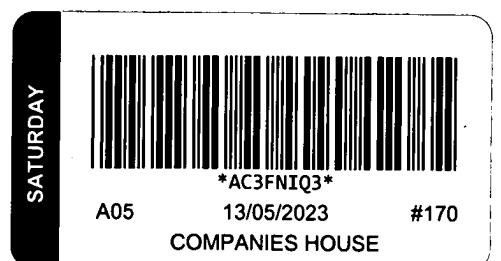


The best offices in our locations

CLS Holdings plc

Annual Report and Accounts 2022



CLS Holdings plc

Our vision

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

Our purpose

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

Our values

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

Read more online at
www.clsholdings.com/investors

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“ CLS has delivered solid and resilient results, reflecting the quality of our properties. We continue to invest in our properties to meet the changing demands of our tenants ensuring we have the best offices in our locations. ”

Highlights

Hansaallee 299, Düsseldorf

Financial highlights

➕ see pages 46 to 49

1 In local currency – total property portfolio. 2 Not Meaningful.

Strategic highlights

➤ see pages 12 to 15 and 22 to 27

Contracted rent which is index-linked (2021: 50.1%)	55.5%
EPRA vacancy rate (2021: 5.8%)	7.4%
Net rental income £107.8m (2021: £108.0m)	-0.2%
Capital expenditure (2021: £36m)	£58m
Net property acquisitions (2021: £127m)	£19m
Amount of Group borrowings at fixed rates (including caps) (2021: 90%)	76%

ESG highlights

➤ see pages 50 to 95

Reduction in like-for-like CO ₂ Scope 1 and 2 emissions from prior year	16%
Sustainable electricity Renewable/carbon-free electricity	99.9%
GRESB rating maintained from prior year	
	85
Number of Net Zero Carbon projects completed	57

CLS Holdings at a glance

Our portfolio at a glance

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.

About CLS Holdings

We are a FTSE 250 commercial property investment company. We specialise in office space and our £2.35 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.

“Offering geographical diversification with local presence and knowledge.”

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.

89

Properties

£121m

Estimated rental value

£2.35bn

Property portfolio

United Kingdom

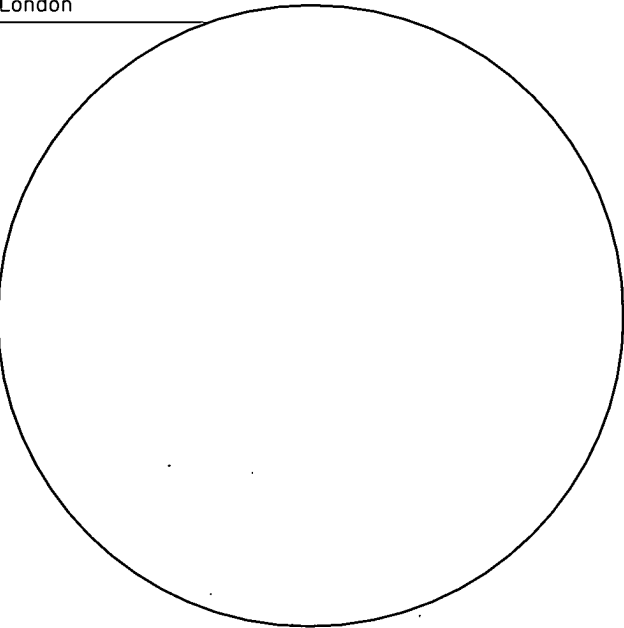
39

London
South East
Birmingham

28
10
1

 Read more about our United Kingdom portfolio on pages 22-23

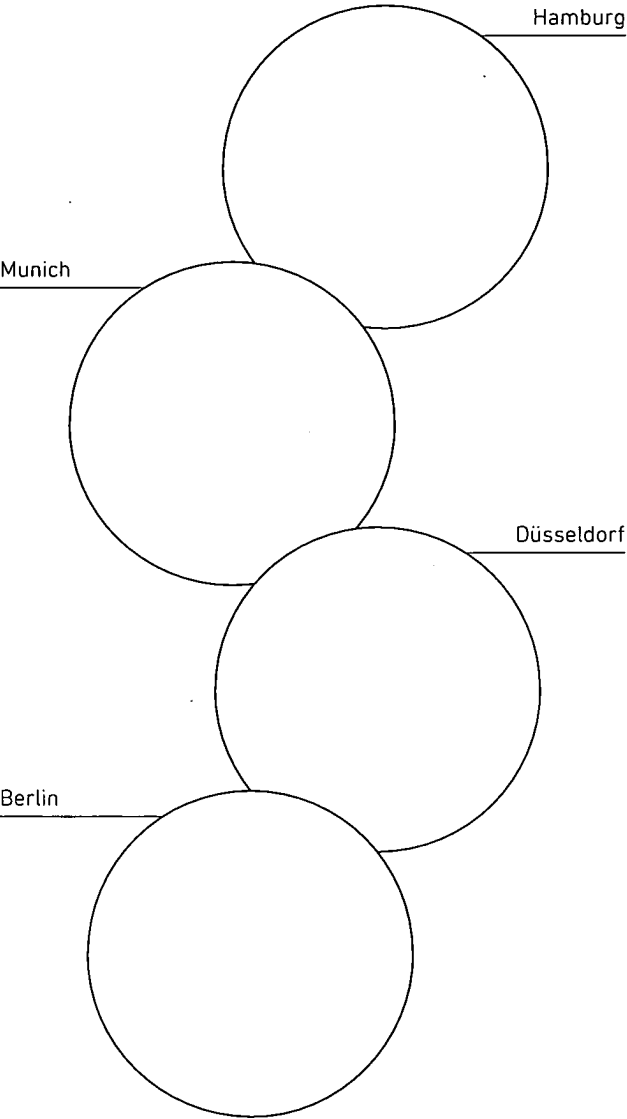
London



Germany

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

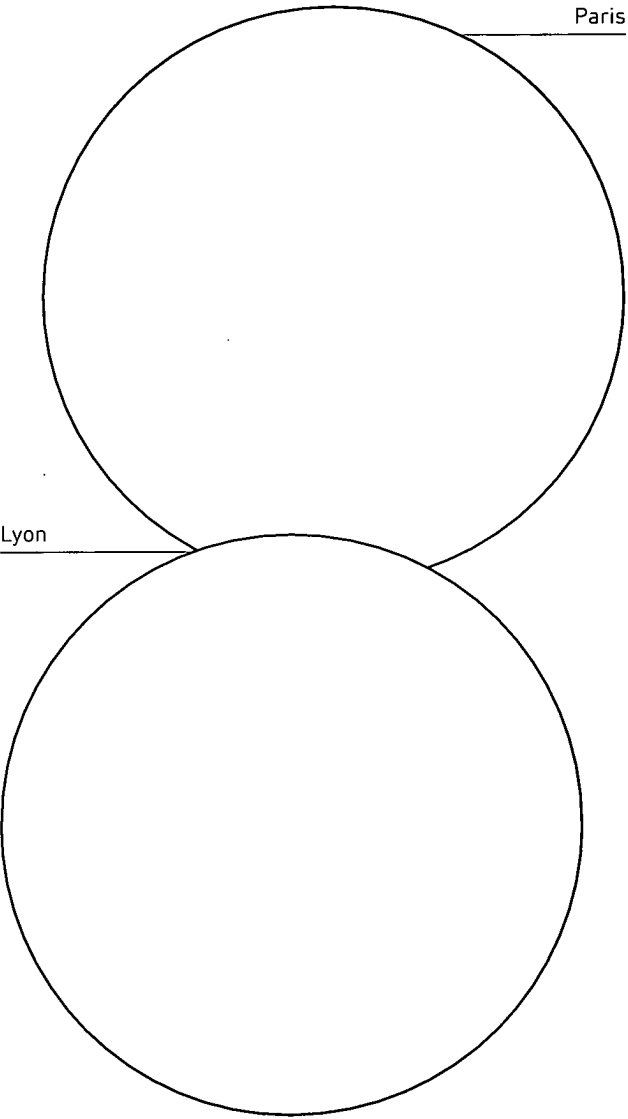
 Read more about our German portfolio on pages 24-25



France

Paris	11
Lyon	5
Lille	1

 Read more about our France portfolio on pages 26-27



Our portfolio is secure and diversified

“ Our offices are high-quality, well located and benefit from a diversified tenant base with the opportunity to secure market rents and deliver further value over the long term.”

Fredrik Widlund, CEO

Top 15 tenants

1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	
13	
14	
15	

Tenant diversity %	2022
1 Government	26.1%
2 Commercial and Professional Services	11.4%
3 Information Technology	11.3%
4 Consumer Discretionary	10.8%
5 Communication Services	7.6%
6 Industrials	6.7%
7 Health Care	6.3%
8 Real Estate	5.6%
9 Financials	5.1%
10 Other	4.9%
11 Consumer Staples	4.2%

1 As defined by Companies House.

Sustainable growth

“Sustainability is an integral part of our purpose to transform office properties into sustainable, modern spaces that help businesses to grow.

We invest in our properties to provide healthy and productive workspaces for our tenants while minimising their negative, and maximizing their positive, environmental impacts.”

More details can be found in our ESG review at page 50

Flexion, Berlin

A positive environmental impact

We will invest in our properties and collaborate with tenants to sustainably manage natural resources, support local environments and build resilience to climate risks; delivering future-ready assets.

Creating shared value

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

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.

Rental data¹

	Rental income for the year £m	Net rental income for the year £m	Lettable space sqm	Contracted rent at year end £m	ERV at year end £m	Contracted rent subject to indexation £m	EPRA vacancy rate at year end
United Kingdom	48.5	48.5	166,234	48.1	54.2	15.9	10.0%
Germany	38.0	35.4	357,865	47.4	51.5	30.6	6.1%
France	12.9	12.7	71,015	14.7	15.7	14.7	2.6%
Total portfolio	99.4	96.6	595,144	110.2	121.4	61.2	7.4%

Valuation data¹

	Market value of property £m	Valuation movement in the year			EPRA 'topped-up' net initial yield	Reversion		Equivalent yield
		Underlying £m	Foreign exchange £m	EPRA net initial yield		Over-rented		
United Kingdom	946.8	(74.7)	—	4.9%	5.2%	6.2%	4.9%	5.6%
Germany	994.1	(34.6)	49.0	3.9%	4.3%	9.1%	7.0%	4.7%
France	284.2	(15.4)	14.3	4.1%	4.8%	8.1%	4.3%	5.1%
Total portfolio	2,225.1	(124.7)	63.3	4.3%	4.7%	7.7%	5.7%	5.2%

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	2.9	3.7	3.6	6.0	26.6	11.9	3.7	5.8	27.4	11.8
Germany	5.1	5.2	7.7	9.0	16.4	14.3	8.6	9.0	16.9	13.9
France	2.1	4.9	2.2	1.0	3.1	8.4	2.0	0.9	3.1	9.2
Total portfolio	3.7	4.5	13.5	16.0	46.1	34.6	14.3	15.7	47.4	34.9

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

Chairman's statement

One of CLS' big attractions and differentiators is its open, positive culture, reflected in our Pan-European presence, which ensures the continued success of the Company."

Lennart Sten
Non-Executive Chairman

Dear Shareholder

In 2022 the evolution of offices continued with the bifurcation of the market becoming more pronounced between high quality, attractive properties and those of a more secondary nature. Responding to these trends, CLS is continuing to invest significant amounts to ensure that we supply the best offices in our locations to meet the changing demands of tenants. There is much more on this theme throughout this report.

Performance and our property portfolio

In 2022 CLS delivered a resilient and solid performance with relative valuation outperformance compared to the market and higher earnings from a solid letting performance, improved operations from our one student and hotel operation and the benefits from the UK REIT conversion. Our balance sheet remains well capitalised and our diversified but focused approach continues to deliver.

EPRA NTA per share decreased by 6.0% to 329.6 pence per share (2021: 350.5 pence per share) and Total Accounting Return, including the dividends paid in the year, was -3.7% (2021: 3.7%). The value of our property portfolio rose by 0.9% to £2.4 billion (2021: £2.3 billion) with the property portfolio now split 46% in the UK, 42% in Germany and 12% in France. The movement in the property portfolio was as a result of: £58.3 million capital expenditure; £26.9 million of net acquisitions (£83.4 million acquisitions

less £56.5 million disposals); and an increase of £63.4 million as a result of the weakening of Sterling by 5.0%, offset by £127.0 million from net valuation decreases of 5.3% in local currencies.

“Since CLS was established 30 years ago in 1992, the Company has successfully weathered several difficult periods. This current period is no different and our resilient strategy, quality offices and dedicated team are continuing to deliver, which leaves CLS well placed for future growth.”

Environmental, Social and Governance

In a year that has again seen extreme events linked to climate change, it is even more important for companies like ours to lead the transition to a carbon-free future. As highlighted in this report, I am pleased that we are seeing positive results from implementing our Net Zero Carbon Pathway underlining our aim to reduce carbon emissions and energy intensity, whilst providing modern, sustainable office space that meets the needs of our tenants including reducing the overall cost of office occupation. Our commitment to the communities in which we invest remains a central part of our culture

and this will be strengthened with the implementation of our Social Value Framework. This work is underpinned by our strong governance oversight; establishing our new Sustainability Committee further demonstrates our vision of being a leading sustainably-focused commercial landlord.

Strategic outlook

CLS has pursued a highly successful, focused strategy over the last 30 years with a commitment to delivering shareholder value through our long-term approach, which has been demonstrated in our track record. Our strategy and business model remain unchanged through the investment in, and active asset management of, well located, high quality offices in Europe's three largest economies. However, during this uncertain economic period, we will: be more cautious in considering acquisitions and only make disposals at the right values; execute our planned refinancings; and deliver lettings of our quality refurbishments, to drive growth.

Against the rising interest rate backdrop, CLS' treasury team continues to seek to match our borrowings with our properties' characteristics as set out in the later case study. In addition, CLS also has considerable rental upside within the existing portfolio which would more than offset the expected financing cost increase.

Dividends

Reflecting the more difficult economy currently, the Board has decided to propose a flat final 2022 dividend which, together with the 10.6% increase in the interim dividend, results in an increase of 3.2% in the full year dividend, which is 1.47x covered by EPRA earnings. The full-year dividend is in-line with our revised policy of having the dividend covered by EPRA earnings 1.2x-1.6x and in-line with the guidance given in May 2022 that 2022's dividend would be in the middle of the range.

Our staff and our culture

I was pleased to attend, and speak at, our first staff conference for three years and to experience first-hand the enthusiasm, positivity and resilience of our staff. As commented upon before, CLS' open, inclusive and supportive culture is a key differentiator and it is great to see that it continues to flourish with our dedicated team well-prepared and motivated to deal with all the ongoing challenges and opportunities.

Finally, I would like to thank our shareholders for their ongoing support as the Board continues to deliver long-term value for all stakeholders.

Lennart Sten

Non-Executive Chairman

10 March 2023

Maintaining the right culture

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, such as through the Workforce Advisory Panel, staff surveys, Board visits and property tours, and informal meetings, to ensure the voice of the workforce is prominent in our decision-making process.

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

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

How the Board assesses and monitors culture

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

Five culture priorities are used to embed culture within our business activities and Board oversight:

- Promoting integrity and openness
- Valuing diversity
- Being responsive to the views of stakeholders
- Culture aligned to purpose and values
- Culture aligned to strategy

 Read more about our cultural priorities and identifiers on page 115

Our investment proposition

1.

A clear strategy

Key investment tenets

Diversified approach

This approach is across: Countries (we invest in Europe's three largest economies); Tenants (over 700 tenants spread across most sectors); and Financing (25 different lenders).

Sole focus on multi-let offices

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

Selected development schemes

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

Delivered outcomes

Clockwork Building, London

2.

Active management

Key investment tenets

Experienced in-house capabilities

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

Secure rents and high occupancy

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

Interest rate management

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

Delivered outcomes

95%

Targeted occupancy rate

3.

Leading track record

Key investment tenets

Disciplined approach to investment

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

Cash-backed progressive dividend

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

Financing headroom

Our aim is to keep at least £100 million of liquid resources including financing headroom. This approach gives the ability to move quickly to complete acquisition opportunities as well as the flexibility to secure the optimal financing solution.

Delivered outcomes

£100m

Targeted liquid resources including financing headroom

4.

A focus on sustainability

Key investment tenets

Responsible profit

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

Strong ESG performance

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

Climate risk mitigation

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

Delivered outcomes

86%

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

Delivering on our strategy

Delivering on our strategy

2022 was very much a year of two halves, somewhat apt in a World Cup year, with the first half seeing a fairly stable market before the second half saw significant market deterioration in response to rising interest rates and a worsening economic outlook. Against this backdrop, CLS has, and is, very much focused on operational performance. To that end, we have included two larger case studies on investment into our properties to meet the greater quality demands and on our financing activity to ensure that we maintain sufficient liquidity and flexibility to allow us to deal with challenges and opportunities.

We have also included a longer piece on the office of the future in which we highlight that whilst hybrid working is likely to lead to lower demand for some offices, sustainability requirements are expected to reduce supply which will act as an offset. However, I think it is also worth reiterating why offices work for employees and employers, and why the attractions and necessities are being increasingly recognised again.

It is easy to confuse flexibility with working from home which are two very different things. Flexibility, alongside empowering employees, promotes a good work-life balance and helps employees achieve both personal and professional goals. As has become increasingly clear, working from home, more than a day or two, has been shown to simply not work very well for many roles and teams.

Fundamentally human beings are social creatures and the work benefits of this sociability such as collaboration, spontaneity, creativity, learning and mentoring are only effective when people meet. To encourage and help employees meet their objectives, the offices of the future must be flexible, inclusive and attractive. They must also provide both individual workspace as well as meeting rooms, video conferencing, chill-out areas, cafés and canteens amongst other amenities whilst being well-located to transport and urban facilities.

Ultimately, this might seem to be an unsurprising message from an owner of offices but we believe that deep down most people and organisations know this to be true. This belief is fundamental to our conviction of remaining a long-term office investor. To that end, we were a net acquirer in 2022, making two acquisitions for £76.9 million and six disposals for £57.9 million, resulting in net additions of £19.0 million. Given greater uncertainty in the market and focus, we expect to be a net disposer in 2023 although we do expect that there will be attractive acquisition opportunities emerging towards the end of the year.

In 2022, we completed on two properties in Dortmund and Düsseldorf for £76.9 million, which had exchanged in the first quarter of the year. Kanzlerstrasse, Düsseldorf completed at the end of April 2022 for £20.9 million and had a WAULT of c.8 years, an initial yield of 5.1% and a reversionary yield of 5.7%. The Yellow,

“ CLS continues to stay close to tenants and respond to their changing office demands. We are investing in our existing properties to improve their quality through well-being, amenity, flexibility, sustainability and digital enhancements to deliver the best offices in our locations.”

Fredrik Widlund
Chief Executive Officer

Dortmund completed at the start of July 2022 for £56.0 million and had a WAULT of 5.2 years, an initial yield of 5.1% and a reversionary yield of 5.6%. We are actively asset managing the properties to secure market rents and lease the small amount of vacant space. More detail on these buildings is given in the country pages (pages 22 to 27).

We continue to recycle capital on a selective basis, making disposals when: the business plan has been completed and there are limited opportunities to add value/drive returns; a more economic alternative use exists; or we are offered a compelling price. Additionally, we are seeking to increase the average size of our properties by disposing of smaller properties which usually consume a disproportionate amount of management time and are less economic to equip with the best amenities. To that end we sold six smaller properties (five in the UK and one in France), most for alternative uses, at a net initial yield of 5.4% for consideration of £57.9 million which was 2.5% above 31 December 2021 valuations.

In order to deliver the higher quality offices demanded by tenants, as discussed above and in the case study on pages 32 to 35, we are investing greater amounts in our portfolio. We spent capital expenditure of £58.3 million in 2022 and would expect to spend similar amounts in 2023 as we are refurbishing more offices, from single floors to whole buildings, than at any time in our history. A description of our four largest

developments and refurbishments across all three countries is set out in the case study about investing in our properties, which also highlights the considerable rental upside to be delivered. We are forecasting capital expenditure to fall for 2024 onwards from the heightened levels of 2022 and 2023 to a more normalised level of £20 to £30 million per annum including our 2030 Net Zero Carbon pathway spend.

Asset and property management

For CLS, active management is one of the five parts of our business model and “our tenants, our focus” is one of our four values. In a period of higher interest rates, the importance of being adept at asset management as a means of driving long-term value from a property portfolio has greatly increased and plays to CLS’ strengths. Pre-pandemic, during the pandemic and now we are hopefully post-pandemic, CLS’ rent collection has remained in excess of 99% as a result of building strong tenant relationships. On the whole, our properties are multi-let with over 700 tenants, of which 26% are Government agencies, 39% are large corporations (with Group turnover over £36 million) and 13% are medium-sized corporations (with Group turnover between £10 million and £36 million).

