amounts owed by subsidiary undertakings	74.8	2.2
Other receivables	2.3	1.1
Prepayments and accrued income	0.2	0.2
Social security and other taxes	0.2	0.1
	77.5	3.6

10. Trade and other payables

	2023 £m	Restated 2022 £m ¹
Trade payables	0.1	–
Amounts owed to subsidiary undertakings	239.0	57.3
Accruals	2.2	2.2
	241.3	59.5

1 The prior year amounts owed to subsidiary undertakings have been restated as described in note 4 along with their respective totals.

11. Share capital

	Number of shares authorised, issued and fully paid			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
At 1 January 2023	397,210,866	41,566,914	438,777,780	9.9	1.1	11.0
Issue of shares	199,402	(199,402)	–	–	–	–
At 31 December 2023	397,410,268	41,367,512	438,777,780	9.9	1.1	11.0

	Number of shares authorised, issued and fully paid			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
At 1 January 2022	407,395,760	31,382,020	438,777,780	10.2	0.8	11.0
Purchase of own shares (market purchase)	(10,184,894)	10,184,894	–	(0.3)	0.3	–
At 31 December 2022	397,210,866	41,566,914	438,777,780	9.9	1.1	11.0

The Board is authorised, by shareholder resolution, to allot shares or grant such subscription rights (as are contemplated by sections 551(1) (a) and (b) respectively of the Companies Act 2006) up to a maximum aggregate nominal value of £3,311,752 representing one-third of the issued share capital of the Company excluding treasury shares.

12. Reserves

	Other reserves				Total £m	Retained earnings £m
	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Other £m		
At 1 January 2023	83.1	22.7	1.0	4.6	28.3	264.9
Share-based payment charge	–	–	0.5	–	0.5	–
Profit for the year	–	–	–	–	–	17.4
Dividends to shareholders	–	–	–	–	–	(31.6)
At 31 December 2023	83.1	22.7	1.5	4.6	28.8	250.7

12. Reserves – continued

	Other reserves				Total £m	Restated retained earnings £m
	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Other £m		
At 1 January 2022	83.1	22.7	0.8	4.6	28.1	290.3
Share-based payment charge	–	–	0.2	–	0.2	–
Profit for the year - restated (note 4)	–	–	–	–	–	32.8
Dividends to shareholders	–	–	–	–	–	(32.4)
Purchase of own shares	–	–	–	–	–	(25.8)
At 31 December 2022	83.1	22.7	1.0	4.6	28.3	264.9

13. Reconciliation of movements in shareholders' funds

	2023 £m	Restated 2022 £m
At 1 January	387.3	412.5
Profit for the year - restated (note 4)	17.4	32.8
Dividends to shareholders	(31.6)	(32.4)
Purchase of own shares	–	(25.8)
Share-based payment charge	0.5	0.2
At 31 December	373.6	387.3

14. Contingencies

Guarantees

At 31 December 2023 and 31 December 2022 CLS Holdings plc had guaranteed certain liabilities of Group companies. These were primarily in relation to Group borrowings and covered interest and amortisation payments. Principal amounts of loans secured from external lenders by two Group companies totalling £39.5 million at 31 December 2023 are also covered by guarantees provided by CLS Holdings plc (£29.9 million at 31 December 2022). CLS Holdings plc guarantees a £30 million revolving credit facility with RBS. As at 31 December 2023 the amount drawn on this facility was £nil (31 December 2022: £nil). 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.

Other

In April 2023, CLS Holdings plc dissolved 8 subsidiaries (the 'Companies'). Before the Companies were dissolved, capital reductions and distributions of the net assets of the subsidiaries, primarily represented by inter-company receivables of £17.1 million, to CLS Holdings plc should have been executed. However, they were not. As a consequence of this, as a matter of Law, on dissolution of these Companies the technical titles to the inter-company receivables were transferred from the Company to the Crown. The Directors have taken legal advice and started the process to restore these Companies. Thereafter, the Directors can then execute the capital reductions and make proper distributions to the Parent of these Companies assets.