Last year was very much a tale of two markets with the investment market being sluggish at best whereas the letting market remained mostly favourable, particularly for higher-quality, sustainable offices. In 2022, the overall Group EPRA vacancy rate increased to 7.4% (2021: 5.8%) which is above our long-term target of 5% due to the impact of refurbishments and expiries. We are expecting the vacancy rate to remain elevated in the medium-term until we let our pipeline of refurbishments.

The vacancy position was mixed across the Group with considerable differences between countries. In France, the vacancy rate has fallen to 2.6% (2021: 3.0%) as a result of higher demand for smaller units (below 1,000 sqm) which fits with CLS France’s space offering and we would expect vacancy to remain low in 2023. In Germany, the vacancy rate fell from 7.4% in 2021 to 6.1% in 2022 as we made further progress with letting the vacancy that was deliberately acquired for its asset management upside in 2021, and we are confident to see further reductions in German vacancy in 2023. In the UK, there is a much more difficult letting market

and hence we are putting in considerable investment to upgrade the quality of our portfolio. The UK vacancy rate increased to 10.0% (2021: 5.4%) as a result of refurbished space being completed and lease expiries in excess of lettings. The vacancy rate may well increase in 2023 for the same reasons if lettings continue to take longer.

At 31 December 2022, the value of the portfolio was marginally up (by 0.9%) as a result of our investment in the portfolio, foreign exchange gains and net acquisitions largely offset by revaluation declines of 5.3% in local currencies. There were decreases in all countries with Germany down 3.5%, France down 5.3% and the UK down 6.7% in local currencies. Across all countries, the increase in interest rates and the risk-off nature of investors impacted valuations but there were also some regional and property-specific differences.

In the UK, our Government, Central London offices, developments, student and hotel performed well whilst other London and Southeast offices were in-line with the market, with equivalent yields increasing by 25 basis points to 5.61%

(2021: 5.36%), ERVs decreasing by 0.3% and vacancy increasing.

In Germany, values in most of the cities where we have our properties fell by about 3% to 4% with equivalent yields expanding by 36 basis points to 4.75% (2021: 4.39%) with partial offset from ERVs increasing by 1.4% as well as benefits from reducing vacancy and significant indexation.

In France, values in Paris dropped 7.4% whilst valuations in Lyon and Lille were down 2.1% as overall equivalent yields increased by 9 basis points to 5.13% (2021: 5.04%) with some offset from ERVs increasing by 4.9% as well as benefits from reducing vacancy and all leases being indexed.

In aggregate, fair value declines reduced property values by £127.0 million including £7.8 million lease incentive debtor adjustments..

Staybridge Suites, Spring Mews, London

Chief Executive's review continued

Financial results

We delivered resilient and solid results in 2022 against a challenging economic backdrop. Property valuations were down but outperformed relative to the market and EPRA earnings were ahead of last year as our student and hotel operations delivered record results and we saved tax by converting our UK business to a REIT at the start of 2022.

Loss from recurring operations was £81.9 million (2021: £77.3 million loss). Partly mirroring but outperforming the more challenging market, CLS suffered revaluation losses (with marginal gains on the sale of investment properties) in 2022 of £136.5 million (2021: £28.5 million gain) with a foreign exchange loss of £0.3 million (2021: £2.3 million). Earnings per share were -20.2p (2021: 29.3p gain) reflecting the revaluation loss.

As highlighted, EPRA earnings per share rose 2.7% from 11.3p in 2021 to 11.6p in 2022 as a result of improved hotel and student performance, the benefits of REIT conversion in the UK and lower foreign exchange losses partly offset by higher vacancy and related property costs.

EPRA NTA decreased by 6.0% (2021: 1.5% increase) to 329.6 pence per share, reflecting revaluation reductions of 5.3% in local currency and the payment of an increased dividend partly offset by EPRA earnings, a £33.6 million foreign exchange gain from the 5.0% weakening of Sterling against the Euro (2021: £39.5 million loss) and a 2.6 pence per share or 0.7% uplift

from the September 2022 tender share buyback. The £25.5 million share buyback (1 for 40 at 250 pence per share) demonstrated our belief in the value of our portfolio.

At the year end, we had liquid resources of £113.9 million (2021: £167.4 million), reflecting net acquisitions and ongoing investment, as well as £50.0 million of undrawn credit facilities (£2021: £50.0 million). We are well progressed with our 2023 and 2024 financing, more of which in the financing case study on pages 36 and 37.

In 2022, we generated £43.0 million net cash from operating activities (2021: £44.2 million) compared with EPRA earnings of £47.0 million (2021: £45.9 million) showing the continued strong cash generation of our business model. Of this cash, £32.4 million (2021: £30.8 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 -3.7% in 2022 (2021: 3.7%) due to negative property revaluations.

Purpose, people and planet

Retaining the carbon value of existing real estate is being increasingly recognised as an important component of a low carbon future and this reinforces the long-term viability of our purpose and portfolio.

We recognise the importance of future proofing our assets in the face of ever tightening regulations across the UK and Europe. To this end, I am exceptionally proud of our progress against our sustainability strategy. We continue to improve the energy efficiency of our buildings as we refurbish them and, in line with our Net Zero Carbon pathway, this has resulted in the completion of 57 projects saving an estimated 612 tonnes of CO₂e, equivalent to taking over 130 cars off our roads (www.epa.gov/greenvehicles/greenhouse-gas-emissions-typical-passenger-vehicle). We have yet again increased the amount of electricity we generate from on-site photovoltaic arrays, which is used for the benefit of our tenants and ultimately reduces their cost of office occupation, and totalled 706,787 kWh, enough to power 244 homes (www.ofgem.gov.uk/).

For the first time we are now reporting against our Social Value Framework, measuring all aspects of our contributions to the societies and communities in which we invest. We have undertaken 41% more volunteering hours during 2022 than in 2021 and, along with all other areas measured, our Social Value is equivalent to £191,916, and I commend our teams for their efforts. We have committed to further enhancing the measurement of our social value contribution in the coming years.

We know we have an important part to play across our three strategic pillars and we are well placed to achieve our aims.

In 2022 we also recognised the impact of cost of living pressures on our employees. We introduced differentiated pay increases, rewarding our lower paid employees more given the greater impact of higher inflation upon them. Our employees are one of CLS' best assets and we remain committed to helping them thrive.

Looking to the future

We included our rent progression waterfall chart in last year's annual report and an updated version is included this year as securing these increases is critical to drive rental growth over and above rising financing costs. Set out on the right is an updated chart which shows:

Hiltropwall, Dortmund

2.7%

Increase in EPRA earnings

99%

Rent collection

- contracted rent at the end of 2022 of £110.2 million;
- the current potential Estimated Rental Value ("ERV") of the portfolio of £121.4 million if all vacant space (£9.0 million increase) and net reversionary potential (£2.2 million increase) were captured. We do though benefit from some vacancy/churn within the portfolio to capture reversion more quickly and/or to allow the refurbishment of older properties. It is therefore recognised that not all of this vacancy upside should or will be captured;
- the potential increase to ERV over 2023 and 2024 to £136 million from refurbishments and committed developments (£14.5 million); and
- the potential increase to ERV between 2024 and 2026 to £139 million from uncommitted development opportunities in the portfolio (£3.0 million increase)

In addition to these increases up to 2026, there is further potential from indexation, with over half the portfolio having contractual increases, and market movements as well as executing transactions, both acquisitions and disposals, to focus the portfolio on faster growing properties. Post-2026, we have significant development, redevelopment or rental increase opportunities at Spring Gardens and New Printing House Square, both of which are in Zone 1 in London.

We expect 2023 to be in many ways the reverse of 2022 with the first six months being challenging whilst inflation and interest rates are forecast to peak before the economy and property market improve in the second half. Our strategy and our focus on the three largest countries in Europe remains unchanged but as usual with slightly different priorities as we expect to be a net seller in 2023 and thus will place even greater emphasis on operational improvements. Ultimately, we are confident that CLS will remain successful by responding to tenant and market needs by having the best properties in our locations.

Fredrik Widlund
Chief Executive Officer

10 March 2023

From the future of the office to the office of the future

In the 2020 Annual Report, which was published at the height of the Covid-19 pandemic, we wrote about the then current thinking regarding the future of the office. There was considerable uncertainty and a whole spectrum of views about the future shape of the market and the use of space. The future of offices remains a very pertinent topic of debate for many audiences including workers, urban dwellers, journalists and the more general population, but moreover it is of paramount importance for office investors.

In the past two years, much more clarity has emerged with: many of the trends evident before Covid having accelerated; hybrid working becoming much more established and accepted; and the office market becoming bifurcated with quality, in its many forms, becoming the determining criteria. Consequently, tenants are becoming much more certain about their letting needs and have therefore made letting enquiries or decisions on this basis. What is also clear is that any concerns of a seismic shift in office demand, comparable to the retail property market, have been disproved.

It has also become evident that not all countries in our portfolio or even macro (and some micro) locations are responding in the same ways.

Working from home is more popular in the UK, particularly in London with its longer commuting times, whereas, often for cultural reasons, the office is more popular in Germany and France. Given that CLS has more of its properties in the UK, much of the commentary refers to this market. At its essence, the future direction and trends of the market come down to the balance between demand and supply; albeit even this is somewhat nuanced with the increased demand for quality limiting and reducing the available supply.

Demand

Hybrid working and occupancy

One of the clearest indicators of a shift in office demand has been the reduction in office occupancy, and the consequent reduction in travel, leisure and other associated infrastructure, as a result of hybrid working. It does though need to be remembered that pre-pandemic, occupancy (which was not hugely then monitored) was thought to be only 60% to 70% as a result of holidays, illness, working at other sites and existing flexible work policies, amongst others.

Since the roll-out of vaccines and the lifting of Covid restrictions, occupancy has been slowly rising to anywhere between 30% and 50% on average, with far greater attendance on Tuesdays, Wednesdays and Thursdays. However, this is not an even trend across all types of property or locations and there are great variations by industry as many jobs are just not feasible at home.

The appeal of working from home appears to be diminishing with LinkedIn reporting in January 2023 that the number of fully remote jobs advertised in the UK had fallen for the eighth month in a row to 11% – the lowest level since the site began collecting data. The return to the office is driven by multiple factors such as an improved office environment and better user experience and also, maybe counterintuitively, more presenteeism due to a weakening jobs market and greater employer power. As highlighted by Fredrik in his review, the benefits of being in an office such as collaboration, communication and creativity are also being increasingly valued again.

The Flex market has risen in importance but it only suits central locations and employers who are willing to pay much higher prices for greater flexibility and top-end amenities.

CLS has a limited flex offering, Base Offices, which we are currently rolling out in a few, select locations as a business incubator to encourage future take-up of greater amounts of space in the same building.

Quality

One of the other reasons that working from home is diminishing is the increase in the quality of offices that are now being offered. Both the challenges and opportunities in European offices can be summarised as recognising, and responding to, the experience, behaviour and needs of the end user. To a large extent it is about enticing workers back to the office but also recognising what the office does well that cannot be replicated by video conferencing and using better office design to reinforce these qualities. In the war for talent, the office acts as the physical embodiment of a company's culture and plays a vital part in attracting staff to join a company.

Quality is now the key market differentiator and, in this bifurcated market, higher prices and greater rental growth are being commanded by the better-quality space. The elements that we are seeing, and acting upon, are amenity, flexibility, sustainability, health & wellbeing, and digital. More about how CLS is implementing these quality factors can be read in our sections on "Investing in our properties" and Sustainability.

Fundamentals should underpin office demand

Office based employment

Euro area Pre-pandemic
UK (RHS) Pre-pandemic
Source: Moody's Analytics

Future of the office continued

Supply

Sustainability

As with quality, sustainability dynamics are nuanced with both the pull effects of greater requirements for almost all stakeholders as well as the push impacts of increased regulation. At its simplest, there is increasing evidence that more sustainable buildings command higher prices. It is though somewhat hard to disaggregate the "green" elements of a property's value and more sustainable buildings tend to be newer. However, it is also clear that more sustainable buildings lead to a reduction in negative environmental impacts, lower operational and maintenance costs, and greater appeal to occupiers concerned with corporate reputation and sustainability targets.

On the regulatory front, Governments are increasing the Energy Performance Certificate (or equivalent) ratings with which office buildings need to comply. In a period of heightened energy and thus total occupancy costs, this also accords well with tenants' considerations. In addition, there is an increased emphasis on "retrofit first" as favoured by CLS rather than new build as the embodied carbon within existing buildings is taken into account in considering a building's carbon footprint lifecycle.

In 2023, in response to the post-pandemic world of work with the new era of flexible working and to meet zero carbon targets, the British Council for Offices increased its recommended average density to 10-12m² per person compared with the average in 2018 of 9.6m².

With the ability to convert offices to residential under permitted development rights in the UK being reduced, all of this is leading to an increased risk of stranded and unlettable assets, for which as yet there is no obvious solution, and overall less supply. Colliers estimates that some 20 million sq. ft of London office space, or 10% of the total market, will be unlettable from April 2023 when the new minimum EPC E regulations come in.

Construction

The increased demand for quality, sustainable offices is leading to a shortage of available supply, at least in the short to medium term. England's office footprint had already declined by 6 per cent between 2014 and 2021. In Q4 2022, Cushman and Wakefield reported that the availability of grade-A office space in London was at its lowest level since 2010 and assuming demand remained consistent, further rent increases could be expected. Whilst Knight Frank estimates that London will have an office shortfall of 11 million sq. ft between 2023 and 2026.

This situation has been exacerbated by unfavourable economic conditions in the construction market with DZ HYP commenting on the German market in October 2022 that, "Since space under construction is usually already let, the postponement of planned projects due to increased construction and financing costs could lead to an even scarcer supply of space."

This reduced supply and more pre-lets for new-build offices will also start to benefit the office refurbishments that CLS is carrying out.

Pricing is likely to bifurcate further

Bifurcation of Central London rental market

Grade A (New) Grade B Grade C

Source: Cushman and Wakefield

Apex Tower, London

Conclusion

In summary, there is still no definitive answer to all the questions around the future of the office in a post-pandemic world but there are much clearer trends which continue to evolve, e.g. we are currently seeing greater employer demands and employee desires for increased time in the office. It is expected that the market, as before, will still be heavily subject to overall supply and demand factors. We believe that as a result of hybrid working there will be around 10% lower demand but there will also be much lower supply particularly for the “Future Office Winners” which are high quality, sustainable, and well-connected to public transport and urban amenities.

Valuation trends are currently dominated by macro-economic factors in terms of forecast interest rates, GDP and employment. Although rental indexation, which applies to the majority of CLS’ properties, is acting as a significant offset. Ultimately, the Future Office Winners will start to see higher valuations coming through from rental growth and lower yields. CLS’ business model, to own the best offices in our locations, fits very well into the new world.

Our business is underpinned by strong market drivers

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

Changing office habits

“There is a strong demand for office space but the new hybrid style of office use has increased the need for offices to be attractive and sustainable.”

 We talk more about the future of the office on pages 16-19

Harman House, London

Market size

The European commercial real estate market totals €8.3 trillion of which c.4% is listed and of this c.10% is office. Germany, the UK and France are the largest real estate markets in Europe. Investment in publicly listed companies owning offices gives access to professional management, quality business models and exposure to property that is scarcely traded.

How we are responding

We have a portfolio of the best offices in our locations in the UK, Germany and France. London, Paris and Berlin are the top cities for investment and development according to PwC/ULI.

What this means for the future

We will continue to invest in our key geographies of the UK, Germany and France as we believe these markets offer the best opportunities to grow our business.

Performance

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

How we are responding

We acquire assets that meet our investment criteria. Through active asset management we seek to maximise value of these assets which is reflected through growth of our NTA.

What this means for the future

We will acquire where we identify excellent opportunities to add value and dispose of properties that present limited asset management opportunities.

GDP/Unemployment

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

How we are responding

We operate in the three largest economies in Europe by GDP with high levels of employment.

What this means for the future

Strong economies with low unemployment will offer the best opportunities to generate returns from our office portfolio.

Interest rates/inflation

The past year has seen the highest levels of inflation in decades. To temper this, central banks have increased interest rates to the highest levels since the global financial crisis.

How we are responding

We continue to protect the business from the current high inflationary environment with over 55% of our leases index-linked. We monitor our debt on a weekly basis and opt to finance on fixed or floating rates depending on what we determine to be most opportune.

What this means for the future

Over the coming year we expect inflation rates to ease and in turn, interest rates to peak.

Sustainability

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

How we are responding

Our core business is focused on making the most of existing office buildings. We certify our fully managed portfolio to BREEAM In-Use and have plans in place

to continually improve the energy and environmental performance of our assets to meet current and future high sustainability standards.

What this means for the future

Our portfolio is resilient to expected changes in regulations as well as occupant expectations on sustainability. In many regional markets, our assets will be uniquely positioned as sustainability leaders and we are well placed to capitalise on this.

United Kingdom

Apex Tower, London

£1,170.6m

Value of property portfolio

46%

Percentage of Group's property interests

39

Number of properties

204

Number of tenants

10.0%

EPRA vacancy rate

1.8m sq. ft

Lettable space

78%

Government and large companies

3.7 years

Weighted average lease length to end

33.0%

Leases subject to indexation

Portfolio movement and valuation summary

The value of the UK portfolio decreased by £90.3 million as a result of: net disposals of £12.9 million (capital expenditure of £36.7 million partly offset by five disposals for £49.6 million); a valuation decline of £77.3 million or 6.7%; and depreciation of £0.1 million. The 6.7% valuation decline was as a result of equivalent yields increasing by 27 basis points on a like-for-like basis and ERVs decreasing by 0.3%. However, this does not give the full picture with some strong segment performance offsetting area weakness.

CLS' UK portfolio valuation movements most logically split as:

- Government, Central London offices, Artesian and the Coade, student and hotel operations (56% of the portfolio) delivered relative outperformance against the market with a 1.4% decrease in valuation with yield expansion of 36 basis points partially offset by ERV growth of 1.1%. The relative outperformance is due to the attractiveness of Government income with its higher proportion of indexation, stronger covenant and some lease regears alongside the stronger performance of the hotel and student with some offset from our major developments until they are let;
- Other London offices (31% of the portfolio) which were more in-line with wider office market movements being down 10.3% with yield expansion of 25 basis points and ERV reduction of 2.5% on a like-for-like basis; and
- Southeast offices (13% of the portfolio) were reflective of the Southeast market generally as values fell 18.0% with yield expansion of 59 basis points and a decrease in ERV of 1.5% on a like-for-like basis.

“The UK is our most challenging occupational market currently – we are responding by carrying out our largest number of refurbishments and this is already leading to an increase in enquiries.”

Developments and refurbishments

Construction of "The Coade", our 28,400 sq. ft (2,638 sqm) new office development at Vauxhall Walk, London, is almost complete. We have had several viewings and are confident to secure our first tenant shortly. "Artesian", our development at 9 Prescott Street, London, is also progressing well. The 92,500 sq. ft (8,594 sqm) development, is expected to complete in Q2/Q3 2023. More details are available on both developments on pages 32-33.

Other smaller refurbishments were carried out, including at Reflex in Bracknell with a full CAT A refurbishment of the 5,700 sq. ft (530 sqm) suite as well as undertaking a bespoke tenant fit-out to enhance their space. Our property at 6 Lloyds Avenue in the City of London is a Grade II listed building, therefore the refurbishments, which encompass both CAT A and CAT A+ specifications, have required a sensitive approach. The resulting works created modern and attractive spaces which provide flexibility for tenants seeking either managed solutions or traditional leases.

Disposals

During the course of 2022 we continued with our strategy of disposing of some of our smaller assets or those that have a greater value for alternative uses.

In line with our strategy, we sold five assets for £50.0 million, which was 0.9% above the 31 December 2021 valuation. For more details, see the case study.

Asset management

The vacancy rate increased to 10.0% as at 31 December 2022 (2021: 5.4%) as result of a number of significant refurbishments, such as at 405 Kennington Road and Harman House in London, being completed throughout the year. There were also a few instances where tenants sought to downsize their space in response to changing working patterns amongst their staff.

In 2022, we let or renewed leases on 105,782 sq. ft (9,827 sqm) and lost 201,170 sq. ft (19,454 sqm) of space from expiries. Excluding rent reviews, 54 lease extensions and new leases secured £2.9 million of rent at an average of 2.8% above ERV. The most significant transactions were a new 10-year lease with ATS Euromaster at Aqueous II, Birmingham for 13,114 sq. ft (1,218 sqm) and a new 10-year lease with BioHorizons UK Limited for 5,700 sq. ft (529 sqm) at Reflex in Bracknell. Not included in our 54 deals was the removal of break clauses for leases with the Secretary of State for:

Unicorn House, Bromley; Armstrong Road, Acton; and 62 London Road, Staines, which secured a total rent of £2.7 million p.a. for an additional five years past the previous break date of April 2023. Furthermore, the lease associated with our largest asset at Spring Gardens is subject to annual indexation and contracted rent increased by approximately £1 million as a result of the 10.5% RPI uplift.