Also, based on that legal advice, the Directors consider that it is improbable that the Crown will pursue CLS Holdings plc for settlement of the receivables prior to the process of the restoration of the Companies being completed and the receivables technical title being returned to the Company. Therefore, the Directors consider that it is not probable that an outflow of cash or other economic resources of £17.1 million will occur, and it is therefore no provision is made at year end, but has been disclosed as a contingent liability.

15. Commitments

At 31 December 2023, the Company had no contracted capital expenditure (2022: £nil) and no authorised financial commitments which were yet to be contracted with third parties (2022: £nil).

ADDITIONAL INFORMATION

Five-year financial summary (unaudited)

	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m
Continuing operations					
Revenue	148.7	139.7	139.8	139.4	138.3
Net rental income	113.0	107.8	108.0	109.8	110.6
Administration expenses	(18.2)	(15.7)	(16.2)	(18.5)	(19.9)
Other expenses	(15.6)	(16.2)	(14.4)	(15.1)	(13.7)
Operating profit before revaluation and disposals	79.2	75.9	77.4	76.2	77.0
Net revaluation movement on investment property	(302.7)	(136.5)	28.5	31.5	57.4
Profit/(loss) on sale of investment property	1.4	0.5	(0.1)	11.6	8.6
Gain on sale of other financial investments	–	–	–	–	40.4
Net revaluation movements on equity investments	(1.3)	(3.8)	7.5	–	–
Operating (loss)/profit	(223.4)	(63.9)	113.3	119.3	183.4
Finance income	1.6	10.1	5.9	3.2	5.0
Finance costs	(41.6)	(27.1)	(27.7)	(26.0)	(29.4)
Impairment of goodwill	–	(1.1)	–	–	–
(Loss)/profit before tax	(263.4)	(82.0)	91.5	96.5	159.0
Taxation	13.6	0.1	28.0	(19.1)	(23.8)
(Loss)/profit for the year from continuing operations	(249.8)	(81.9)	119.5	77.4	135.2
Discontinued operations					
Loss for the year from discontinued operations	–	–	–	–	(0.5)
(Loss)/profit for the year	(249.8)	(81.9)	119.5	77.4	134.7
Dividends paid	31.6	32.4	30.8	30.1	28.7
Distribution of current year's profit	31.6	31.9	31.4	30.8	30.1
Net assets employed					
Non-current assets	1,900.2	2,351.4	2,301.1	2,181.4	2,010.2
Current assets	260.7	150.0	237.4	279.6	295.4
	2,160.9	2,501.4	2,538.5	2,461.0	2,305.6
Current liabilities	(262.8)	(234.0)	(229.8)	(158.2)	(198.9)
Non-current liabilities	(968.9)	(1,046.6)	(978.0)	(1,032.2)	(904.3)
Net assets	929.2	1,220.8	1,330.7	1,270.6	1,202.4
Ratios	2023	2022	2021	2020	2019
Net assets per share (pence)	233.8	307.3	326.6	311.9	295.1
EPRA NTA per share (pence)	253.0	329.6	350.5	345.2	326.3
Earnings per share (pence)	(62.9)	(20.2)	29.3	19.0	33.3
EPRA earnings per share (pence)	10.3	11.6	11.3	12.2	12.0
Total Accounting Return – basic (%)	(21.3)	(3.5)	7.1	8.2	10.7
Total Accounting Return – EPRA NTA (%)	(20.8)	(3.7)	3.7	8.1	9.4
Net gearing (%)	108.2	81.7	65.4	58.3	53.0
Balance sheet loan-to-value (%)	48.5	42.2	37.1	33.7	31.4
Interest cover (times)	2.23	2.98	3.16	3.26	3.42

Supplementary disclosures (unaudited)

Unaudited unless otherwise stated

Alternative Performance Measures

CLS uses all the EPRA metrics but we have also disclosed the measures that CLS used to prefer for certain of these categories. The notes below highlight where the measures that we monitor differ and our previous rationale for using them.

The measures we disclose are:

- EPRA net initial yield;
- EPRA 'topped-up' net initial yield;
- EPRA vacancy;
- EPRA capital expenditure;
- EPRA cost ratio;
- EPRA LTV; and
- EPRA like-for-like gross rental income growth.

Other APMs

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

- Total Accounting Return
- Net borrowings and gearing;
- Loan-to-value;
- Administration cost ratio;
- Dividend cover; and
- Interest cover.

1. EPRA APMs

i) 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, student accommodation, held as PPE or occupied by CLS).

	2023				2022			
	United Kingdom £m	Germany £m	France £m	Total £m	United Kingdom £m	Germany £m	France £m	Total £m
Rent passing	45.5	46.4	13.2	105.1	46.0	42.6	12.8	101.4
Adjusted for properties in development	–	–	–	–	(0.9)	–	–	(0.9)
Forecast non-recoverable service charge	(3.7)	(2.0)	(0.5)	(6.2)	(1.5)	(2.1)	(0.3)	(3.9)
Annualised net rents (A)	41.8	44.4	12.7	98.9	43.6	40.5	12.5	96.7
Property portfolio ¹	745.4	883.8	246.0	1,875.2	946.8	990.1	284.2	2,221.1
Adjusted for properties in development	(15.7)	(2.9)	–	(18.5)	(118.7)	(4.9)	–	(123.6)
Purchasers' costs at 6.8%	49.6	59.9	16.7	126.2	56.3	67.0	19.3	142.6
Property portfolio valuation including purchasers' costs (B)	779.3	940.8	262.7	1,982.9	884.4	1,052.2	303.5	2,240.1
EPRA NIY (A/B)	5.4%	4.7%	4.8%	5.0%	4.9%	3.9%	4.1%	4.3%

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

Supplementary disclosures (unaudited) continued

Alternative Performance Measures continued

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).

	2023				2022			
	United Kingdom £m	Germany £m	France £m	Total £m	United Kingdom £m	Germany £m	France £m	Total £m
Contracted rent	50.9	47.5	14.2	112.6	48.1	47.4	14.7	110.2
Adjusted for properties in development	–	–	–	–	(0.9)	–	–	(0.9)
Forecast non-recoverable service charge	(3.7)	(2.0)	(0.5)	(6.2)	(1.5)	(2.1)	(0.3)	(3.9)
'Topped-up' annualised net rents (A)	47.2	45.5	13.7	106.4	45.7	45.3	14.4	105.4
Property portfolio ¹	745.4	883.8	246.0	1,875.2	946.8	990.1	284.2	2,221.1
Adjusted for properties in development	(15.7)	(2.8)	–	(18.5)	(118.7)	(4.9)	–	(123.6)
Purchasers' costs (6.8%)	49.6	59.9	16.7	126.2	56.3	67.0	19.3	142.6
Property portfolio valuation including purchasers' costs (B)	779.3	940.9	262.7	1,982.9	884.4	1,052.2	303.5	2,240.1
EPRA 'topped-up' NIY (A/B)	6.1%	4.8%	5.2%	5.4%	5.2%	4.3%	4.8%	4.7%

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

ii) Vacancy

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

EPRA vacancy

	2023 £m	2022 £m
ERV of vacant space (A)	13.9	9.0
ERV of let space	112.4	112.4
ERV of total portfolio (B)	126.3	121.4
EPRA vacancy rate (A/B)	11.0%	7.4%

iii) Capital expenditure

EPRA capital expenditure

This measure shows the total amounts spent on the Group's investment properties on an accrual and cash basis with a split between expenditure used for the creation of incremental space and enhancing space ('no incremental space'). The sum of these expenditures is included in Capital expenditure in Note 12 of the Notes to the Group Financial Statements. The Group is not party to any joint venture arrangements, therefore this measure is not disclosed.

	Notes	2023 £m	2022 £m
Acquisitions	12	–	83.4
Amounts spent on the completed investment property portfolio	12		
Creation of incremental space		2.1	12.7
Creation of no incremental space		47.5	45.5
EPRA capital expenditure		49.6	141.6
Conversion from accrual to cash basis		(3.2)	(1.0)
EPRA capital expenditure on a cash basis	CF ¹	46.4	140.6

¹ Group statement of cash flows.

iv) Cost ratios

EPRA cost ratio

The Group has a policy of capitalising certain staff costs directly attributable to the management of the development of investment properties as outlined in note 2.5 of the Notes to the Group Financial Statements.