Our student and hotel operations continued to perform extremely well throughout the year, achieving record results. The student accommodation was fully let for the 2022/23 academic year and the hotel occupancy was at an average of 87% for 2022 (70% in 2021) with much higher average daily rates. The hotel has just undergone a limited refurbishment programme to ensure it continues to provide best-in-class accommodation for both short and extended stay customers.

Market overview and outlook

The UK economy has continued its recovery from the effects of the pandemic and 2022 GDP growth of 4.1% exceeded estimates made earlier in the year. This also reflects recent comments from the Bank of England that any downturn in the UK economy is due to be shorter and less severe than had been previously predicted. During 2022, to control the inflation which was close to 10%, the Bank of England increasingly raised the base rate from 0.25% in January 2022 to 4% by February 2023 and the market is expecting further rate rises in the first half of the year.

In terms of the UK property investment market, commercial volumes for the year fell to c.£41 billion, which was down by more than 20% compared with 2021, and reflects the political and economic uncertainty which occurred during last year.

Leasing transactions and activity in Central London were positive with 20% growth while the rest of the Southeast office market showed a decline of a similar order with a 25% drop in leasing volumes. This illustrated the flight to quality both in terms of the buildings themselves but also location, with well-located and modern offices performing strongly irrespective of geographical location. Vacancy in London was relatively stable during the year at 8.5%.

Early evidence however suggests that activity has picked up at the start of 2023 which it is hoped will lead to a further increase in take-up.

We continually assess whether to hold or sell properties

49%

Year on year increase in UK capital expenditure

UK Disposal Programme

During the course of 2022, CLS successfully completed the disposal of five assets within the UK for a total consideration of £50.0m which was 0.9% above the book value of these properties as at 31 December 2021.

The assets were sold as part of the Group's strategy of disposing of assets which are either too small to have a meaningful impact on the Group's profitability or have greater value for alternative uses. This is with a view to re-investing the proceeds in our core portfolio through development and refurbishment or through acquisitions.

The largest transaction was the sale of Great West House. This is a prominent office building close to the M4 in West London which had been part of the Group's portfolio since 1996 and has significant potential for alternative uses, subject to planning. Other buildings, such as Kings House in Bromley and Crosspoint House in Wallington were sold with the benefit of prior approval for conversion to residential.

Sentinel House in Coulsdon was sold to an owner occupier at the end of a 10-year lease which allowed the Group to realise a capital receipt having benefited from the rent for the majority of the lease term.

Germany

Adlershofer Tor, Berlin (CGI)

£996.0m

Value of property portfolio

42%

Percentage of Group's property interests

33

Number of properties

372

Number of tenants

6.1%

EPRA vacancy rate

3.9m sq. ft

Lettable space

56%

Government and large companies

5.2 years

Weighted average lease length to end

64.5%

Leases subject to indexation

Portfolio movement and valuation summary

The value of the German portfolio increased by £108.0 million as a result of: net additions of £93.3 million (two acquisitions for £83.4 million including costs and capital expenditure of £9.9 million); and a foreign exchange gain of £49.0 million, partly offset by a valuation loss of £34.2 million or 3.5% in local currency and depreciation of £0.1 million. The like-for-like valuation decrease, which excludes the acquisition costs, was 3.3%. The 3.5% valuation decline was as a result of equivalent yields expanding by 36 basis points (30 basis points on a like-for-like basis) with partial offset from ERVs increasing by 1.4% as well as benefits from reducing vacancy and significant indexation.

Values in most of the cities where we have our properties fell by about 3% to 4%. The two exceptions were firstly, Stuttgart where values were down 11.2% given both a weaker market and CLS' decision to delay the development of Vor dem Lauch given this market uncertainty and secondly, in Berlin, where valuations were down 0.8%, which was mainly driven by the valuation increase for Adlershofer Tor following the granting of building consent for a roof-top extension.

“Whilst Germany experienced some economic turmoil in 2022, the market fundamentals remain strong and we expect vacancy to reduce further in 2023.”

Acquisitions and disposals

In 2022 we purchased two properties for £76.9 million with combined initial yields of 5.1% and a combined reversionary yield of 5.6%. There were no disposals in the year.

Developments and refurbishments

Various refurbishments continue across our portfolio focusing on improving the quality of our assets by meeting tenants' needs and enhancing the sustainability credentials of our properties. At Office Connect in Cologne and Hansaallee in Düsseldorf, the entrance areas as well as outdoor facilities have been completely redesigned and the buildings now include co-working spaces, as well as refurbished receptions.

Flexion in Berlin was purchased in 2021. The 71% acquired vacancy rate has been reduced through a substantial re-design, allowing us to re-position the property in the local market and successfully let 30,279 sq. ft (2,813 sqm). All space not currently under development in this building is now let. Grafelfing in Munich, was previously occupied by a single tenant for 15 years. We are currently working closely with our new tenant Toptica on their 62,458 sq. ft (5,803 sqm) space, improving it by tailoring to their needs. In terms of executing our longer term development strategy, planning has been granted for a roof-top extension at Adlershofer Tor, Berlin which would increase the lettable area of the building by approximately 46,285 sq. ft (4,300 sqm).

Asset management

EPRA vacancy rates reduced from 7.4% at 31 December 2021 to 6.1% at the end of 2022. This reduction was due to a significant number of lettings during the year, acquisitions with lower weighted average vacancy and ongoing refurbishment of vacant units. In 2022, we let or renewed leases on 503,473 sq. ft (46,774 sqm) and lost 507,074 sq. ft (47,109 sqm) of space from expiries. Excluding those arising from contractual indexation uplifts, 32 lease extensions and new leases secured £3.8 million of rent at an average of 8.2% above ERV. Leases subject to indexation increased by an average of 6.3%. The most significant transactions were a new 10-year letting for 62,458 sq. ft (5,803 sqm) to Toptica at Grafelfing in Munich and a new 5-year letting for 19,343 sq. ft (1,797 sqm) to All3Media. Both deals were executed at rents above ERV and helped significantly decrease vacancy in their respective buildings. At the end of 2022, the portfolio was 2.1% net reversionary. In light of the continued recovery of the letting markets and despite the market increased vacancy rates, we believe that there is the potential for further rental growth.

Market overview and outlook

The German economy has continued to recover and achieved 2022 GDP growth of 1.9% as a result of a strong finish to the year. German industry has proven to be much more resilient than some anticipated, with dependency from Russian gas reduced to such a level that the implementation of emergency plans did not materialise, and the entire winter supply was secured. Inflation was close to 9% in 2022 and the ECB increasingly raised the base rate from 0% in January 2022 to 2.5% by February 2023 with a further 0.50% increase announced for March.

The commercial property investment market for the year fell to c.£51 billion which was 16% below 2021 reflecting rising interest costs and continued uncertainty around the geopolitical situation.

Leasing transactions and take-up in the top seven cities were similar to 2021 and in-line with the 10-year average. Berlin and Munich performed strongly and we are continuing to see rental growth in most cities. Vacancy across the seven cities increased slightly to an average of 5% with Stuttgart and Cologne at 3%, Berlin, Hamburg, and Munich at circa 4%, and Frankfurt and Düsseldorf around 8%.

Many occupiers have started to show a willingness to return to the market and we expect activity to improve gradually over the year in the larger cities.

We acquire the right properties

£76.9m

Properties acquired in 2022

Acquisitions

Despite a challenging market, 2022 provided selected, attractive opportunities to grow the portfolio in our locations.

In April we completed on the purchase of Kanzlerstrasse 8, Düsseldorf for £20.9 million which is situated in a well-connected and growing submarket of the city. The 98,684 sq. ft (9,168 sqm) property is occupied by three tenants including the anchor tenant Amevida with a WAULT of c.8 years and net initial yield of 5.1%.

In July we completed on the purchase of The Yellow, Dortmund for £56.0 million. The 258,140 sq. ft (23,982 sqm) office is located in the central business district of Dortmund, next to the central shopping district. The property is occupied by Postbank, a department of the federal state of North Rhine-Westphalia and two smaller tenants with an overall WAULT of 5.2 years and net initial yield of 5.1%.

Both properties provide opportunities to take advantage of the net reversion through improving the ESG credentials of the buildings, under-renting and letting remaining vacancy. The combined reversionary yield is 5.6%.

France

D'Aubigny, Lyon

£286.1m

Value of property portfolio

12%

Percentage of Group's property interests

17

Number of properties

147

Number of tenants

2.6%

EPRA vacancy rate

0.8m sq. ft

Lettable space

56%

Government and large companies

4.9 years

Weighted average lease length to end

100.0%

Leases subject to indexation

Portfolio movement and valuation summary

The value of the French portfolio increased by £3.8 million as a result of: net acquisitions of £4.8 million (capital expenditure of £11.7 million offset by disposals of £6.9 million); and a foreign exchange increase of £14.5 million, partly offset by a revaluation decline of £15.5 million or 5.3% in local currency. The 5.3% valuation decline was as a result of equivalent yields expanding by 9 basis points (12 basis points on a like-for-like basis) with some offset from ERVs increasing by 4.9% as well as benefits from reducing vacancy and all leases being indexed.

Values in Paris dropped 7.4% reflecting our more suburban locations whilst valuations in Lyon and Lille were down 2.1% given the stronger Lyon investment market.

“The market in France remains mixed with good demand in central Paris and Lyon but weaker demand in Parisian suburbs such as those around La Défense. There is also good demand for smaller space, as offered by CLS, which is keeping our vacancy low.”

Developments and refurbishments

During the year we continued on a programme of refurbishing several of our French properties. The two most significant are the redevelopment of D'Aubigny and Park Avenue, both in Lyon.

The works at Park Avenue are close to completion with the building launch taking place in January 2023. Several agents attended and were given a tour of the €11.2 million refurbishment which included replacement of the existing façade and creation of new common terraces through the extension of existing landings. The sustainability credentials of the building were improved through the installation of new windows, electric shades and a green roof. During the works, the tenants have been relocated to temporary office space to ensure the project was delivered as quickly as possible. They will resume occupation in Q1 2023. There has been good interest in the refurbished vacant areas with two deals already executed with tenants moving in on completion of the works towards the end of Q1 2023. More details are given on page 35.

The works completed at D'Aubigny included the replacement of the existing façade and new windows. This project completed on time in October 2022 and at the budgeted cost of €3.2 million. The improvements will be BREEAM certified and are expected to achieve "Excellent".

Disposals

During the course of 2022 we disposed of Rue Nationale and a small piece of land for £7.8 million. The disposals were completed at 13.6% above 31 December 2021 valuation. In February we exchanged on the sale of a property in Paris which offers higher value as a development opportunity. The sale price of €11.1 million was 0.5% above the 31 December 2022 year end valuation and is expected to complete in April 2023.

Asset management

EPRA vacancy in France reduced to 2.6% as at 31 December 2022 (2021: 3.0%) with the reduction largely driven by active asset management. Despite several tenants leaving during the period, new tenants were secured to the fill the vacancies, with new lettings exceeding expiries.

In 2022, we let or renewed leases on 67,130 sq. ft (6,237 sqm) and lost 65,261 sq. ft (6,063 sqm) of space from expiries or vacancies. Excluding contractual indexation uplifts, 20 lease extensions and new leases secured £1.5 million of rent at an average of 0.3% above ERV. The most significant transactions during the year were: a lease renewal at Rhône Alpes for 11,345 sq. ft (1,054 sqm) with Aesio Mutuelle via a 1/3/6/9 year lease; and a pre-letting at Park Avenue for 9,289 sq. ft (863 sqm) with Hopscotch Group. On a like-for-like basis, ERVs increased by 4.9%, with index-linked rental increases at an average of 3.3%.

Market overview and outlook

The French economy achieved GDP growth of 2.5% in 2022, also on the back of a strong fourth quarter, and again proved its resilience with the benefits of a diversified and large domestic market. French inflation was lower than other European countries at 6% driven by state interventions in the energy markets and other stimuli. In common with Germany, the ECB increasingly raised the base rate from 0% to 2.5% by February 2023 with a further 0.50% increase announced for March.

The French property investment market had a strong year with an increase of 6% to c.£25 billion. The strongest growth was recorded in the larger regional cities like Lyon and Lille, while Greater Paris was marginally up but with a mixed picture between the different districts.

In the letting market, after two relatively flat years, we saw a return to a more dynamic market with 10% growth in take-up in Greater Paris. The Lyon market continued to perform strongly with 16% growth over the year. Vacancy in Greater Paris was up marginally to 7.8% but with large variances between the districts; Paris CBD has 3.5% vacancy while La Défense is close to 16%. Vacancy in Lyon fell from 5.2% to 4.4% on the back of the strong demand mentioned above.

We expect to see a similar picture for this year with a strong Lyon market and a fragmented Greater Paris market with pockets of growth and other areas proving more challenging.

We deliver value through active management

2.6%

2022 year end vacancy rate

Letting success in the French portfolio

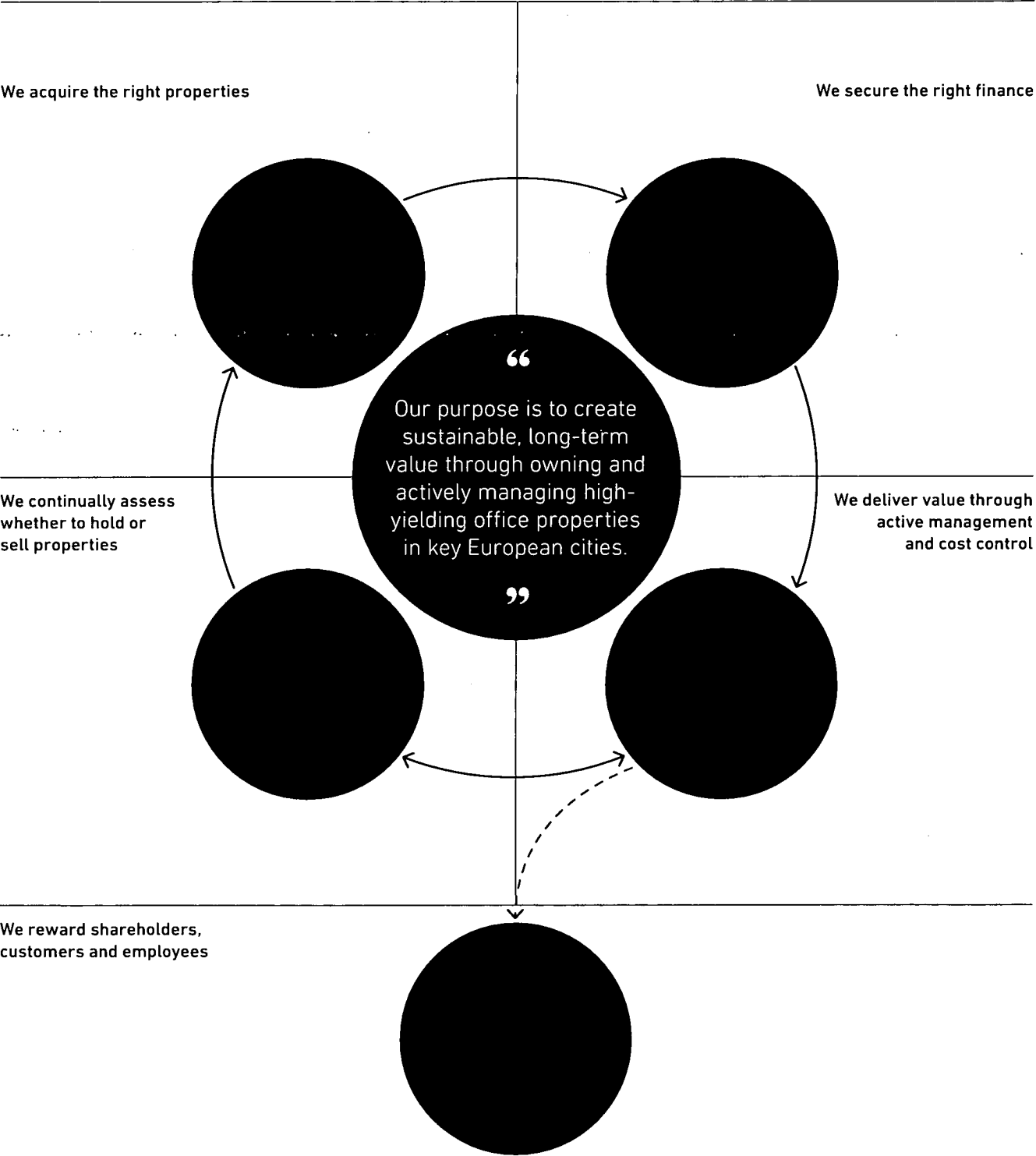
At the end of 2022, CLS' French portfolio had a 2.6% vacancy rate. This is an excellent outcome in the context of average vacancy rates in Greater Paris in the region of 7.8% and 4.4% in Lyon. There were no stand-out lettings and thus it is worth highlighting some of the factors behind our successful active asset management.

Whilst having offices that are highly competitive in terms of location, building quality and services with efficient operating costs is critical, successful lettings are ultimately about satisfying our current and future tenants. There are a number of actions that our team take to achieve this:

- Maintain a close relationship with tenants to meet their needs and deliver excellent service;
- React as quickly as possible when a tenant intends to change their space requirements – offering the best options in our portfolio;
- Adapt the premises to the market rapidly in terms of specifications, size of space, etc.;
- Renovate any areas immediately upon becoming vacant to current market quality;
- Ensure all internal and external team members deliver actions in progress; and
- Always meet prospective clients in person.

Our launch event of Park Avenue, Lyon, in January 2023

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.

● We secure the right finance

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

We have the flexibility to borrow at fixed or floating rates of interest and, by borrowing against each asset, we are able to use a level of gearing suitable to the specific property.

Where properties are more suited to being financed together, such as on the acquisition of a larger portfolio, we finance them under one loan, 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 25 lenders around Europe, which spreads our risk.

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

● We deliver value through active management and cost control

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

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

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

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

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

● We continually assess whether to hold or sell properties

Our active management is also applied at a portfolio level, continually assessing whether properties meet return criteria and/or we can continue to add value.

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

Refurbishments are undertaken to maintain the portfolio and capture rental growth.

Our portfolio approach also includes assessing whether greater value can be captured through a change of use, for example, a residential conversion. In such cases, after planning permission has been obtained, the property will usually be sold to a developer.

At the appropriate time, we will also dispose of properties which are too small or too low yielding or for which the risk/reward balance is unfavourable.

One of our decision criteria is the sustainability rating of the property and the cost to make enhancements.

● We reward shareholders, customers and employees

We aim to grow the dividend in line with the growth of the business, targeting the dividend to be covered 1.2 to 1.6 times by EPRA earnings. The proposed full year dividend represents £32.0 million of the £46.0 million of EPRA earnings in 2022.

The balance is reinvested in the business, increasing the size of the Group. In this way shareholders can be rewarded partly in cash and partly in the capital appreciation of their shares. As the whole of CLS is not a REIT, we have flexibility in the amount we are required to distribute to shareholders, which benefits the business in the longer term.

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

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

We have highlighted our business model in action throughout the Annual Report. The two areas that are the most important at this point in the cycle: securing the right finance; and delivering value through active management, are the subject of longer case studies on pages 32-35 and 36-37 respectively. In the country sections, we also give more details around acquisitions (Germany); active management through lettings (France); and disposals (UK). Finally we have highlighted other areas that are important to our strategy and business model around future offices (pages 16-19) and our digital and cyber strategy (pages 38-39).