	Notes	2023 £m	2022 £m
Recurring administration expenses		18.2	15.7
Other expenses	4	15.6	16.2
Less: Other investments segment and student accommodation operating costs		(5.2)	(5.7)
Net service charge costs	4	28.6	26.2
Service charge costs recovered through rents but not separately invoiced		5.7	4.9
Dilapidations receipts		(0.1)	(0.3)
		(2.3)	(1.2)
EPRA costs (including direct vacancy costs) (A)		31.9	29.6
Direct vacancy costs		(6.1)	(4.0)
EPRA costs (excluding direct vacancy costs) (B)		25.8	25.6
Gross rental income	4	102.8	99.4
Service charge components of gross rental income		(0.1)	(0.3)
EPRA gross rental income (C)		102.7	99.1
EPRA cost ratio (including direct vacancy costs) (A/C)		31.1%	29.9%
EPRA cost ratio (excluding direct vacancy costs) (B/C)		25.1%	25.8%

v) EPRA LTV

	Notes	2023 £m	2022 £m
Borrowings from financial institutions	19	1,070.6	1,105.9
Net payables		52.2	44.8
Cash and cash equivalents	16	(70.6)	(113.9)
Net debt (A)		1,052.2	1,036.8
Properties held as property, plant and equipment	13	39.7	37.5
Investment properties	12	1,850.5	2,295.0
Properties held for sale	14	172.7	20.3
Financial assets – equity investments		1.4	2.7
Total property value (B)		2,064.3	2,355.5
EPRA LTV (A/B)		51.0%	44.0%

vi) EPRA like-for-like gross rental income growth

This measure shows the growth in gross rental income on properties owned throughout the current and previous year. This growth rate excludes properties held for development, acquired or disposed in either year.

	Notes	2023 %	2022 %
Increase/(decrease) in gross rental income (%)		3.5	(1.8)
		2023 £m	2022 £m
Increase/(decrease) in gross rental income (£m)		3.4	(1.8)

Supplementary disclosures (unaudited) continued

Alternative Performance Measures continued

2. Other APMs

i) Total Accounting Return per share

	Notes	2023 pence	2022 pence
EPRA NTA at 31 December	5	253.0	329.6
Distribution – prior year final ¹	25	5.4	5.4
Distribution – current year interim	25	2.6	2.6
Less: EPRA NTA at 1 January (A)	5	(329.6)	(350.5)
Return before dividends (B)		(68.6)	(12.9)
Total Accounting Return (NTA) (B/A)		(20.8)%	(3.7)%

¹ The 2023 and 2022 final dividend was 5.35p but has been rounded to 5.4p for the purpose of this note.

ii) Net borrowings and gearing

	Notes	2023 £m	2022 £m
Borrowings short-term	19	193.9	173.4
Borrowings long-term	19	876.7	932.5
Add back: unamortised issue costs	19	5.0	5.3
Gross debt	19	1,075.6	1,111.2
Cash	16	(70.6)	(113.9)
Net borrowings (A)		1,005.0	997.3
Net assets (B)		929.2	1,220.8
Net gearing (A/B)		108.2%	81.7%

iii) Balance sheet loan-to-value

	Notes	2023 £m	2022 £m
Borrowings short-term	19	193.9	173.4
Borrowings long-term	19	876.7	932.5
Less: cash	16	(70.6)	(113.9)
Net debt (A)		1,000.0	992.0
Investment properties	12	1,850.5	2,295.0
Properties in plant, property and equipment	13	39.7	37.5
Properties and land held for sale	14	172.7	20.3
Total property portfolio (B)		2,062.9	2,352.8
Balance sheet loan-to-value (A/B)		48.5%	42.2%

iv) 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	2023 £m	2022 £m
Recurring administration expenses		18.2	15.7
Less: Other investment segment	4	(0.1)	(0.2)
Underlying administration expenses (A)		18.1	15.5
Net rental income (B)	4	113.0	107.8
Administration cost ratio (A/B)		16.0%	14.4%

v) Dividend cover

	Notes	2023 £m	2022 £m
Interim dividend	25	10.3	10.6
Final dividend	25	21.3	21.3
Total dividend (A)		31.6	31.9
EPRA earnings (B)	5	40.9	47.0
Dividend cover (B/A)		1.30	1.47

vi) Interest cover

	Notes	2023 £m	2022 £m
Net rental income	4	113.0	107.8
Recurring administration expenses	4	(18.2)	(15.7)
Other expenses	4	(15.6)	(16.2)
Group revenue less costs (A)		79.2	75.9
Finance income (excluding derivatives and dividend income)	8	1.6	1.3
Finance costs (excluding derivatives)	9	(37.1)	(26.8)
Net interest (B)		(35.5)	(25.5)
Interest cover (-A/B)		2.23	2.98

Glossary

Administration cost ratio

Recurring administration expenses of the investment property operating segment expressed as a percentage of net rental income.

Balance sheet loan-to-value

Net debt expressed as a percentage of property assets.

Building Research Establishment Environmental Assessment Method (BREEAM)

An environmental impact assessment method for non-domestic buildings. Their standards cover new construction, In-Use as well as refurbishment and fit-out. BREEAM In-Use enables property investors, owners, managers and occupiers to determine and drive sustainable improvements in the operational performance of their buildings. It provides sustainability benchmarking and assurance for all building types and assesses performance in a number of areas; management, health & wellbeing, energy, transport, water, resources, resilience, land use & ecology, and pollution. Performance is measured across a series of ratings; Good, Very Good, Excellent and Outstanding.

Carbon emissions Scopes 1, 2 and 3

Scope 1 – direct emissions;

Scope 2 – indirect emissions; and

Scope 3 – other indirect emissions.

CDP

CDP, formerly known as the Carbon Disclosure Project, assesses the ESG performance of all major companies worldwide and aids comparability between organisations to allow the investor community to assess the carbon and climate change risk of each company.

Contracted rent

Annual contracted rental income after any rent-free periods have expired.

Earnings per share

Profit for the year attributable to the owners of the Company divided by the weighted average number of ordinary shares in issue in the period.

Energy Performance Certificate (EPC)

An EPC is an asset rating detailing how energy efficient a building is, rated by carbon dioxide emission on a scale of A-G, where an A rating is the most energy efficient. They are legally required for any building that is to be put on the market for sale or rent.

European Public Real Estate Association (EPRA)

A not-for-profit association with a membership of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors. EPRA's Best Practices Recommendations includes guidelines for the calculation of the following performance measures which the Group has adopted.

EPRA capital expenditure

Investment property acquisitions and expenditure split between amounts used for the creation of additional lettable area ('incremental lettable space') and enhancing existing space ('no incremental space') both on an accrual and cash basis.

EPRA cost ratio

Administrative & operating costs (including & excluding costs of direct vacancy) divided by gross rental income. A measure to enable meaningful measurement of the changes in a company's operating costs.

EPRA earnings per share (EPS)

Earnings from operational activities. A measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.

EPRA like-for-like rental growth

This measure shows the growth in gross rental income on properties owned throughout the current and previous year under review. This growth rate excludes properties held for development, acquired or disposed in either year.

EPRA net reinstatement value (NRV)

NAV adjusted to reflect the value required to rebuild the entity and assuming that entities never sell assets. Assets and liabilities, such as fair value movements on financial derivatives are not expected to crystallise in normal circumstances and deferred taxes on property valuation surpluses are excluded.

EPRA net tangible assets (NTA)

Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.

EPRA net disposal value (NDV)

Represent the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax.

EPRA net initial yield (NIY)

Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the EPRA property portfolio, increased by estimated purchasers' costs.

EPRA LTV

The aim of EPRA LTV is to assess the gearing of the shareholder equity within a real estate company by adjusting IFRS reporting. The main overarching concepts are: any capital which is not equity is considered as debt irrespective of its IFRS classification; it is calculated on proportional consolidation; and assets are included at fair value and net debt at nominal value.

EPRA 'topped up' net initial yield

This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).

EPRA vacancy rate

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

Estimated rental value (ERV)

The market rental value of lettable space as estimated by the Group's valuers.