Creating long-term sustainable value

Link to business model	Strategy	Strategy implementation
We acquire the right properties	Invest in high-yielding properties, predominantly offices, with a focus on cash returns	We target modern, high quality properties with good asset management opportunities in larger European cities.
	Diversify market risk by investing in geographical areas with differing characteristics	We invest in the UK, Germany and France and in Sterling and Euros.
	Diversify tenant base	We have a wide range of tenants in a variety of sectors, as well as being geographically diverse.
We secure the right finance	Target a low cost of debt	We keep the cost of debt at least 200 basis points below the net initial yield of the properties to enhance the return on equity. We use interest rate caps and hedges to control interest rate risk.
	Utilise diversified sources of finance to reduce risk	We maintain strong links with banks and other lending sources across Europe. We restrict the exposure of the Group to any one bank. We usually own properties in special purpose vehicles, financed by non-recourse bank debt in the currency used to purchase the asset.
	Maintain high level of liquid resources	We operate an in-house treasury team which manages cash to maximise returns.
We deliver value through active management and cost control	Maintain high occupancy rates	We use in-house local property managers who maintain close links with occupiers to understand their needs. We focus on the quality of service and accommodation for our customers.
	Maintain a diversified customer base underpinned by a strong core income stream	We avoid heavy reliance on any one customer or business sector.
	Maintain strict cost control	We perform as many back office functions as possible in-house and monitor our performance against our peer group.
We continually assess whether to hold or sell properties	Focus on holding those properties with the potential to add value through active asset management	We have an asset management plan for each property which we flex to capture rental and capital growth via leasing and refurbishment activity.
	Sell those properties which are low yielding or where the risk/reward ratio is unfavourably balanced	We seek to optimise the timing of sales depending on market conditions, the characteristics of the property and the overall portfolio composition.
	Grow dividend in line with growth of the business	Maintain a progressive dividend with cover of 1.2x – 1.6x EPRA earnings
We reward shareholders, customers and employees	Provide cost effective accommodation by investing profits back into the business	We have in-house asset and property management teams which maintain close links to tenants to understand their changing needs
	Reward employees for their work and loyalty	We seek to maintain a competitive remuneration package and provide additional benefits to the workforce

KPIs/OPIs	Our performance in 2022	Priorities for 2023	Link to principal risks
• TSR – Relative • Total accounting return	• Two acquisitions made in the year for £76.9 million	• Monitor acquisition market for opportunities but retain cautious approach	• Property risk • Sustainability risk  For more information see pages 99 and 101
• Cost of debt	• Cost of debt 2.69% • 46 loans with 25 different lenders • £113.9 million of cash and cash equivalents at year end	• Refinance remaining 2023 loan expiries • Make significant progress with 2024 refinancings • Progress target of 50% debt being 'green' by 2030 • Retained unsecured facilities of £50m • Invest in our in-house treasury team	• Financing risk  For more information see pages 100 and 102
• Vacancy rate • Administration cost ratios	• 723 tenants, 26% Government and 39% large and medium sized companies • £58.3 million reinvested in properties through capex • Administration cost ratio remains low at 14.5% • 86% (2021: 83%) of the managed portfolio achieving at least a 'Good' BREEAM In-use rating • Our roof-top solar PV energy output increased by 51%	• Reduce vacancy rate particularly in the UK • Focus on letting redevelopments • Continue to improve the quality of own properties • Reduce energy intensity in top 15 energy-consuming buildings by 5% or more compared to 2022 • Committed to Living Wage Foundation accreditation in the UK	• Sustainability risk • Political and economic risk  For more information see pages 99, 100, 101 and 102
• TSR – Relative • Total Accounting Return	• Six disposals for £57.9 million made during 2022	• Expect to be a net seller in 2023	• Business interruption risk • People risk  For more information see pages 100, 101 and 102
• Dividend cover • Staff turnover	• 2022 first PID made • 3.2% increase in total dividend	• Introduce revised employee bonus scheme more aligned to Group performance	• People risk  For more information see pages 100 and 102

Our business model in action

Investing in our portfolio

As an active asset manager who stays close to our tenants, CLS has always invested in our properties to ensure that our offices provide attractive work environments. Before the Covid pandemic, CLS was investing around £20 to £25 million per annum in refurbishments and routine upkeep across around 10-20 buildings.

In 2022, CLS invested £58.3 million in our properties reflecting changing tenant demands and increased opportunities in the portfolio with refurbishments taking place in over 30 properties. The works have focused on the five areas CLS has identified to enhance value being improved amenity, flexibility, sustainability, health & wellbeing and digital – more of which is highlighted in the descriptions of the individual projects.

In 2023, CLS expects capital expenditure to remain at a higher level of c.£40 to £60 million as ongoing and other identified refurbishments are completed. Going forward, we expect capital expenditure to be around £20 million to £30 million reflecting overall greater investment, including more sustainability spend. Clearly as and when more opportunities emerge, spending may be higher again.

CLS' approach

CLS' underlying philosophy when carrying out a refurbishment or new development is to transform the space to create distinctive, unique offices, that are on-trend and provide best-in-class facilities, appropriate to their location. Our buildings are set apart from the competition by ensuring flexibility to meet the changing market and our commitment to the idea that good design is about people. We carefully consider the tenants who use and enjoy the spaces to determine the optimum way to modernise the building, thereby creating the best environment for businesses and their staff to thrive.

Our approach is to make key improvements that will make the building more attractive to potential occupiers by providing services and space, such as better air quality, digital services and meeting rooms, that help them work more productively. In addition, this involves introducing or improving amenities that contribute to their health and wellbeing, such as roof terraces, biodiversity and end-of-trip facilities. Wherever possible, we also seek to add value by repositioning/rebranding or increasing the lettable space on the site.

Sustainability has always been a fundamental part of CLS' DNA and our approach to refurbishments and developments. However, this was elevated further by the publication of our enhanced 2021 Sustainability Strategy including our Net Zero Carbon Pathway with a forecast spend of £58 million (now £65 million) to achieve the goal of being Net Zero Carbon by 2030. Practically, this has meant the introduction of photovoltaics across most of our schemes but also a focus to: improve energy efficiency when refurbishing buildings; reduce carbon emissions; as well as looking to support our local communities so they share in the benefit of the investment we are making.

In 2022, CLS successfully undertook a new development and three significant refurbishments (in addition to many smaller schemes) which show this approach in action.

The Coade Vauxhall Walk

New Build

28,400 sq. ft NIA

£18.5m total investment

ERV on letting

£1.5m

This highly sustainable, ground plus 9 storey office, represents a substantial increase in lettable office space on the site from 4,500 sq. ft to 28,400sq. ft.

Digital

Our Digital Building Strategy places technology at the service of people to create more comfortable, safe and productive office environments.

The development of The Coade is an example of CLS' digital building strategy in action. For example, 2 fibre lines have been installed to provide a main internet connection and a backup line, thereby reducing the risk of internet outages to the tenant's business. Cat 6A cables have been distributed throughout the building and placed in risers across all the floors allowing tenants to establish swift internet access, without the delay usually experienced by requiring wayleave agreements. Wi-Fi points have been installed throughout all landlord/communal areas, including the terraces but also on the office floors as part of the internet package.

Community

CLS is committed to sharing the value of the investment it makes in buildings with the surrounding community.

At The Coade, this has involved developing Employment and Skills Construction and Occupation Plans to target various work opportunities for people normally resident within Lambeth and payments toward training and employability programmes. An Affordable Workspace of 72sqm will also be provided on a 15 year lease and fitted-out to support a local charity or not-for-profit organisation.

Health & Wellbeing

One of the key drivers for improved staff productivity within an office setting is the air quality. At The Coade, CLS ensured that occupiers could benefit from having openable windows and also increased the amount of fresh air to the BCO COVID recommendation of 14 litres per second.

The Coade, Vauxhall Walk, London

Artesian Prescot St

92,500 sq. ft NIA

£31m total investment

ERV on letting **£4.8m**

Digital

Artesian is the first CLS building designed to achieve Wirescore Platinum certification. Key features include the diverse points of entry on different sides of the building for incoming internet providers, free WiFi in common areas including the roof terrace to enable tenants and their guests to remain connected throughout the building and provision of pre-defined space on the roof top for tenants who have additional communication equipment or want their own backup generator space.

Sustainability

CLS takes the view that green modes of transport, such as cycling and walking, should be encouraged through provision of end-of-trip facilities to reduce the impact of travel on the environment.

At Artesian, an area of the lower ground floor, unsuitable for letting, was identified to provide 163 cycle parks, 15 showers (plus a Disability Discrimination Act shower at ground floor) and 183 lockers. Drying rooms are also provided on floors 1-6. This new amenity area is designed to achieve Cyclescore Platinum certification and meets the Greater London Authorities cycle requirements for a new building.

Originally, only 36 cycle spaces were provided on two separate floors of the building along with 3 showers.

Health & Wellbeing

Many years ago, approximately half the eastern windows at Lower Ground, Ground and First Floor had been blocked or utilised as vents for a kitchen, which severely reduced the amount of natural light available to occupiers. As part of the planning application, CLS argued for opening up these windows but also, identified areas on the western and southern elevation for new windows on the upper floors. The purpose of this is to maximise the amount of natural daylight available to people working in the building.

Artesian, 9 Prescot Street, London

Our business model in action continued

Flexion, Berlin

Flexion Berlin

48,400 sq. ft refurbishment	
€1.4m total investment	
ERV on letting	€0.7m

Vacancy of approximately 65,000 sq. ft provided the opportunity to refurbish the ground floor entrance and four tired, single office floor layouts into a more modern, flexible space. Following the refurbishment, which includes co-working space, the building was rebranded Flexion.

Flexibility

Refurbishment work involved the stripping out of the ground and four office floors of the building back to shell and the addition of new fire protection. This allows for the flexibility to split the floors down to 2,700 sq. ft areas and therefore suitable for traditional individual and open-plan offices, as well as think tanks, creative spaces and meeting spaces.

Improved amenity

Refurbishment work has created a welcoming entrance and reception area which provides collaboration space. Occupiers and their guests now have the opportunity to hold informal meetings, exchange ideas and relax over a coffee.

Sustainability

As part of the CLS commitment to decarbonise its buildings, a review was undertaken of the technical equipment at the building. The existing inefficient system has been replaced with natural ventilation via the windows and cooling at the lowest possible energy level. In future, a change will be made to the use of heat pumps for heating and cooling at the lowest possible energy level.

Flexion, Berlin

Park Avenue, Lyon

Park Avenue Lyon

**75,700 sq. ft refurbishment
and addition of 2,300 sq. ft**

€11.2m total investment

ERV on letting €1.7m

CLS' strategy to acquire all the floors previously in other ownerships secured the ability to transform the internal and external parts of the building into a truly sustainable modern office. An additional 2,300 sq. ft of rentable area was created on the 2nd, 8th and 9th floors.

Sustainability

Works included the complete façade replacement and new windows, which is expected to achieve BREEAM 'Excellent' certification and reduce the carbon emissions of the building by approximately 50%. New solar shading has also been provided which helps reduce overheating and the amount of air conditioning required.

Health & Wellbeing

Through the design process, a 1,991 sq. ft communal roof terrace and a 2,088 sq. ft private roof terrace space were added by extending over landings. This will provide outdoor space for tenants to relax and unwind, with stunning views towards the green space of Parc de la Tête d'Or.

Improved amenity

Arriving at the building, occupiers are now greeted by a landscaped pedestrian square and new reception which gives easier access. WC's in the building have been refurbished and converted to provide DDA facilities. Bicycle facilities have been enlarged to provide parking for 40 cycles and 6 electric vehicle chargers have been installed in the underground car park.

Financing at CLS

One of the key parts of CLS' business model is "Securing the right finance" with the clear objectives of achieving a low cost of debt, utilising diversified sources of funding and maintaining a high level of liquid resources. This approach has served CLS well over its history but CLS retains a dynamic approach which is continually assessed as market conditions change.

CLS ensures that its flexible approach to the Group financing strategy fits into a framework where the Company's appetite for financial risk and approach to controlling it are defined. The treasury policy considers both individual transactions as well as their cumulative impact and the policy is presented to the Board for review and approval annually. Overall, CLS has an active approach to its treasury management with the key aspects highlighted below.

Our Approach

Secured vs unsecured, Special Purpose Vehicle ("SPV") and portfolio financings, and other facilities

The preferred financing model for CLS has been, and continues to be, non-recourse financing arranged for individual properties and secured by these properties (mortgage-type loans in SPVs). As a result, the parameters and characteristics of the properties being financed are decisive for the financing terms and conditions agreed.

Portfolio loans secured by multiple properties are also used when circumstances require it or to obtain better terms. CLS has more portfolio financings in the UK as this has allowed longer term loans (i.e. longer than 5-years) to be secured whereas in Europe, 7 or even 10-year loans can be secured on individual properties.

From time to time, CLS has evaluated unsecured loans but has concluded against a switch as the rates obtained on our European secured loans are very competitive and that across the portfolio, but particularly in the UK, very high break costs would be incurred. Also in the current market, secured financing is cheaper than the unsecured market and thus remains our preference.

CLS had 46 loans at the end of 2022 with 25 different lenders and places great importance on the value, and diversity, of these relationships. In addition, CLS had unsecured and undrawn facilities of £50 million, being an overdraft of £20 million and a £30 million Revolving Credit Facility ("RCF"). We continue to explore whether to increase the size of the RCF, recognising the increased size of the Group, to provide greater flexibility.

Loan To Value ("LTV")

For the CLS Group, a LTV in the range 35% to 45% is targeted, albeit it could be higher or lower for a short period of time. As it is a net debt measure, it should be noted that Group LTV is not impacted by the original LTV of loan transactions but instead by valuations, acquisitions, capex and disposals. Given the more uncertain economic backdrop currently, a loan to value below 40% is being targeted in the short-to-medium-term which is expected to result in CLS being a net seller of property in 2023.

For individual financing transactions, CLS will try to secure as high a loan amount as available from the lenders approached, whilst remaining conservative and ensuring that the cost of debt is not adversely affected. The general aim

is to secure LTVs at prevailing levels, based on market knowledge and understanding of lenders' appetite, with an individual maximum LTV of 80%. If the LTV of a loan transaction falls below 35% (through amortisation or an increase in valuation), the aim is to refinance the loan to release some equity on expiry or earlier if significant break costs are not incurred.

Debt maturity

For individual loan transactions, the general aim is to secure as long a maturity as available from the lenders approached, assuming the property financed is a long-term investment. The maturity though will be adapted to the specifics of the property. For instance, it may be best to execute a short-term extension to a loan when a property's letting situation is expected to improve and then refinance longer-term when that letting situation has improved.

The overall intention is to align the maturity of the debt portfolio with that of the WAULT of the property portfolio. However, if market lease terms continue to shorten, a longer relative debt maturity may be preferred. The intention is to avoid large refinancing risks over short time periods where possible. The general rule is that a maximum of 30% of the Group's debt is in one currency or 20% of consolidated Group debt should mature in any 12-month period, although, pre the recently agreed refinancings, 2024 was an outlier. However, this is somewhat dependent on the availability of longer-term debt at different periods of time.

Fixed/floating debt mix and hedging strategy

Fixed rate debt is targeted to be in the range 60% to 90% of total group debt. Fixed rate debt is defined as fixed rate loans and floating rate loans swapped to fixed rate via interest rate swaps. The advantage of fixed rate debt is that it gives certainty of cash flow but on the downside can result in high break costs when repaid early due to make whole clauses with the vice versa true for floating rate debt. Fixed rate debt will not usually be chosen if there is much doubt about keeping the property for the life of the loan.

On the whole, lenders require floating rate loans to be hedged. When negotiating loans, CLS will aim for a flexible interest rate hedging approach if possible (e.g. only hedge part of the loan, or only if underlying index rate resets above a defined level). A minimum 50% of floating rate debt is to be hedged.

Whilst fixed rate debt is the default position, CLS always evaluates each property on its merits. Floating rate debt is sometimes preferred as a short-term solution whilst the letting situation is improved or as a sale of the building is expected in the near term. In the current market, more floating rate loans have been executed partly in the expectation that interest rate volatility and swap levels will reduce in the short to medium term.

CLS uses natural FX hedging by borrowing in the currency of the country in which the property is located and does not seek to hedge the equity portion of a property's financing. Interest rate hedging is limited to simple vanilla instruments such as interest rate swaps, and interest rate caps or collars. There are no speculative transactions over-hedging, speculative transactions nor hedging at a group level.

Sustainable finance

Sustainability is a fundamental part of CLS' DNA with it being one of: our key performance indicators; our quality differentiators for refurbishments; and our investment tenets. In 2020 and 2021, CLS executed our first two "green" loans with Aviva and Scottish Widows, each of which had a 10-basis point incentive for meeting certain sustainability targets which align with our Net Zero Carbon Pathway for these properties. All KPIs have been met.

CLS has approximately 20% of its debt portfolio in green loans and is targeting to have over 50% by 2030. We think this target should be achievable as the UK financing market is fairly well advanced in terms of sustainable financing, the markets in Germany and France are now increasingly maturing. We would therefore anticipate securing more green financing in the next couple of years.

Going forward

2023 focus and priorities

On the whole, CLS only starts to engage with banks around six months before the expiry of a loan as at that point there is good clarity around the property's letting situation and the loan is now within the bank's period of focus. The same situation holds true in 2023 but CLS is now more focused on all the financings in 2023 and 2024 given the relatively higher proportion of the debt portfolio maturing during this period and greater uncertainty in the market.

Considerable progress has been made in the first two months of 2023 with extending or refinancing 2023 and 2024 maturities such that 6 financings have been executed, received credit approval or been agreed. The graph below shows the debt portfolio as at 31 December 2022 and the pro forma position if these 6 financings had been executed at that date. These actions not only spread out the debt profile but would have resulted in an increase in the debt maturity from 3.8 to 4.2 years.

Once these financings have been executed, the total debt to be refinanced over 2023 and 2024 would have reduced from £505 million to £278 million. This would leave 7 refinancings left in 2023 for £94 million, all of which are in Germany and France, and we are confident that these will be completed successfully.

Evolution of our cost of debt

Given the increase in the cost of debt for floating rate loans during 2022 and the start of 2023, and as existing fixed rate loans mature, CLS' cost of debt will increase. CLS' cost of debt hit an all time low of 2.22% at 31 December 2021 and had risen to 2.69% at 31 December 2022.

Based on the current interest rate yield curve, it is expected that CLS' overall cost of debt will increase by 50-60 basis points in 2023 (14% of total debt to be refinanced at c.250 basis points higher than the current group weighted average and 24% floating and unhedged). Cost of debt will rise by a further 20-25 basis points in 2024 despite rates having peaked in 2022 due to the expiration of historic low cost fixed rate debt (a further 13% of total debt to be refinanced at c.200 basis points higher than the current weighted group average as well as 38% unhedged or recently refinanced). However, the increases in the cost of debt will be lower if disposals of properties financed with higher rate floating debt are made as expected.

It should be noted that 5-year Sterling swap rates have already fallen by 120 basis points since their peak rates at the end of the third quarter of 2022 and could well drop further. In addition, as highlighted in the Chief Executive Office's Review, there are considerable increases in rental income that can be captured by filling existing vacancy and upcoming vacancy in refurbishment schemes which would more than offset these increased finance costs, albeit this rental income may take longer to come through.

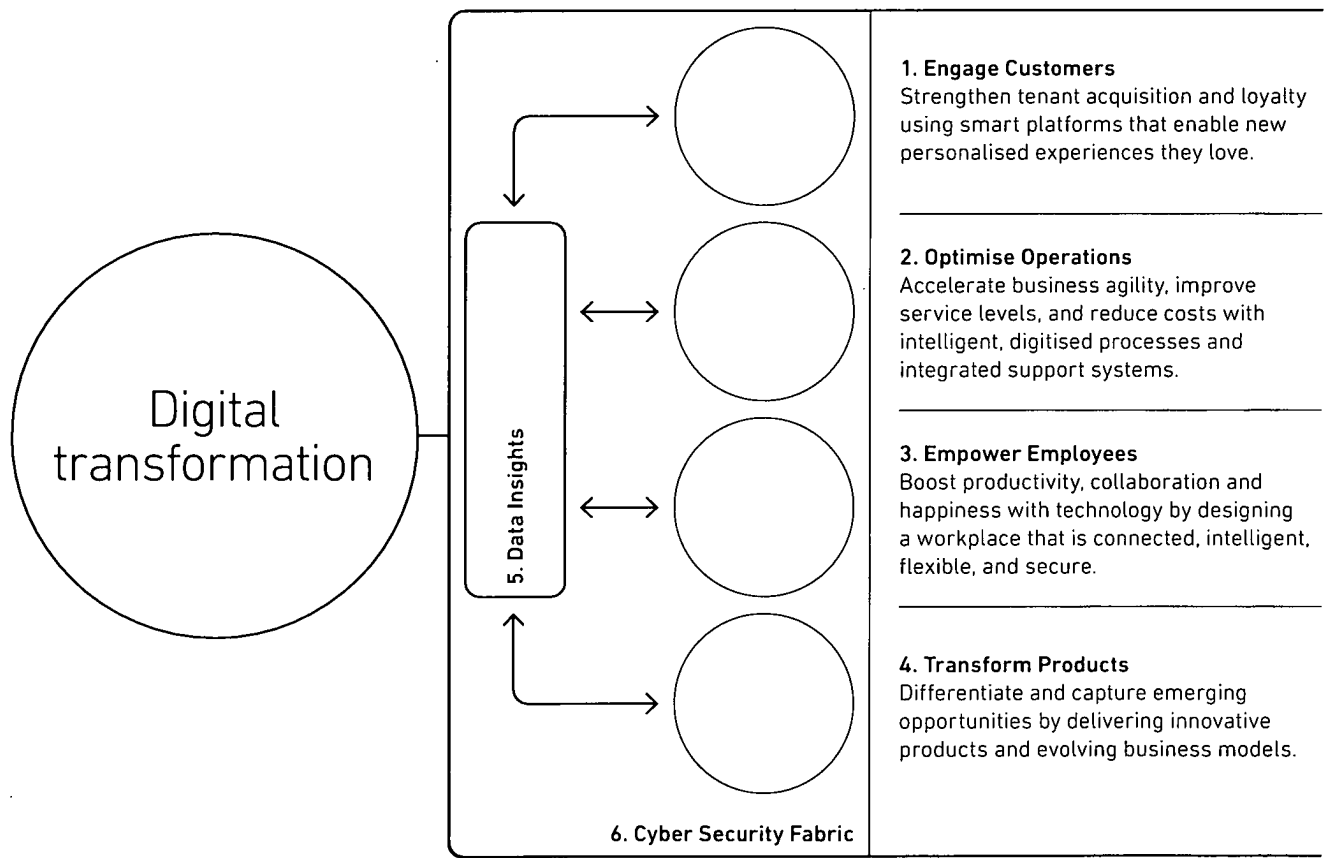
Digital and Cyber Strategy

Now in its fourth year, the Group's digital transformation strategy has delivered many business benefits across the organisation. The approach to digital transformation is centred on leveraging technology across four pillars: engaging customers; optimising operations; empowering employees; and transforming products. The model is underpinned by a Group-wide data analytics platform to interconnect the four elements and provide actionable data insights to drive faster and more informed decision making; and a cybersecurity fabric designed to protect the Group's IT systems from malicious attackers and restore systems to a safe operational state quickly if they were to be compromised.

Major advancements have been delivered across the six components in the last year, particularly in 'Engage Customers' and 'Transform Products'.

1. Engage Customers

Our customer centric approach of framing digital products or services around the needs, wants and limitations of end users aligns with our core business value of 'Our tenants, our focus'. Through the roll out of a new Tenant Experience Platform, we will meet our tenants' desire for more efficient digital interactions with property and facility managers and the communities surrounding their building(s). This platform will also support the drive for better information sharing resulting from sustainability reporting requirements.



Thameslink House, London

2. Optimise Operations

Substantial progress has been made towards delivering business efficiencies through a modern and integrated portfolio of support systems. The UK and French regions have been transitioned to a single digital platform to support core property and finance datasets, and business processes. Importantly, this also provides a centrepiece for the integration of other systems such as AI-based lease and invoice data extraction, robotic process automation, and automated document creation. The delivery of this workstream will enable the Group to be more agile and respond to changes in its operating environment.

3. Empower Employees

The Group's digital transformation journey started with employee empowerment. Employee productivity, collaboration and happiness are being improved through technology by designing a workplace that is connected, intelligent, flexible and secure (noting that the definition of the workplace extends beyond the office environment). IT investments have enabled employees to work from anywhere and supported our new hybrid working model. It has also allowed better digital interactions with external business partners. Work continues on boosting employee digital literacy to improve business outcomes and increase engagement with new technology roll outs.

4. Transform Products

The Group has published a Digital Building Strategy that allows customers to utilise technology to create more comfortable, safe and productive office environments. During 2022, a newly formed CLS working group started to deliver key components of the plan including: upgrading internet connectivity and access within buildings; networking building management systems to enable optimisation and AI-based control; and integrating digital services such as visitor management, access control and meeting room bookings to improve the customer experience.

5. Data Insights

We continued to improve the quality and accessibility of data to support better decision making, planning and customer connections across the Group during 2022. The consolidation of disparate systems provided the opportunity to sanitise and align data definitions to provide a better, more timely reporting facility, especially for Group-wide and cross-functional reports.

6. Cyber Security Fabric

The Cyber Security Fabric balances the need to protect with the need to run the Group's operations from any connected location. By integrating cyber security considerations into all activities, the digital transformation programme continues to deliver improvements to reduce the risk of cyber incidents on the Group's business. These investments have raised protection levels to a market-leading position (rated 'A' against a Centre of Internet Security based-benchmark) as well as ensuring compliance with industry standards such as Cyber Essential Plus.

However, the cybersecurity landscape is constantly evolving and the Group's attack surface is growing as we increase our use of cloud-based software solutions (i.e. supply chain attacks). In 2022, recognising this heightened threat risk, we started the transition from annual penetration testing to a continuous penetration testing regime through automation. Data from various cyber defence tools deployed in recent years is now being aggregated into a single control centre to enable better monitoring, response and recovery. Furthermore, additional cyber security checks are now taking place when assessing potential suppliers along with requesting updated cyber information from existing suppliers.

As our buildings get smarter through the deployment of sensors and other technology, work has also started to mitigate the risk associated with digital assets within the Group's properties (e.g. cyber-attacks on building management systems).

Staff are regularly tested and trained on cyber security. Acknowledging the risks posed by cybercrime, board reports always include cyber security updates and periodic presentations accompany this content. Given the pace of change in this specialist area, the Group uses several expert partners to: complement internal resources; provide independent reviews; and, ultimately, deliver this holistic approach to mitigating cyber security risk. Over the last two years, CLS has experienced minimal cyber security threats but, as highlighted above (particularly around phishing threats), there is no room for complacency and we are continuing to improve and strengthen our defences.

Key performance indicators

Measuring the performance of our strategy

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 2022 was 11.6 pence.

⊕ More detail is provided in the Chief Financial Officer's review on pages 46 to 49 and in note 6.

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

Our target

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

Progress

In 2022, the Total Accounting Return was -3.7%.

⊕ More detail is provided in the Chief Financial Officer's review on pages 46 to 49 and in note 6.

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 2022, the EPRA vacancy rate was 7.4%.

⊕ More detail is provided in the Country business reviews on pages 22 to 27 and in note 6.

Other performance indicators

In addition to these key performance indicators, the Group also has a number of other performance indicators by which it measures its progress. These are regularly reviewed. Three are shown here but others are summarised on page 3 and in note 5 and are discussed throughout this strategic report. Our environmental and social indicators (including health and safety) are discussed in the ESG section on pages 50 to 95.

Definition

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

Why this is important to CLS

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

Our target

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

Progress

The TSR was -24.3%, making CLS the 11th ranked share of the FTSE 350 Real Estate Super Sector Index of 24 companies.

These measure the administration cost of running the core property business by reference to the net rental income that it generates, and provides a direct comparative to most of our peer group. We aim to maintain the CLS ratio between 15% and 17%. The administration cost ratio was for 2022 14.4%.

We seek to maintain a cost of debt at least 200 bps below the Group's net initial yield. At 31 December 2022, the cost of debt of 2.69% was 202 bps below the net initial yield of 4.71%.



More detail is provided in the Chief Financial Officer's review on pages 46 to 49 and in note 6.

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 2022 we maintained our GRESB rating of 85 and four green stars.



More detail is provided in the ESG section on pages 50 to 95.

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

Key

- We acquire the right properties
- We secure the right finance
- We deliver value through active management and cost control
- We continually assess whether to hold or sell properties
- We reward shareholders, customers and employees

Tenants

Priorities in 2022

- Improvements to communal areas
- Input into tenants' refurbishments
- Involvement in sustainability initiatives

How we engaged

- Tenant meetings

Outcomes and opportunities

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

Link to business model and strategy



Suppliers

Priorities in 2022

- Working towards sustainable practices
- Support for continual feedback on tendering processes

How we engaged

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

Outcomes and opportunities

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

Link to business model and strategy



Communities

Priorities in 2022

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

How we engaged

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

Outcomes and opportunities

- 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



Our launch event of Park Avenue, Lyon, in January 2023

Our Board members and property teams on a London property tour in November 2022

Our topping out ceremony at The Coade, Vauxhall Walk, in July 2022

Employees

Priorities in 2022

- Monitor staff concerns regarding inflation
- Enhance CLS office culture following lockdown restrictions being lifted

How we engaged

- Open door policy for raising issues
- Our Workforce Advisory Panel
- Introduction of anonymous whistleblowing hotline

Outcomes and opportunities

- Introduction of new salary review and bonus scheme taking inflation into account
- More all staff meetings hosted by the CEO and SLT to maintain open lines of communication
- CSR initiatives including group volunteering days, social events and all staff company conference

Link to business model and strategy



Investors

Priorities in 2022

- Address the disparity between share price and NTA
- Long-term growth strategy
- Impact of war in Ukraine and inflation

How we engaged

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

Outcomes and opportunities

- Undertook a Tender Offer to buy back shares
- Continued review of portfolio

Link to business model and strategy



Financial institutions

Priorities in 2022

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

How we engaged

- Frequent meetings with all lenders
- Presentations from institutions
- Invitations to property tours

Outcomes and opportunities

- 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

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 42 to 43 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, 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.

With the end of lockdowns, the Board were able to meet in person regularly and undertook two property tours in Berlin and London in 2022 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	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					
pages 2-5 Company Purpose	pages 20-27 Performance Review	pages 80-88 Responsible Payment Practices	pages 2-5 Purpose and vision	pages 2-5 Purpose and vision	pages 42-43 Stakeholder Engagement
pages 6-7 Our Business Model	page 83 Our People	pages 20-27 Performance Review	page 50 Sustainability	page 129 Whistleblowing	page 114 Annual General Meeting
pages 20-27 Performance Review	page 84 Diversity and Inclusion	page 93 Modern Slavery	page 95 TCFD	page 129 Internal Controls	page 134 Dividend Policy
page 134 Dividend Policy	pages 83-85 Employee Engagement	page 50 Sustainability		page 50 Sustainability	page 50 Sustainability
page 50 Sustainability	page 129 Whistleblowing	pages 6-7 Our Business Model			
	page 85 Company Culture	page 129 Whistleblowing			

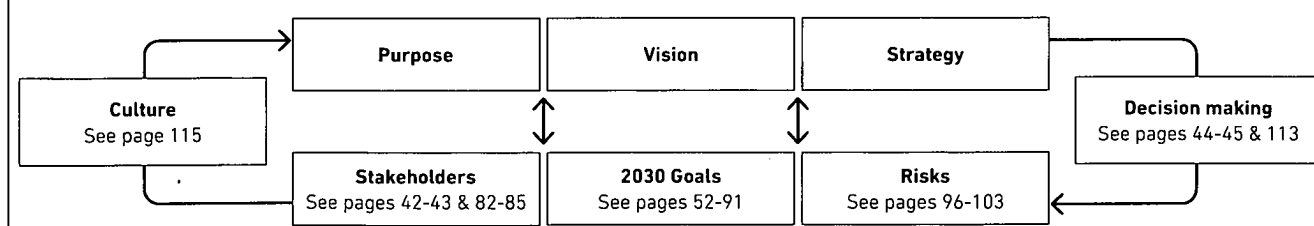
Purpose-led considerations

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.



Acquisition and Disposals

In pursuit of fulfilling our long-term strategic goals and monitoring the portfolio, we carried out a number of acquisitions and disposals this year. Two office buildings were acquired in Germany, the first of which was Kanzlerstraße 8, situated in a well-connected and growing submarket in Düsseldorf for £20.9 million, and the second was the acquisition of The Yellow for £56.0 million, a property located in a prime office location in the CBD of Dortmund, next to the central shopping district. Five properties were sold in the UK and one in France for a combined total of £57.9 million, above property valuation.

Consideration of S172 impacts by the Board in its decision making

Tenants (2) (1)

With our in-house asset and property management teams, we are able to provide sustainable, modern office space that will meet the needs of our tenants in our key locations.

Communities (1) (6)

Our aim is to invest in the communities in which we invest thereby enhancing not just our offices but the spaces and communities around them. This may take different forms, such as: Delivering better public realm and amenity space outside our buildings; investing in our local communities through support provided by our employees or working with local charities to deliver specific projects.

Monitoring Sustainability

In 2022, we established our Sustainability Committee to oversee the implementation of our sustainability strategy, incorporating our Net Zero Carbon Pathway and Social Value Framework. The Committee met twice during the year and updates were provided by the Head of Sustainability who discussed strategy implementation, Net Zero Carbon Pathway progression and areas of focus that formed part of the KPIs. This included a climate risk analysis to model the impact of a 1.5 and 4 degree increase in temperatures. A biodiversity study was initiated at the end of August, aimed at highlighting where CLS could make improvements to the local environment. Other projects included enhancements to the sustainability reporting dashboard which would be provided to the property teams to pinpoint those buildings which showed high energy usage.

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 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.

Tender Offer of Ordinary Shares

Despite six property disposals in 2022 above book value, CLS' shares continued to trade at a significant discount to NTA, which the Board believed to be unjustified. To address this, it was announced in August that CLS would be undertaking a Tender Offer to return up to approximately £25.5 million through the purchase of 1 in every 40 Ordinary Shares at 250 pence per Ordinary Shares. A total of 154,132,053 Ordinary Shares were offered for tender and 10,184,894 Ordinary Shares were purchased, which represented 2.5% of the Issued Share Capital.

Consideration of S172 impacts by the Board in its decision making

Investors (5)

The Board believed it was in the interests of all shareholders to implement the Tender Offer to try to reduce the share price discount to NTA. It was determined that the Tender Offer should be made at an appropriate premium to the price per ordinary share and that this would be the most suitable way of returning capital to shareholders in a quick and efficient manner, taking account of the relative costs, complexity and timeframes of the possible methods, as well as treating all shareholders equally.

Employees (4)

The Board considered how this would benefit employees who own shares in CLS and also the impact it would have on the Share Incentive Plan.

Key – Section 172 criteria

①	②	③	④	⑤	⑥
The likely consequences of any decision in the long term	The need to foster the Company's business relationships with suppliers, customers and others	The desirability of the Company maintaining a reputation for high standards of business conduct	The interests of the Company's employees	The need to act fairly between shareholders	The impact of the Company's operations on the community and the environment

Chief Financial Officer's review

“ in 2022 CLS delivered solid results with lower valuation falls relative to the market and we have made significant progress with the planned refinancing activity for 2023 and 2024.”

Andrew Kirkman
Chief Financial Officer

Refinancing and sales to keep balance sheet strong in 2023.

Summary

EPRA net tangible assets ('NTA') per share, fell by 6.0% to 329.6 pence (2021: 350.5 pence) and basic net assets per share by 5.9% to 307.3 pence (2021: 326.6 pence). Loss after tax of £81.9 million (2021: £119.5 million profit) generated basic earnings per share of -20.2 pence (2021: 29.3 pence) but EPRA earnings per share of 11.6 pence (2021: 11.3 pence). EPRA EPS provided 1.47x cover of the full year dividend of 7.95 pence per share.

On 1 January 2022, we converted our UK operations to a REIT which has resulted in a saving of at least £3 million per annum in tax. In May 2022, in response to becoming a REIT, CLS also updated its dividend policy as described below. The other notable event was the 1 for 40 share buyback tender offer executed in September 2022 to demonstrate our belief in the value of our portfolio.

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 6 gives a full description and reconciliation of our APMs.

Income statement

Net rental income in 2022 of £107.8 million, as set out in graph A, was little changed from 2021 (£108.0 million). The increases arose from acquisitions (£4.1 million) made in 2021 and the start of 2022, and indexation gains of £1.5 million as the majority of our properties have index-linked rent. As a result of a post-pandemic bounce, we recorded record results from our hotel and student operations with rental increases of £2.2 million and £2.1 million respectively. Disposals reduced rental income by £3.4 million and the movement of properties into refurbishments lowered rental income by £1.9 million. Higher vacancy, mainly in the UK, resulted in higher net service charge expenses of £2.2 million and net lease expiries of £1.8 million. Other, including FX, lowered rents by £0.8 million.

The strength of CLS' tenant relationships and the quality and diversity of our tenant base has continued to be reflected in our rent collection. CLS collected over 99% of rent before Covid-19, over 99% during the pandemic and over 99% in 2022. Rent collection for the first quarter of 2023 is over 95% as is usual at this point in time.

Overall recurring administration and property expenses increased by £2.5 million to £31.9 million (2021: £29.4 million) primarily as a result of: higher student and hotel expenses of £1.2 million given higher occupancy; a one-off release of bad debt provisions in 2021 of £0.3 million with a more normal charge of £0.6 million in 2022; and an increase in operating costs of £0.4 million given higher vacancy. The proportion of index-linked rent increased to 55.5% (2021: 50.1%) 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 increasing interest rates.

Due to the higher level of costs, CLS' administration cost ratio increased to 14.4% (2021: 14.1%) and the EPRA cost ratio rose to 25.8% (2021: 22.6%).

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 £136.5 million (2021: £28.5 million gain) with falls in the UK of 6.7%, Germany 3.5% and France 5.3% in local currencies.

CLS has small shareholdings in two listed non-core Swedish companies. CLS now directly holds 2.92% of Fragbite Group AB and indirectly 8.9% of Vo2 Cap Holding AB, both of which are classified as investments given that CLS has no control or significant influence over their affairs. The share prices of both companies fell in 2022 resulting in a loss of £3.8 million (2021: £7.5 million profit including a part disposal).

Six properties were sold in 2022 for an aggregate consideration of £57.9 million. This was 2.5% above book value which, after costs, resulted in a profit on sale of properties before tax of £0.5 million (2021: £0.1 million loss).

Finance income of £10.1 million (2021: £5.9 million) included unrealised gains on derivative financial instruments of £8.8 million (2021: £5.2 million) from higher interest rates.

Excluding the derivative financial instruments, finance income increased by £0.6 million as interest received increased to £1.3 million (2021: £0.5 million) from higher interest rates on cash deposits and dividends receivable fell by £0.2 million (2021: £0.2 million).

Finance costs increased to £26.8 million (2021: £25.4 million) due to the increase in the amount of borrowings and cost, given wider market interest rate increases.

Approximately 49% of the Group's sales are conducted in the reporting currency of Sterling and 51% in Euros. Whilst the average Sterling rate against the Euro strengthened marginally by 0.8%, there were far fewer transactions in 2022 compared to 2021 and consequently FX losses were at a much lower level. In 2022, foreign exchange losses were £0.3 million in the income statement (2021: £2.3 million).

Exchange rates to the £	EUR
At 31 December 2020	1.1185
2021 average rate	1.1634
At 31 December 2021	1.1893
2022 average rate	1.1732
At 31 December 2022	1.1295

The effective tax rate of 0.0% (2021: -30.6%) 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 and thus minimal tax is now paid in the UK.

Overall, as set out in graph C, EPRA earnings were higher than last year at £47.0 million (2021: £45.9 million) and generated EPRA earnings per share of 11.6 pence (2021: 11.3 pence). The increase of 0.3 pence in EPRA EPS was primarily due to: the strong performance of the hotel and student operation; tax savings following the conversion of CLS' UK operations to a REIT; and relative improvement in FX losses, partly offset by: increased vacancy in the UK leading to lower revenue and higher costs; and higher interest costs.

EPRA net tangible assets and gearing

At 31 December 2022, EPRA net tangible assets per share were 329.6 pence (2021: 350.5 pence), a fall of 6.0%, or 20.9 pence per share. As set out in graph B, the main reasons for the decrease were: property valuation decreases of 5.3% or 33.9 pence per share; dividends of 7.95 pence per share paid in the year; and other movements of 1.5 pence per share, partly offset by: EPRA earnings per share of 11.6 pence per share; foreign exchange gains on our European business of 8.5 pence per share; and a 2.6 pence per share benefit from the share buyback.

Balance sheet loan-to-value (net debt to property assets) at 31 December 2022 increased to 42.2% (2021: 37.1%) as a result of net acquisitions and capital expenditure, and property valuation reductions. The loan-to-value of secured loans by reference to the value of properties secured against them was 49.2% (2021: 46.3%).

The value of properties not secured against debt increased to £105.1 million (2021: £100.8 million). In 2023, CLS is expected to be a net disposer of property and thus, in the absence of significant property valuation falls, LTV is expected to reduce.

Chief Financial Officer's review continued

Cash flow and net debt

As at 31 December 2022, the Group's cash balance had fallen to £113.9 million (2021: £167.4 million) as set out in graph D. Net cash flow from operating activities generated £43.0 million, a reduction of £1.2 million from 2021. £32.4 million was distributed as dividends and £27.5 million paid out for financing costs and tax, with the remainder reinvested in the business to grow net tangible assets.

Acquisitions of £83.8 million and capital expenditure of £57.2 million were partly funded by proceeds after tax from property disposals of £53.0 million and the net drawdown of loans of £51.3 million. The net result of property and financing transactions, and after the share buyback cost of £25.8 million and other of £1.6 million, being the investment of £53.5 million in our property portfolio.