GRESB

GRESB assesses and benchmarks the environmental, social and governance (ESG) performance of real assets, providing standardised and validated data to the capital markets.

Interest cover

The aggregate of group revenue less costs, divided by the aggregate of interest expense and amortisation of loan issue costs, less interest income.

Key performance indicators (KPIs)

Activities and behaviours, aligned to both business objectives and individual goals, against which the performance of the Group is annually assessed. Performance measured against them is referenced in the annual report.

Liquid resources

Cash and short-term deposits.

Net assets per share or net asset value (NAV)

Equity attributable to the owners of the Company divided by the diluted number of ordinary shares.

Net debt

Total borrowings less liquid resources.

Net gearing

Net debt expressed as a percentage of net assets attributable to the owners of the Company.

Net initial yield

Net rent on investment properties and properties held for sale expressed as a percentage of the valuation of those properties.

Net rent

Passing rent less net service charge costs.

Occupancy rate

Contracted rent expressed as a percentage of the aggregate of contracted rent and the ERV of vacant space.

Over-rented

The amount by which ERV falls short of the aggregate of contracted rent.

Passing rent

Contracted rent before any rent-free periods have expired.

Property loan-to-value

Property borrowings expressed as a percentage of the market value of the property portfolio.

Real Estate Investment Trust (REIT)

A Real Estate Investment Trust (REIT) is a vehicle that allows an investor to obtain broadly similar returns from their investment, as they would have, had they invested directly in property. In the UK a REIT is exempt from UK tax on the income and gains of its property rental business. A REIT in the UK is required to invest mainly in property (75% of total Group's assets and profits must be in the tax exempt business) and to pay out 90% of the profits from its property rental business as measured for tax purposes as dividends to shareholders (property income distributions). In the hands of the shareholder, property income distributions (PID) are taxable as profits of a UK property rental business. The PID is received net of withholding tax, unless it is to a recipient entitled to gross payment.

Rent reviews

Rent reviews take place at intervals agreed in the lease (typically every five years) and their purpose is usually to adjust the rent to the current market level at the review date. For upwards only rent reviews, the rent will either remain at the same level or increase (if market rents are higher) at the review date.

Rent roll

Contracted rent.

Return on equity

The aggregate of the change in equity attributable to the owners of the Company plus the amounts paid to the shareholders as dividends and the purchase of shares in the market, divided by the opening equity attributable to the owners of the Company.

Reversion

The amount by which ERV exceeds contracted rent.

Streamlined energy and carbon reporting (SECR)

The SECR regulations were introduced in April 2019 and require companies incorporated in the UK to undertake enhanced disclosures of their energy and carbon emissions in their financial reporting.

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

Set up by the Financial Stability Board (FSB) in response to the G20 Finance Ministers and Central Bank Governors request for greater levels of decision-useful, climate-related information; the TCFD was asked to develop climate-related disclosures that could promote more informed investment, credit (or lending), and insurance underwriting decisions. In turn, this would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

Total Accounting Return – basic

The change in IFRS net assets before the payment of dividends.

Total Accounting Return

The change in EPRA NTA before the payment of dividends.

Total Shareholder Return (TSR)

The growth in capital from purchasing a share, assuming that dividends are reinvested every time they are received.

True equivalent yield

The capitalisation rate applied to future cash flows to calculate the gross property value, as determined by the Group's external valuers.

UN Sustainable Development Goals (SDGs)

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries – developed and developing – in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

ADDITIONAL INFORMATION

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Lennart Sten* [‡]	(Non-Executive Chairman)
Anna Seeley*	(Non-Executive Vice Chair)
Fredrik Widlund	(Chief Executive Officer)
Andrew Kirkman	(Chief Financial Officer)
Elizabeth Edwards†† [‡]	(Non-Executive Director)
Bill Holland* [†]	(Non-Executive Director)
Eva Lindqvist* [†]	(Non-Executive Director)
Bengt Mortstedt	(Non-Executive Director)

- ‡ Senior Independent Director
* Member of Remuneration Committee
† Member of Audit Committee
‡ Member of Nomination Committee

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