Gross debt increased by £74.3 million to £1,105.9 million (2021: £1,031.6 million) due to: the net drawdown of loans of £43.6 million, amortisation of loan issue costs of £1.9 million and the increase of £28.8 million due to the weakening of Sterling against the Euro. In the year, £144.1 million (£143.0 million net of capitalised fees) of new or replacement

loans were taken out, loans of £80.9 million were repaid and £18.5m of contractual periodic or partial repayments were made. Year end net debt rose to £992.0 million (2021: £864.2 million). At the year end, CLS' additional facilities remained unchanged comprising undrawn bank facilities of £50.0 million, of which £30.0 million was committed.

The weighted average cost of debt at 31 December 2022 was 2.69%, 47 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 (28 bps increase); new higher cost debt drawn for acquisitions and various refinancings completed (29 bps increase), partly offset by: the expiration of legacy interest rate swaps (6 bps reduction); repayments of higher cost debt on disposals (3 bps reduction); and the strengthening of the Euro against the pound (1 bps reduction). In 2022, interest cover remained at a healthy level of 3.0 times (2021: 3.2 times).

Financing strategy and covenants

A larger section on the Group's financing strategy is included in this report but a few of the key points are worth repeating here. Significant progress has been made with the refinancing activity for 2023 but also for 2024 when a greater proportion of the Group's debt falls due. The Group's financing priorities remain to keep the cost of debt low whilst maintaining 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.

As noted, CLS' objective remains to keep a high proportion of fixed rate debt. However, in 2022 more floating rate loans than usual were executed given that: some properties are to be sold and thus wanting to avoid break costs; some loans were extended whilst the letting profile was improved in advance of securing a longer term fixed rate loan; and a belief that interest rates were temporarily higher given the quickened pace of interest rate increases and greater market volatility.

In 2022, the Group financed, refinanced or extended 12 loans to a value of £229.9 million for a weighted average duration of 2.8 years and at a weighted average all-in rate of 3.24%, and of these £58.4 million were fixed at a weighted average all-in rate of 3.17%. Consequently, at 31 December 2022, 72.4% of the Group's borrowings were at fixed rates or subject to interest rate swaps, 3.8% were subject to caps and 23.8% of loans were unhedged. The fixed rate debt had a weighted average maturity of 4.4 years and the floating rate 2.2 years. The overall weighted average unexpired term of the Group's debt was 3.8 years (2021: 4.4 years). The Group's debt maturity is set out in graph F along with the current proforma position as described in the financing case study.

The Group's financial derivatives, predominantly interest rate swaps, are marked to market at each balance sheet date. At 31 December 2022 they represented a net asset of £8.5 million (2021: £0.4 million liability).

At 31 December 2022, the Group had 46 loans (36 SPVs, eight portfolios and two facilities) from 25 lenders. The loans vary in terms of the number of covenants with the three main covenants being ratios relating to loan-to-value, interest cover and debt service cover. However, some loans only have one or two of these covenants, some have other covenants and some have none. The loans also vary in terms of the level of these covenants and the headroom to these covenants.

On average across the 46 loans, CLS has between 25% and 35% 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

In May 2022, following the conversion of CLS' UK business to a REIT, the Group announced an updated dividend policy for the 2022 financial year onwards. CLS announced that it would maintain a progressive dividend policy, with a dividend cover of 1.2 to 1.6 times EPRA earnings (previously 1.5 to 2.0 times) which equates to a pay out range of 63% to 83% of EPRA earnings. It was also announced that it was expected that FY 2022 dividend cover would be around the middle of the new range.

The proposed final dividend for 2021 of 5.35 pence per share (£21.8 million) was paid in April 2022. In October 2022, following the completion of the share buyback tender offer, CLS paid an interim dividend of 2.60 pence per share (£10.6 million), an increase of 10.6% compared to 2021 interim dividend of 2.35 pence per share.

Given ongoing uncertainty, the proposed final dividend for 2022 is maintained at 5.35 pence per share (£21.4 million), the same level as 2021. This would result in a full year distribution of 7.95 pence per share (£32.0 million), covered 1.47 times by EPRA earnings per share. The 2022 dividend is an increase of 3.2% over the prior year and the Total Accounting Return, being the reduction in EPRA NTA plus the dividends paid in the year, was -3.7% (2021: 3.7%).

As a result of the conversion of our UK operations to a REIT, 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 interim dividend of 2.60 pence per share, the PID was 1.20 pence per share and for the proposed final dividend of 5.35 pence per share, the PID will be 1.36 pence per share giving a full year dividend of 7.95 pence per share of which 2.56 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

10 March 2022

Sustainability Overview

Q&A

Fredrik Widlund
Chief Executive Officer

Q. Your Sustainability Strategy has been in place for just over a year now, has anything changed in CLS approach?

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.

Challenging external market conditions do not change the importance of addressing the environmental or social challenges that underlie a more sustainable future.

We have spent this year rebuilding the foundations of that approach with a refreshed team, producing better internal monitoring and reporting, and driving key elements of the strategy forward.

Sustainability remains an integral part of our overall strategy and my role continues in monitoring the change process across all aspects of the business and our assets. I am delighted that we have started to deliver on our plans.

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

We are getting on with implementing our clear sustainability strategy, showing clear results with significant energy savings, and making our buildings future-ready and high-quality.

I'm also proud of the continued rapid expansion of our roof-top solar PV portfolio, now one of the largest for an office landlord in Europe. This sits alongside our proactive roll out of electric vehicle charging. Both measures help our occupiers to be more sustainable and, at the same time, position our assets as the most sustainable offerings in local markets.

Finally, I am proud that, amidst the cost of living crisis, CLS is able to support charities and the communities we work in by generating £191,916 in social value through donations, volunteering and other activities and actions.

“ We are increasingly seeing recognition of the sustainability and carbon value of existing assets which supports our approach of improving buildings, extending their life and retaining the carbon embodied in them.”

Fredrik Widlund
Chief Executive Officer

Q. Your Net Zero Carbon pathway was published in 2021, what progress has been made?

We have been implementing our clear programme of actions this year with a further 57 projects completed saving an estimated 612 tonnes CO₂e from 2022.

We saw positive signs of energy and carbon reductions across our regional portfolios, but we were just above our Scope 1 and 2 carbon emissions trajectory for the year. We expect the impact of our projects to show more broadly from next year as there is still a lag in savings being achieved as people continued to return to offices this year and Covid-safe operating parameters were retained in the UK.

Q. How has the business performed against other 2022 targets?

We made good progress against the sustainability key focus areas we set ourselves for 2022: achieving 12 goals and partially achieving 5. Crucially, we are starting to see energy and carbon reductions in line with our Net Zero Carbon Pathway.

Behind these targets there is also a significant improvement in the breadth and quality of environmental data collection that is backed by the broadening of assurance.

We made progress in all three of our countries. In the UK, we continued strong progress on our photovoltaic roll out with 347 KWp installed and held 12 volunteering events.

In France, we completed the new insulated facade and biodiversity upgrades at our d'Aubigny building in Lyon.

In Germany, we completed successful technology trials of smart thermostats and artificial intelligence building energy management optimisation that will serve as models for future work.

Q. Are the properties in CLS portfolio resilient and fit for a sustainable future?

We are increasingly seeing recognition of the sustainability and carbon value of existing assets which supports our approach of improving buildings, extending their life and retaining the carbon embodied in them.

The investment programme for our assets reflects our Sustainability Strategy and Net Zero Carbon Pathway goals making changes that achieve energy and carbon reductions as well as improving the BREEAM ratings of buildings. We are confident our core portfolio is on track to be fit for a sustainable future by meeting or exceeding anticipated future regulatory requirements. This approach is mirrored in developments, major refurbishments and acquisitions as they occur.

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

In the year ahead we are building on our work to deliver energy and carbon reductions with a target to be in line with the reductions planned in our Net Zero Carbon Pathway. This includes a focus on simple energy management optimisation to address energy cost increases for our occupiers.

We also want to work on improvements in other environmental areas like biodiversity and waste.

On social value, now that we have an initial baseline, our goal is to focus our work better, broaden our measurement and grow our social value particularly around helping young people with skills.

Finally, we are keen to continue our work on improving data for insights and reporting. This includes further smart metering and integrating data on climate physical risk assessments into a Climate Resilience Strategy for our assets to ensure long-term resilience.

Fredrik Widlund
Chief Executive Officer

Sustainability Strategy to 2030

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 for future growth. Building a resilient business means taking steps to prepare and adapt before regulation requires it, or the environment and our customers demand it. A sustainable operating model and strategy reduces material risks to our reputation and balance sheet. Crucial to this is our commitment to being a Net Zero Carbon business by 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 58	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 page 78	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 page 90
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Targets
(for more detail see our Sustainability Strategy document on our website) .
www.clsholdings.com/sustainability/our-perspective

Our performance

We align to EPRA sBPR, SASB and GRESB frameworks for reporting and benchmarking sustainability.

The table overleaf shows a summary of key metrics. The full tables, with splits by country, can be found in the Extended Sustainability Metrics section on pages 228 through 235. These include all the required regulatory disclosures as well as those for EPRA sustainability best practices reporting guidelines and SASB indicators. This includes geographical splits of the data.

This year we have also provided our annual sustainability data as a downloadable file from our website in CSV format for easy use.

2022 Performance

Our total absolute Scope 1 and 2 GHG Emissions have decreased by 16% Like-for-Like (12% Absolute) in 2022 due to a combination of energy efficiency projects, property sales, and improving emission factors (e.g. electricity carbon factor). This was just 0.7% off our Net zero Carbon Pathway annual target. As a part of this there has been a decrease in total landlord electricity consumption from the 70 like-for-like buildings of 4% across the Group and a reduction of 5% in tenant areas. Similarly, absolute electricity consumption in landlord spaces has decreased by 2% primarily resulting from energy efficiency projects. Scope 3 emissions increased significantly due to our larger spending on major construction and refurbishment projects.

Water consumption and waste across the Group increased as, post-pandemic, people continued to return to offices in our portfolio and to occupy them for more days. On a like-for-like basis the increase was 9% and 32% respectively, once acquisitions and disposals are removed.

We have increased the social metrics upon which we report as well. The key change was the addition of more employee-related KPIs. See the Social section of this report for more commentary.

Methodology and Regulated Reporting

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 at the back of this report. As a UK publicly listed FTSE250 company we are subject to the greenhouse gas ('GHG') reporting requirements defined within the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the energy reporting requirements under the Streamlined Energy and Carbon Reporting ('SECR') requirements in the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. The SECR data table is in the Environment section.

Assurance

For the third year we have engaged DNV, an independent expert in assurance and risk management, to undertake limited independent assurance. This time we have expanded the scope to cover water, waste and Scope 3 greenhouse gas emissions data indicators as well as our 2022 Scope 1 and 2 greenhouse gas emissions and energy metrics.

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

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

Having reviewed our data processes during assurance, we have identified several metrics from previous years that require restating to ensure alignment with the 2022 methodology or where corrections have occurred. The restated figures have not been subject to assurance and are identified by appropriate footnotes in tables overleaf.

2022 Highlights

-16%

Like-for-like decrease in total Group Scopes 1 & 2 GHG emissions

57

Net Zero Carbon Pathway projects completed

99.9%

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

347 kWp

Solar Photovoltaic Panels installed

£191,916

equivalent Social Value generated (excluding supply chain)

562 hours

Employee volunteering hours given to community and charitable organisations

Environmental, social and governance review

GHG Emissions

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

	Absolute			Like-for-Like		
	2022 tCO ₂ e	2021 tCO ₂ e	Difference %	2022 tCO ₂ e	2021 tCO ₂ e	Difference %
Scope 1 (Direct)	4,858¹	5,440³	(11)%	4,260	4,625	(8)%
Gas	4,177	4,707 ³	(11)%	3,660	3,977	(8)%
Gas Oil	14	39	(65)%	14	39	(65)%
Diesel	8	15	(49)%	5	9	(41)%
Fugitive Emissions	660	679	(3)%	581	601	(3)%
Scope 2 (Energy Indirect – Location Based)	7,354¹	8,487⁴	(13)%	5,847	7,470	(22)%
Electricity (location based)	4,080	4,821	(15)%	3,474	4,300	(19)%
Purchased Heat (location based)	3,274	3,666	(11)%	2,372	3,169	(25)%
Scope 2 (Energy Indirect – Market Based)	1,103¹	1,743	(37)%	816	1,568	(48)%
Electricity (market based)	2	121	(99)%	0	109	(100)%
Purchased Heat (market based)	1,102	1,622	(32)%	816	1,459	(44)%
Scope 3 (Other Indirect)²	86,784¹	64,597	34%	–	–	–
Upstream Emissions ²	61,488	44,323	39%	–	–	–
Downstream Emissions ²	25,296	20,274	25%	–	–	–
Total Scope 1 and 2 Emissions	12,212¹	13,894	(12)%	10,106	12,095	(16)%
Progress against NZC Pathway target	12,128⁹		(0.7)%¹			
Total Scope 1, 2 and 3 Emissions	98,996	78,524	26%	–	–	–

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		
	2022 kWh	2021 kWh	Difference %	2022 kWh	2021 kWh	Difference %
Electricity						
Total purchased electricity for landlord spaces	20,277,919	20,676,838	(2)%	17,998,506	18,670,192	(4)%
Total purchased electricity sub-metered to occupiers	7,978,663	9,020,202	(12)%	7,534,789	7,893,075	(5)%
Total electricity generated through on-site PV	706,787	469,411	51%	666,170	404,033	65%
Total electricity generated through on-site CHP	502,300	491,203	2%	502,300	491,203	2%
Proportion of electricity obtained from renewable sources	99.9%	92%	9%	99.9%	93%	8%
Grid electricity consumed within head offices	190,675	193,097	(1)%	190,675	193,097	(1)%
District Heating and Cooling						
Total landlord purchased district heating and cooling	11,521,889	11,649,604 ⁵	(1)%	8,489,890	10,133,593	(16)%
Proportion of district heating and cooling obtained from renewable sources	14%	6%	136%	19%	7%	180%
Fuels						
Total direct fuel consumption for landlord spaces	22,966,497	25,907,388 ³	(11)%	20,122,567	21,895,914	(8)%
Total direct fuel consumption sub-metered to occupiers	11,306	2,498	353%	11,306	2,498	353%
Totals						
Total Group energy consumption in landlord spaces	55,975,391 ¹	59,194,444	(5)%	47,779,433	51,594,935	(7)%
Total Group energy sub-metered to occupiers	7,989,969	9,022,700	(11)%	7,546,094	7,895,573	(4)%
Total energy consumed in head offices	190,675	193,097	(1)%	190,675	193,097	(1)%

Water and Waste

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

	Absolute			Like-for-Like		
	2022 m ³	2021 m ³	Difference %	2022 m ³	2021 m ³	Difference %
Water						
Total landlord-obtained water	181,752 ¹	167,343	9%	164,218	144,714	14%
Waste⁶	tonnes	tonnes		tonnes	tonnes	
Total waste collected	1,422 ¹	1,073	32%	1,242	955	31%
Total non-hazardous waste	1,422 ¹	1,064	34%	1,242	946	31%
Total hazardous waste	0.1 ¹	10	(99)%	0.1	9	(99)%
Total waste recycled	755 ¹	631	22%	659	560	18%
Total waste incinerated with energy recovery	667 ¹	443	51%	583	394	48%

Intensity Metrics

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

	Absolute			Like-for-Like		
	2022	2021	Difference %	2022	2021	Difference %
	kWh/m ² /year	kWh/m ² /year		kWh/m ² /yr	kWh/m ² /yr	
Total building energy intensity	117	134	(12)%	126	128	(1)%
	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 & 2 emissions intensity	22 ¹	28	(20)%	23	26	(11)%
Total Scope 1, 2 & 3 emissions intensity	182	155	17%	–	–	–
	m ³ /m ² /yr	m ³ /m ² /yr		m ³ /m ² /yr	m ³ /m ² /yr	
Total building water intensity	0.33	0.33	1%	0.38	0.31	21%

Social Metrics

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

	2022	2021	Difference %
Gender Diversity			
All employees – % of female employees	49%	51%	(4)%
Board of Directors – % of female employees	33%	33%	–
Training			
Average hours of training – all employees	3 ⁷	–	–
Performance Appraisals			
Percentage of all employees who received performance appraisals	100% ⁸	100%	–
Turnover			
Total number of new employee hires	27	27	0%
Total rate of employee turnover	22%	25%	(12)%
Health and Safety			
Percentage of assets with health and safety assessments	100%	100%	–

1 Assured 2022 Figure.

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

3 Figure restated due to availability of new data.

4 Figure restated due to exclusion of Transmission and Distribution losses from the electricity factors please see page 236 for more details.

5 Figure restated due to replacement of estimated data.

6 All waste figures for 2021 have been restated due to a change in our methodology. Please see page 239 for more details.

7 This figure is likely under-reported due to implementation of our new LEARN system, tracking employee training. Please see page 83 'Our People' section for details.

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

9 2022 Net Zero Carbon Pathway target Total Scope 1 & 2 Emissions (absolute).

Environment

Our Strategy – 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

UN SDGs Covered

UN Goal	Applicable Target	Applicable Indicator
	7.2	7.2.1
	7.3	7.3.1
Affordable and clean energy		
	12.5	12.5.1
	12.6	12.6.1
Responsible consumption and production		
	13.2	13.2.2
Climate action		
	15.5	15.5.1
Life on land		

Long-Term Targets

Net Zero

Our properties and operations will be Net Zero Carbon by 2030 at least in line with Science Based Targets and CRREM pathways

BREEAM

All new developments to achieve a minimum of BREEAM 'Excellent' (or equivalent)

Reduce water consumption

Like-for-like portfolio reduction in potable water consumption of 20% from 2019 by 2030

Rewild

Rewild 10% of maintained grassland under management by 2025

2023 Focus Areas

- Reduce carbon emissions and energy use in line with the Net Zero Carbon Pathway (4% like-for-like) and complete planned energy efficiency and PV projects
- Reduce energy intensity in top 15 energy-consuming buildings by 5% or more compared to 2022
- Maintain or improve EPC (or country equivalent) ratings and the plans to upgrade all D-rated buildings in the UK
- Undertake pilot assessments on embodied and whole life carbon for achieving net zero carbon buildings
- Increase smart meter roll out for all utilities to >80% coverage
- Undertake waste education initiatives at assets covering >80% waste generation
- Release Biodiversity Net Gain and Rewilding Plan and commence implementation
- Start update to BREEAM In-use V6 whilst maintaining ratings and clear plans to reach at least 'Very Good'

- Achieved
 ◐ Partially achieved
 ○ Not achieved

2022 Targets & Performance

Target	Performance	
Reduction in carbon emissions and energy use in line with the Net Zero Carbon Pathway model and completion of relevant planned energy efficiency and PV projects.	●	- Scope 1 & 2 GHG emissions reduced by 16% like-for-like within 1% of annual NZC Pathway target (12% absolute) - Energy use reduced by 6% including gas use down by 11%, sub-metered tenant electricity down by 11%, landlord electricity down by 2% 57 Net Zero Carbon Pathway projects completed costing nearly £3.2 million and saving an estimated 613 Tonnes of CO₂e per year
Maintain or improve EPC (or country equivalent) ratings	●	- UK EPC ratings improved with combination of disposals and refurbishments - Germany EnEV ratings and France DPE ratings remain the same - France Décret Tertiaire baselines submitted
Building on baseline assessment, assess and report on Scope 3 carbon emissions, review tenancy sustainability requirements in leasing documents and establish a sustainable procurement policy to address key Scope 3 emission sources.	●	- Scope 3 emissions fully assessed and reported on this year for the first time - Tenancy sustainability lease requirements reviewed in line with BBP requirements. Agreed to enhance by improving tenant handbooks and welcome packs in 2023 - Sustainable and Responsible Supplier Code of Conduct created including carbon emissions requirements
Undertake an initial climate change risk assessment to inform comprehensive climate change resilience strategies for our portfolio and disclose in line with TCFD requirements.	●	- Climate change risk assessment done including focus on detailed physical risk review in multiple scenarios for full portfolio - Full Climate-related Financial Disclosure provided for the first time
Roll out water saving initiatives for 50% of the portfolio including implementing smart water metering where viable, focusing on the highest consumption sites.	◐	- Smart metering established in 17% of UK properties with further roll out in all countries in 2023 - Some water saving projects completed
Assess existing implemented biodiversity and local nature measures/initiatives and identify best practices, potential improvements and measures for broader roll out. In addition, commission a Biodiversity Net Gain and Rewilding Study for each of our properties. In 2023, all of the recommendations in those studies will be implemented at the respective properties.	◐	- Assessment of existing initiatives showed value in various measures, notably well-managed green roofs, bee hives and trees - Study assessing the biodiversity and ecosystem service delivery baseline of our existing properties ongoing
Improve data collection and reporting on waste and focus on improving recycling rates.	◐	- New contract tendered in Germany to enable better waste and recycling measurement - Recycling average is at 53% and needs further work to improve
All new developments to achieve a minimum of BREEAM 'Excellent' (or equivalent) and maintain or improve the current BREEAM In-use certification level for each of our properties	●	9 Prescott Street and The Coade in London and Park Avenue in France on track to achieve BREEAM 'Excellent' - BREEAM In-use certification levels maintained

Environmental, social and governance review

Environment continued

Energy, Carbon & Climate Change

Net Zero Carbon Pathway

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 will be incorporated into the respective 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 also made substantial improvements in energy and carbon data management this year allowing us to include the full portfolio of buildings in our Net Zero Carbon Pathway and to report on progress against our targets, projects completed and delivery costs.

The updated pathway now includes a 65% reduction (note 42% committed) in Scope 1 and 2 emissions and a 27% reduction in Scope 3 emissions by 2030 against a 2020 baseline. The plans are aligned to the Science Based Targets initiative (42% reduction required) and the CRREM pathways for 2030.

The residual carbon emissions 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.

Read more online at
www.clsholdings.com/sustainability

Energy Efficiency Projects

During 2022, 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 57 carbon reduction projects from the Net Zero Carbon Pathway at a cost of £3 million. The projects save an estimated 613 Tonnes CO₂e annually. Projects included:

- Building refurbishment with external façade insulation (e.g. d'Aubigny in France);
- Replacement of heating, ventilation and cooling plant and equipment with higher efficiency units;
- Replacing old extract 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) including trialling continuous artificial intelligence BMS optimisation; and
- Installing roof-mounted solar photovoltaics.

In addition, there were also simple operational changes:

- BMS and control systems adjustments where they were inefficiently deviating from optimum settings; and
- Pioneering new air handler enzyme cleaning to reduce pressure drops and reduce fan energy use.

An example of a completed project is the LED lighting replacement in the car parks at Harman House. Originally there were more than 300 fluorescent light fittings with no controls, meaning lighting was always on. These were replaced with LED fittings and microwave movement sensors. These lights use less energy and switch off when the car park is not in use which saves occupiers an estimated 143,331 kWh or nearly £23,000 per year and nearly 28 Tonnes CO₂e annually from our emissions.

We continued to expand our coverage of Automatic Meter Reading ('AMR') technology across our utility supplies in 2022. This has enabled new internal reports tracking building performance. 81% of our managed assets now have AMR for electricity supply and 31% for Gas.

Scope 3 GHG Emissions

For the first time we are providing a full update on our Scope 3 indirect carbon emissions (both upstream and downstream). We have calculated these using an environmentally extended input output analysis methodology using our audited financial data and emissions factors from Quantis, DEFRA, and IEA. Our full methodology is available in the Sustainability Metrics: Scope, Boundaries & Methodology section on pages 236 through 239.

Bluebox Air tested at CI Tower, Thameslink House and Hygeia

Streamlined Energy and Carbon Reporting (SECR)

As a FTSE listed company we are required to report to SECR. The table below provides a summary of relevant data and with the previous section on Energy Efficiency Projects and the Sustainability Metrics: Scope, Boundaries & Methodology section at the back of this report forms our disclosure. More detailed figures are provided in Extended Sustainability Metrics section on pages 228-235.

Measurables and EPRA sBPR references	2021	2022	% Change
Global Scope 1 & 2 GHG emissions (GHG-Indir-Abs – Scope 1 & Scope 2)	13,926 T CO ₂ e	12,212 T CO ₂ e	(12)%
Emissions intensity ratio (GHG emissions per net lettable floor area)	28 kg CO ₂ e/m ²	22 kg CO ₂ e/m ²	(19)%
Underlying global energy use (Total Energy-Abs)	59,194MWh	55,975MWh	(5)%
UK energy use (Total Energy-Abs)	28,996MWh	26,438MWh	(9)%
Offshore energy use (Total Energy-Abs)	30,199MWh	29,538MWh	(2)%

Environmental, social and governance review

Environment continued

89kWp PV installed at Thameslink House, London

Our largest source of Scope 3 carbon emissions are upstream emissions from our supply chain of goods, services and capital spending representing 69% of Scope 3. In particular, emissions from building construction and refurbishment activities are by far the largest component of this at 58%.

To address Scope 3 upstream emissions this year we have created a Sustainable and Responsible Supplier Code of Conduct and started to request tracking of emissions in our major construction projects, including embodied carbon.

From 2023 we will increase our efforts including improving analysis of embodied carbon of major construction projects and extending carbon emissions reporting requirements to our major contracts to seek more accurate reporting from suppliers.

Our Scope 3 downstream carbon emissions are primarily from occupant electricity use for lights, localised cooling and business equipment (PCs etc.) in their spaces. Usage is influenced by the density of occupation, the choice of equipment and the way it is controlled and used.

To reduce these emissions, we have already introduced better tenancy fitout standards with LED lighting & lighting controls. We have also reviewed our green lease requirements to encourage more active energy management by occupants.

From 2023 we will increase our efforts including introducing a new approach to occupant engagement on sustainability with enhanced Tenant Handbooks, Welcome Packs, trials of online portals and increased data provision to occupants and tips on saving energy. We will also review our fitout requirements and encourage the use of technology and operational changes to reduce out of hours energy use. Where we do not control energy supply, we will encourage occupiers onto zero carbon electricity supplies.

MEES & Energy Performance Certificates (UK)

Our UK portfolio is fully compliant with 2023 minimum energy efficiency standard (MEES) EPC E rating. This minimum is proposed to increase to C in 2027 and B in 2030. Our Net Zero Carbon Pathway includes upgrading all buildings to B by 2030. All major refurbishments now include upgrades to EPC B as standard, an example from this year being 405 Kennington Road. We will be reviewing our other D rated buildings this year and expect to upgrade these by 2027 where we retain them.

Décret Tertiaire & DPE Ratings (France)

2022 saw the commencement of the Décret Tertiaire regulations in France. This requires our buildings to meet a 40% energy reduction by 2030 from a chosen reference year on or after 2010 and further reductions at intervals after that. We have registered all our buildings and will be confirming that our net zero carbon plans for each building align the required reductions next year. We have also liaised with occupiers to access and incorporate their consumption from their separately metered spaces. We will report on progress next year.

Currently there are no minimum ratings (like minimum EPCs) for office buildings in France. However, we track the DPE ratings for our buildings.

EnEV Ratings (Germany)

Currently there are no minimum energy efficiency standards (like minimum EPCs or Décret Tertiaire) for office buildings in Germany. However, we track the EnEV ratings for our buildings. Since EnEV ratings are not in categories, we have created 3 simple performance categories to enable comparisons. For more detail please see page 233.

Twenty Kingston Road, Staines, with EPC 'B' and BREEAM 'Excellent' ratings

Environmental, social and governance review

Environment continued

Photovoltaics & Electric Vehicle Charging

We continued our installation of photovoltaics (PV) on our UK buildings. We installed 347 kWp on 5 buildings with the largest of 129 kWp at Kings Court and increased portfolio generation output by 51%. We now have one of the largest PV portfolios of any office landlord in Europe with ambitions to install more in 2023 and cover as much of our portfolio as possible in the coming years. Photovoltaics are a key differentiator for our assets and provide valuable long-term electricity cost savings for occupiers, especially with unit costs set to rise in 2023.

PV installed at 401 King Street, London

We installed

347kWp

on 5 buildings

This year also saw us roll out our first planned deployment of electric vehicle charging points. We installed 43 charging points at 12 of our buildings in the UK. These will fulfil the initial demand from occupiers. We will continue to review our sites with the intention of adding more chargers in the coming years.

Green Energy Supply

We maintained our commitment to sourcing clean, sustainable energy for our properties throughout 2022. The combined effect of renewable and new zero carbon electricity contracts with associated REGO certificates, as well as French and German equivalents, for all three regions means 99.9% of the total Group electricity is now carbon free.

Climate-related Transition Risks and Opportunities

Our business is exposed to both risks and opportunities resulting from the transition to a low-carbon economy at global, national and local levels. The speed at which the economy decarbonises at these levels will dictate the type and severity of climate-related transition risks posed and the opportunities presented.

Impacts of transition risks or opportunities are considered material where the current or future financial impact on the business, as assessed by our sustainability team, is greater than 2% of the Group's annual revenue.

Spring Mews, London, rated EPC 'A'

Volunteering day at Bee Urban, Kennington Park

Assessing and managing transition risks and opportunities

The Task Force on Climate-related Financial Disclosures (TCFD) defines transition risk in four categories: policy and legal; market; technology; and reputation. We examine risks in all four categories and their severity, likelihood and the optimal controls and/or mitigation required (see the Sustainability Risk section on pages 99 and 101 and the section on the Group's overall risk management on pages 96 to 103).

For real estate, GRESB research indicates that policy, at a national level, is considered the dominant transition risk for a real estate asset or portfolio and could lead to 'Asset Stranding' because of an asset's inability to perform in compliance with increasingly stringent regulatory requirements on carbon performance or energy efficiency. This has thus been identified, in relevant sections of the risk table overleaf as material due to its financial impacts in terms of capital expenditure.

Currently, most national legislation and regulation lag the requirements needed to meet the '1.5 degree' Paris Climate Agreement target, but the EU and UK are committed to this pathway and it is fair to assume that regulatory requirements (e.g. energy efficiency regulation, carbon markets, carbon pricing and building-specific regulations) will catch up in the short to medium term. Hence our focus on this warming pathway as well as specific current policies or likely regulation in our markets. This is rolled into costing of the Net Zero Carbon Pathway.

Green roof at Adlershofer Tor, Berlin (CGI)

EV charging points installed at 401 King Street, London

It is also worth highlighting that in our assessment and management of transition risks we include Scope 3 GHG emissions, both upstream emissions from our supply chain and downstream emissions from our occupiers, alongside Scope 1 & 2 GHG emissions. We do this to:

- give a better picture of total building energy use and energy intensity (energy use/GHG emissions per floor area) in alignment with CRREM pathways;
- avoid "leakage" of emissions to occupiers;
- recognise our significant influence on downstream emissions through our relationship with occupiers including office fitout standards (e.g. lighting and lighting control standards), lease agreements and tenant handbooks (e.g. setting hours of plant operation) and provision of performance data to influence behaviour; and

Environmental, social and governance review

Environment continued

- recognise our significant influence on upstream emissions through our procurement processes (e.g. sustainable and responsible supplier code of conduct) and standards (e.g. development design and construction standards) as well as our contract management processes (e.g. emissions monitoring and continuous improvement).

The table on page 65 summarises the relevant climate-related transition risks and opportunities. In accordance with the TCFD framework, CLS' Sustainability team, with reference to the Sustainability Committee, have assessed these risks and opportunities against the most stringent (1.5 degree) global warming scenario (from the Paris Climate Agreement) which drives the greatest change in short-term (now to 2025), medium-term (2025-2035) and long-term (beyond 2035) forecasts. This represents an important part of our investment and development decisions, ensuring our portfolio is resilient today and remains resilient in the long-term.

Strategy

Climate-related transition risks and opportunities affect the way we invest in, manage and refurbish existing buildings, as well as how we develop new ones, in all our locations.

Recognising this impact on our business and subsequently our stakeholders led us to develop our Sustainability Strategy, Net Zero Carbon Pathway, the associated long-term targets and our ambition to be a net zero carbon business by 2030 (aligned to a 1.5°C climate scenario). These cover the breadth of our business activities to ensure we are reducing our carbon footprint and exposure to associated risks whilst maximising opportunities as a real estate business. Our Pathway sets out a clear plan on how we will transition towards becoming a net zero carbon business and remain resilient by:

- reducing the energy consumption and improving the efficiency of our assets;
- increasing green energy usage (e.g. renewable electricity procurement and solar energy generation at our properties) to manage the future risk of higher energy costs;
- reducing the embodied carbon associated with our development and refurbishment schemes; and

- for those carbon emissions we cannot eliminate by 2030 we will offset using verified schemes which remove carbon from the atmosphere.

Key impacts on our business model and strategy are described below:

Active asset management – our Net Zero Carbon Pathway ensures we have Asset Management Plans in place for each asset which: include the fully costed measures to reduce energy consumption and carbon emissions cost-effectively; meet national regulations (e.g. MEES in the UK or Décret Tertiaire in France); are aligned with CRREM and the Science-Based Targets initiative; and still create the buildings that occupants need now and in the future.

Acquiring the right properties – our business model is based on acquiring existing buildings and improving them to add value. In general, our strategy takes a refurbish first approach which recognises and maximises the value of embodied carbon in existing buildings. During the acquisition process, we assess the true carbon cost of a potential purchase and ensure we can transition the asset to a Net Zero Carbon pathway cost-effectively, as we do for our managed assets.

Developments and major refurbishments – our design standards and processes ensure we are designing buildings to be resilient to a carbon-constrained future by making them long-life, flexible, more energy efficient, maximising on-site energy by being less reliant on mechanical cooling and heating and free from fossil fuel use (i.e. all electric heating and cooling). We are also working on assessing and reducing embodied and whole-life carbon in future developments.

Securing the right finance – our financing strategy has been specifically developed to increase the proportion of our 'green' loans which will allow us to link our finances to our net zero carbon ambition by setting out performance criteria and a governance framework aligned to our Sustainability Strategy and Net Zero Carbon Pathway.

Financial planning (operating costs, capital expenditure and allocation) – At today's costs, it will cost approximately £65 million to upgrade our assets to meet our SBTi-aligned targets as set out in our Net Zero Carbon Pathway. These costs are based on asset-level energy surveys by external consultants and reviewed internally for viability and cost-effectiveness. See Pages 58 and 59

for more details. This work is refreshed and updated annually with additional, more detailed feasibility studies where required. These costs include measures to improve UK assets to a minimum EPC B rating and improve French Assets to meet Décret Tertiaire targets (there are currently no minimum targets for existing buildings in Germany) as well as meeting CRREM energy intensity pathways by 2030. Note that in many cases the measures would have, in any event, been incorporated in our active asset management work to refresh and refurbish buildings and that a significant proportion will be recovered via the service charge.

We are still developing our approach to carbon offsetting as the regulatory landscape, science and technology is still evolving. Whilst costs are expected to increase as demand increases, we remain satisfied with projections used in our Net Zero Carbon Pathway modelling.

Metrics, Targets and Emissions Disclosure

To enable our stakeholders to understand our impact and subsequent performance we report an extensive range of consumption and intensity metrics relating to energy, carbon, waste and water. These are shown in the Extended Sustainability Metrics section at the back of this report and the associated scope, boundaries and methodology are set out in the Sustainability Metrics: Scope, Boundaries & Methodology section also at the back of this report. In these tables, we provide full disclosure of our Scope 1, 2 and 3 greenhouse gas emissions in line with EPRA reporting and the disclosures required by Streamlined Energy and Carbon Reporting ('SECR').

Our Sustainability Strategy and Net Zero Carbon Pathway set out a range of objectives, including carbon and energy use targets aligned with SBTi and CRREM pathways. These targets provide the framework to manage and minimise climate-related transition risk, including tightening regulation and maximise opportunities at an asset and business level. They also ensure we align our carbon reduction programme with our business activities.

The table on page 72 summarises the metrics and targets (and associated references) used by CLS to assess and manage climate-related transition risks and opportunities in line with our strategy, risk management process and overall performance targets.

Climate-related Transition Risks and Opportunities Analysis Summary

TCFD Risk & Opportunity Categories	Description	Risk/ Opportunity	Short term (2020-2025)	Medium term (2025-2035)	Long term (2035 and beyond)	Controls, Mitigations & Materiality
Policy and Legal	Evolving building energy performance requirements e.g. UK – MEES (expected to be EPC B by 2030) & new build regulations (e.g. Part L in the UK).	R	Y	Y		EPC upgrade costs completed and included in Asset Management Plans. New build and refurbishment investment cases include costs of enhanced regulatory requirements. Material: costs included in NZC Pathway
	Additional regulatory burden and impacts linked to introduction of 'energy in-use' regulations/ratings e.g. France – Décret Tertiaire (40% energy reduction by 2030) and possible use of NABERS UK.	R	Y	Y		Focus of Net Zero Carbon Pathway targets and data collection/reporting is on actual asset 'energy in use' and carbon performance, not just EPCs. Active work on Décret Tertiaire for French buildings. Material: costs included in NZC Pathway
	Enhanced onerous emissions reporting obligations in addition to voluntary disclosures.	R	Y	Y		We already report full Scope 1, 2 & 3 emissions and associated metrics in multiple frameworks with further improvements planned to data and reporting.
	Current and future emissions pricing and taxation.	R	Y	Y	Y	Current risk addressed by focus on energy reduction at assets and use of certified zero carbon energy sources. Future risk is factored into planning through allocated future purchase of carbon offsets for Net Zero Carbon 2030 commitment. Material: costs included in NZC Pathway
	Increasingly stringent and complex planning requirements for development projects (e.g. Whole Life Carbon Assessment in London Plan).	R	Y	Y		Our business focus is primarily on existing buildings. We are undertaking research to better understand embodied carbon and factoring into development and refurbishment.
	Opportunities to acquire lower-rated buildings (i.e. potential stranded assets) at reduced prices for redevelopment/repurposing.	O	Y	Y		In-house technical capability (i.e. Sustainability team) and training of key employees to improve knowledge on energy and carbon reduction. Include energy and carbon considerations in acquisition due diligence.
	Ever developing climate change and carbon litigation.	R		Y	Y	Maintaining standards of transparency and 3rd party assurance of energy and carbon data/reporting. Monitoring relevant legal developments/outcomes.

Environmental, social and governance review

Environment continued

TCFD Risk & Opportunity Categories	Description	Risk/ Opportunity	Short term (2020-2025)	Medium term (2025-2035)	Long term (2035 and beyond)	Controls, Mitigations & Materiality
Market Risks & Opportunities	Increased market demand from occupiers and increased returns for buildings with higher levels of energy efficiency, climate resilience and lower carbon footprints (including net zero carbon buildings).	O	Y	Y		We maintain a proactive response to regulatory changes by following our Net Zero Carbon Pathway to improve desirability of CLS' assets for potential occupiers including maintaining and improving EPCs and BREEAM in-use ratings.
	Tenants operating in sectors associated with high climate risk (e.g. oil and gas).	R	Y	Y		The CLS sustainability and property teams provide appropriate levels of tenant engagement and knowledge-sharing to ensure both CLS and tenant climate targets can be met. Long-term leases are prioritised to enable effective engagement whilst tenant selection criteria are also implemented
	Increased cost and reduced availability of raw materials and equipment impacting lower carbon footprint development and refurbishments.	R	Y	Y	Y	Bulk forward-purchasing of key items (e.g. most recently PV panels). Use of external expert consultants to monitor and advise on appropriate solutions.
	Increased cost and reduced availability of utilities including price volatility associated with market shifts and pricing structure changes.	R	Y	Y	Y	Proactive approach to reducing energy consumption and improving energy security, including on-site energy generation. Use of expert energy consultants for procurement and planning.
	Preferential cost of capital for low/zero carbon and carbon-reducing/absorbing investments.	O	Y	Y		Sustainable financing target in place as part of our Sustainability Strategy, already represents around 20% of loans.
	Availability and price of robust and verifiable emissions offsets.	R		Y	Y	Initial study on carbon offsets undertaken this year. Monitoring carbon markets and future regulatory developments by the CLS Sustainability team.

TCFD Risk & Opportunity Categories	Description	Risk/ Opportunity	Short term (2020-2025)	Medium term (2025-2035)	Long term (2035 and beyond)	Controls, Mitigations & Materiality
Technological Risks & Opportunities	Replacing existing technology with lower emission alternatives.	O	Y	Y		Net zero carbon plans for each asset incorporate viable technologies for carbon reduction/lower emission options.
	Manually read metering and lack of sub-metering impacting quality of energy consumption data.	R	Y			Our smart metering programme has covered greater than 53% of all utility meters, with a target to improve to greater than 80% coverage.
	New building systems in developments/refurbishments too complex or not fully understood – leading to inefficient operation.	R		Y	Y	Use of external expert consultants to monitor and advise on appropriate solutions. Training of key employees and supply chain where needed.
	Lack of availability of technical solutions or materials for significantly reducing embodied carbon.	R	Y	Y		Our business focus is primarily on existing buildings.
	Improved visibility and management of utility data for occupants reducing costs, improving occupant behaviour and improving our relationship.	O	Y	Y	Y	Initial enhanced tenant engagement started this year. Increased data and reporting to occupants due for 2023 onwards.
Reputational Risks & Opportunities	Potential impact of increasing occupant expectations on sustainability credentials of their buildings.	R/O	Y			Certification of CLS' properties to sustainability standards (e.g. BREEAM). PV installations and EV charging roll outs across the portfolio. Use of certified zero carbon energy sources. 99.9% of Group electricity supplies are from certified renewable sources. Enhanced occupier engagement to support any sustainability needs. Maintaining contact with industry best-practice through participation in BBP and similar groups.
	Investor and external stakeholder reactions to increasing sustainability disclosures and transparency.	R/O	Y			Continue transparency of reporting, coupled with frequent investor engagement to maintain and increase confidence in the ability of business to deliver on energy and carbon goals.
	Potential detrimental impact on reputation with investors & stakeholders of acquiring and owning lower EPC rated (or equivalent) assets or not improving assets fast enough.	R	Y	Y		Maintain clear plans to improve assets ahead of regulatory timelines and incorporate into our Net Zero Carbon Pathway.
	Inability to recruit and retain employees due to perceived insufficient action on climate change and engagement.	R	Y	Y		Clear communication of Sustainability Strategy and Net Zero Carbon Pathway including current progress. Employee engagement on energy and carbon through effective internal communications (e.g. Lunch & Learns and training).

Environmental, social and governance review

Environment continued

Climate-related Physical Risks

Climate-related physical risks refer to hazards from the impacts of climate change such as increases in frequency and severity of various types of flooding events, wind and rainstorms, extreme weather, like extreme heat and sea level rises. We recognise that these hazards are increasing to various degrees in all potential climate scenarios in the various locations we operate in the UK, Germany and France.

Assessing and managing physical risks

Whilst we have previously used the UKGBC guidance in 'A Framework for Measuring and Reporting of Climate-related Physical Risks to Built Assets', this year we have gone significantly further on our previous simplified approach by utilising the Jupiter Intelligence ClimateScore Global platform which includes advanced climate models (based on the best available data, research and information), machine learning, land use and elevation data.

This allows us to model seven key hazards – flood (river, flash & coastal), extreme/storm wind, extreme heat, extreme cold, wildfire, drought and hail and forecast the impact of different climate change scenarios across different timeframes to 2100. We can then assess asset by asset risks in detail and plan to protect our existing portfolio and undertake due diligence on acquisitions. This analysis will be further reviewed by the Sustainability committee in the coming year.

For this year's assessment we have chosen two warming scenarios: a best case and a worst case described in the summary below:

- 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 go to zero by 2100. This relies on global implementation of stringent climate policies; and
- SSP 5/RCP8.5 (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.

We have also considered two time horizons: 2030 (short-term) and 2050 (long-term). Although we used short, medium and long-term scenarios to evaluate transitional risks and opportunities, the ClimateScore platform highlighted that there is no material change in physical risk to our buildings between short and medium-term climate models. Hence, we have assessed climate-related physical risks using 2030 and 2050 time horizons. Generally, there is little divergence between all scenarios through to 2030 due to the delayed nature of modelled climate change impacts. The impacts of existing emissions in the atmosphere are 'baked in' and will likely be felt in the coming decades with increasing severity.

Through the ClimateScore platform, we have been able to identify and assess the climate-related physical risks to our assets and then inform any mitigation measures to address these risks. The table facing outlines the hazards against which we have identified and quantified risk using the best and worst case scenarios (SSP 1 and SSP5).

We have only included commentary on hazards where there is a medium risk or above, under each warming scenario. The risk definitions are based on the methodology used by the ClimateScore Global platform for each hazard and are summarised in the table. All other risks (i.e. anything below the medium threshold) are managed by existing national regulations, our design standards and existing business processes.

The table following that explains the current risk mitigation measures we use and the future controls we propose to implement, to ensure the impacts of the different climate-related weather events detailed in the table above, are robustly managed to ensure our portfolio remains resilient, both in the short and long term.

Climate-related Physical Risk Analysis Summary

Hazard	Evaluation of risk	
	Short term (2030) – SSP 1 & SSP 5	Long Term (2050+)
Heat Risk associated with frequency of temperatures above 35 degrees	5% of assets exposed to between 10-20 days per year of temperatures exceeding 35 degrees In both scenarios, properties in Lyon could be exposed to higher levels of heat stress (days exceeding 35 degrees per year) by the end of the decade. More regular heatwaves will increase ventilation requirements and cooling demand within our buildings and threatens occupier thermal comfort.	SSP 1 – No change from the short term. SSP 5 – 6% of assets exposed to between 10-20 days per year of temperatures exceeding 35 degrees Lyon remains the area most prone to heat stress in the long term under the SSP 5 scenario. The risk of our buildings (across other parts of the portfolio) over heating increases slightly, however, the risk is calculated as either low (5-10 days per year exceed 35 degrees) or lowest (under 5 days per year exceed 35 degrees). In both the short and long term, heat stress will not be a significant issue despite a slight increase in heatwave days.
Cold Risk associated with frequency of temperatures below freezing point	13% of assets exposed to between 60-100 days per year of temperatures below freezing Properties in Munich, Stuttgart, Nuremberg and Berlin are more frequently exposed to weather conditions below freezing (on average between 60 and 100 days per year). In the short term, this does not represent a change from present, so we do not expect to see any impact on the operation of our buildings. Given the central European location of our properties, days below freezing are relatively common but any impact is managed by current risk controls.	SSP 1 – No change from the short term SSP 5 – 8% of assets exposed to between 60-100 days per year of temperatures below freezing In this scenario, where global temperatures are expected to reach their highest peak, freezing conditions will become less common across the portfolio. The change in risk profile from the short term SSP 5 scenario is negligible. The hazard is not one which we consider a threat to our properties and we will focus risk mitigation in other areas such as heat stress, where risk is expected to increase in the coming decades.
Precipitation Risk associated with volumes of total daily rainfall in a 100-year return period	13% of assets exposed to low severity precipitation events No commentary required as low risk.	SSP 1 – No change from the short term SSP 5 – 1% of assets exposed to medium severity precipitation events Overall, the risk that the portfolio is exposed to pluvial flooding is considered low. An incremental increase in the risk of rainfall could be seen in Germany by 2050 under SSP 5, however, the impact will be negligible. Whilst precipitation stress due to heavy rainfall is likely to stay the same, several of our buildings could potentially be exposed to localised flash flooding due to local terrain features which could cause water ingress and damage in basement and ground floors. Ultimately, though, the risk profile is not likely to change with time or changing temperatures meaning current mitigation measures will be adequate.

Environmental, social and governance review

Environment continued

Hazard	Evaluation of risk	
	Short term (2030) – SSP 1 & SSP 5	Long Term (2050+)
Flooding Risk associated with inland and coastal flood depths of a one in-one-hundred-year event	6% of assets exposed to highest severity flood events 6 properties (across the UK, Germany and France) are in zones where flood depth in a one in one-hundred-year event could exceed 3m (deemed a highest risk event). A further 7 properties are in areas, under SSP 5, that will be exposed to high or medium risk fluvial flooding events, by 2030. There is only a very marginal difference in the number of properties affected under SSP1. Extreme flooding events have the potential to damage ground floors as well as any basement levels within our properties, which could lead to temporary buildings closures and require additional CAPEX for remedial works.	SSP 1 – No change from the short term SSP 5 – 6% of assets remain exposed to highest severity flood events The risk profile for fluvial flooding remains relatively steady between the short and long-term forecasts with a marginal increase in assets categorised at high risk seen by 2050 under SSP 5. We will therefore concentrate our mitigation controls in those locations expected to be most heavily impacted, in accordance with the measures outlined within the table below.
Wind Risk associated with wind speeds of a one in-one-hundred-year event	95% of assets exposed to medium severity windstorms Most of the portfolio, like much of the built environment in Europe, is exposed to one in one-hundred-year windstorms of medium risk (i.e. wind speeds between 90 and 120 km/h). Like the risk of cold, there is no change to the risk profile between 2023 and 2030 for either SSP scenario. In the event of a windstorm of medium magnitude, our properties could be exposed to minor flying debris meaning facades may experience minimal levels of damage but the structural integrity of our buildings will not be compromised.	SSP 1 – No change from the short term SSP 5 – 95% of assets remain exposed to medium severity windstorms In keeping with the description of the windstorm related risk to portfolio in the short term, both in the SSP 1 and SSP 5 scenario, our properties are currently and remain exposed to medium levels of risk. Changes in temperature over time are not anticipated to impact risk levels associated with this hazard.
Drought Risk associated with levels of water stress (i.e. demand exceeds supply) within a local watershed	50% of assets exposed to highest severity drought stress In both the SSP 1 and SSP 5 scenario, it is anticipated that the UK portfolio (as well as several properties in Germany and France) will be exposed to high drought stress. This is an issue facing REITs with properties in London and the Southeast of the UK. Although the Group's water consumption is immaterial, increasing water stress events would result in increased utility costs. Again though, although the short-term risk is classified as high, the risk profile does not significantly change from now until 2030. We will therefore continue to manage the risk of drought through our current risk mitigation and controls (outlined in the table below).	SSP 1 – No change from the short term SSP 5 – 50% of assets remain exposed to highest severity drought stress Although drought stress remains high across the portfolio (in both scenarios), in the long term, given the risk profile remains consistent from 2030 to 2050, we are confident our risk management controls will provide robust mitigation and ensure impacts on the operation of our buildings and management of the portfolio are minimised in the present and subsequent decades.

Hazard	Risk mitigation and controls
Heat	Current - Thermal comfort is managed through HVAC design and passive building design measures (e.g. external shading & natural ventilation) and monitored via occupier feedback and surveys. - HVAC system new installations and upgrades designed with consideration for future climate scenarios including appropriate mechanical and electrical equipment sizing, allowing for higher heat loads without compromising on energy efficiency. - Facade upgrades (improving insulation) and introducing external design features (e.g. blinds, solar film, brise soleil) to reduce solar heat gain. - Additional measures such as outdoor greenery and shade is being incorporated to provide 'refuges' in hotter weather conditions. Future - Review existing buildings "at risk" for the potential need to install or upgrade cooling systems or to upgrade passive measures (e.g. external shading). - To ensure adequate occupant comfort in high temperatures.
Cold	Current - Fit-out and design standards – improved passive design to avoid thermal comfort issues and reduce energy use for heating (e.g. insulation, avoidance of thermal bridging) and ensuring components have adequate resilience to cold as per relevant standards. - Provide regular snow clearing and gritting at properties to ensure safe accessibility.
Precipitation	Current - Business continuity and emergency response planning measures in place to minimise impact in case of high precipitation warning. - Regular drainage survey being undertaken across select buildings to ensure sufficient water attenuation. - Insurance protection in place in case of physical damage or interruption and appropriate consideration in leases. Future - Comprehensive flash flood risk assessments across the portfolio. - Flash flood mitigation measures incorporated in design of new projects and major refurbishments, including blue roofs and rainwater harvesting systems that consider future climate scenarios.
Flooding	Current - Business continuity and emergency response planning measures put in place in case of flooding. - Flood mitigation measures are being incorporated in design of new projects where relevant risk established in future climate scenarios. - Insurance protection in place in case of physical damage or interruption and appropriate consideration in leases. Future - Comprehensive flood risk management plans created for exposed existing assets. - Include consideration of flooding in future climate scenarios in asset acquisition due diligence process. - Thorough due diligence on future investments/acquisitions.
Wind	Current - Business continuity and emergency response planning measures in place to minimise potential impact in case of severe storm warnings. Including protection against portable and not secured items in building vicinity. - Building design criteria and construction processes ensure adherence to standards for relevant components to withstand high winds. - Insurance protection in place in case of physical damage or interruption and appropriate consideration in leases. Future - Consider upgrade to buildings design criteria for key building elements (e.g. roofs) for new buildings or refurbishments to account for more severe conditions.
Drought	Current - Elimination of automatic watering during warmer periods, in drought stress areas. - Planting considers low water dependent plants. - Our design guidelines ensure any sanitary fittings and fixtures as well as appliances adhere to the relevant BREEAM high water efficiency standards. Future - Implementing grey water reuse and rainwater harvesting systems in new builds and refurbishments. - Biodiversity net gain strategy ensures landscaping considers future drought affected climates.

Environmental, social and governance review

Environment continued

Climate-related Physical Risk Metrics & Targets

Metric	EPRA/SASB Reference	2022	Targets
Physical Risk			
Number of assets located in areas exposed to high or highest risk of inland, coastal and flash flooding current and 2030 (SSP 5 Scenario)*	n/a	2022: 9 2030 (SSP 5 Scenario): 9	To be developed
% Total water withdrawn in regions with High or Extremely High Baseline Water Stress	SASB IF-RE-140a.2	16%	To be developed

*As per ClimateScore Global platform definitions.

Climate-related Transition Risk Metrics & Targets

Metric	EPRA Reference	2022	2021	Targets and References
Transition Risk				
Scope 1 and 2 emissions (tCO ₂ e)	GHG-Dir-Abs, GHG-Indir-Abs	12,212	13,894	See Net Zero Carbon Pathway / SBTi aligned target
Total energy consumption (kWh)	Total-Energy-Abs	63,965,360	68,252,144	See Net Zero Carbon Pathway / SBTi aligned target
Total electricity consumption (kWh)	Elec-Abs	29,465,669	30,692,654	n/a
Proportion of electricity sourced from renewable sources (%)	Elec-Abs	99.9	92	100%
On-site renewable energy generation (MWh)	Elec-Abs	1,209	961	n/a
Total fuel consumed on site (kWh)	Fuels-Abs	22,977,803	25,909,886	n/a
Building emissions intensity by floor area (kWh/m ² /year)	Energy-Int	117	134	See Net Zero Carbon Pathway / CRREM aligned target
Scope 3 emissions and split	Sustainability	Table 3 in Extended Sustainability Metrics section	Table 3 in Extended Sustainability Metrics section	See Net Zero Carbon Pathway / SBTi aligned target / CRREM aligned target
EPC split of the portfolio	Cert-Tot	Table 9 in Extended Sustainability Metrics section	Table 9 in Extended Sustainability Metrics section	MEES UK – Expected to be minimum EPC C by 2027, EPC B by 2030.
Number of energy efficiency projects implemented and associated capital expenditure	n/a	Energy Efficiency Projects section P59	n/a	See Net Zero Carbon Pathway
Proportion of portfolio with green building ratings by floor area (%)	Cert-Tot	Table 9 in Extended Sustainability Metrics section	Table 9 in Extended Sustainability Metrics section	Sustainability Strategy

Strategy

Climate-related physical risks affect the way we invest in, manage and refurbish existing buildings, as well as how we develop new ones, in all our locations.

Recognising this impact on our business and subsequently our stakeholders is leading us to develop a full climate resilience strategy in the coming year that covers the breadth of our business activities to ensure we are managing our key climate physical risks and the exposure of assets whilst maximising opportunities as a real estate business.

In the meantime, we have worked to understand the key impacts on our business model and strategy as described below:

Geographic diversity – by maintaining a well-spread portfolio across the UK, Germany and France, this builds an inherent resilience to the range of potential physical risks posed.

Active asset management – we have Asset Management Plans in place for each asset which include fully costed measures to maintain the resiliency of assets to extreme weather (e.g. extreme heat and cold, flooding and drought). These are aligned with our Net Zero Carbon Pathway and still create the buildings that occupants need now and in the future. We will further review the adequacy of asset futureproofing in our 2023 Climate Resilience Strategy to ensure the resilience of our properties is maintained.

Acquiring the right properties – our business model is based on acquiring older buildings and improving them to add value. During the acquisition process, we look to assess climate-related physical risk, primarily flooding, (using the ClimateScore Global platform) and assess whether we can address any other risks highlighted by the analysis including maintaining insurance cost-effectively.

Developments and major refurbishments – our design guidelines and processes ensure we are designing developments and major refurbishments to be resilient to a changed future climate, primarily by undertaking assessments for flooding, overheating and other extreme weather in different scenarios and assessing if appropriate design criteria are being used.

Securing the right finance – our financing strategy includes working with potential financiers on physical risk to ensure our assets satisfactorily meet their risk control needs under TCFD.

Financial planning (operating costs, capital expenditure and allocation) – We are still developing our full approach to climate resilience as the national and local policy landscape is evolving. Whilst costs are expected to increase as the climate changes, we remain satisfied with our insurance provisions. We will refresh our work on the impact of physical risks on long-term financial planning in our 2023 Climate Resilience Strategy.

Overall, given the levels of risk highlighted in the ClimateScore Global analysis and mitigation and controls incorporated in our risk management approach, the business model and strategy of the company remains resilient in the short to medium-term. By ensuring our assets are adequately futureproofed against the highlighted range of weather-related hazards, both in the short-term (2030) and long-term (2050), we ensure our properties remain resilient in the face of climate uncertainty, meaning we continue to deliver returns.

Although we have outlined physical and transitional risks and opportunities separately in this report, CLS recognises the interdependences between them and potential cascading impacts. An example being that we ensure that not only do we consider the risk of heat stress on our buildings, but we also evaluate the impact any mitigation may have on the ability of the Group to deliver its net zero carbon targets. We take a holistic approach to the management of physical and transition risks and opportunities. Going forward, these interdependences will be integrated within our Climate Resilience Strategy.

Metrics and Targets

The table on page 72 summarises the current metrics we use to track and manage our most critical climate-related physical risks – drought and flooding. Currently, we have not set performance targets for any physical risk metrics and further review work on appropriate metrics and targets will be done this year as part of Climate Resilience Strategy work.

Environmental, social and governance review

Environment continued

Prescot Street – CGI

Environmental Impacts Water

We have seen increased water consumption across our portfolio in 2022. This brings our rates of consumption back to pre-pandemic levels with the largest increase being in the UK. This corresponds with the overall increased occupancy as people return to the office on a more frequent basis.

We are currently increasing smart metering for our water meters to increase data accuracy and monitoring. Our current smart meter coverage for water is 17% of managed assets which is short of our

target. We have experienced further delays in smart meter installation which we expect to rectify in 2023.

Some water saving measures were also initiated including the refit of bathrooms and the modification of plant watering systems, but with water stress increasing, we recognise the need to do more.

We have reviewed the feasibility of water leak detection systems to mitigate the impacts of water leaks across the portfolio and will begin testing and implementation in 2023.

Waste

We recognise further work is required to improve recycling rates post-pandemic, including improving data collection and reduction in overall waste prior to forming a broader circular economy strategy. The UK has the most detailed data at the moment, but a new waste contract in Germany has been tendered (modelled on the UK) and will help to improve data on waste and recycling quantities.

Waste from construction and demolition is a key issue for our business, whilst we are not in control of this, we do have standards in our contracts and we receive regular reports on waste and recycling in development and major refurbishment projects which track all waste streams and quantities. We are tracking this waste to assess compliance with our standards and to inform and set baselines for future work on construction waste targets.

Biodiversity

This year we started the process of better understanding and improving biodiversity across our sites. Utilising the support of expert consultants, we started assessing the biodiversity and ecosystem service delivery baseline of our existing properties and reviewing the biodiversity and nature initiatives implemented at different buildings in recent years.

For each asset, the site and surroundings is being assessed, either remotely or in person. This project is still ongoing, but initial work shows that, as a baseline, more than half of our existing sites have significant open space and potential to implement improvements. Also, work has identified that the best existing implemented measures include beehives, well-maintained green roofs and tree planting that respond to key local needs in terms of local wildlife and ecosystem concerns (e.g. local air quality).

Both baseline conditions and predicted changes are being measured using the DEFRA Metric 2.0 methodology and a bespoke qualitative assessment for ecosystem service delivery (based on real estate best practice). We are also keen to ensure that the methodology aligns with Natural England's Green Infrastructure Framework and the new Taskforce on Nature-related Financial Disclosures (TNFD) framework as well as local standards.

We are currently reviewing the interventions for relevant properties, which when implemented will lead to significant uplifts in biodiversity units and ecosystem service delivery including the provision of habitat connectivity, water management and air quality improvements. Where relevant, actions are specified to enable predicted uplifts in both biodiversity units and ecosystem service provision which can then be calculated. This will be the basis of our plan going forward.

In the coming year we will release our plan and begin implementing recommendations including establishing an annual review of biodiversity net gain across our assets to enable the measurement of progress year on year against the targeted percentage uplift, which will be reported publicly.

Building Ratings

We remain committed to rating our managed assets using BREEAM In-use. We utilise these ratings to target cost-effective sustainability improvements to building systems that should result in improvements of these ratings, particularly in small refurbishments.

This year we increased the coverage of ratings, excluding only new acquisitions and buildings due for redevelopment or disposal. There has been no major change in our average score, however we are proud that our head office achieved BREEAM In-use Excellent.

We also remain committed to a minimum BREEAM Excellent rating for major redevelopments and new buildings. Our major projects at Park Avenue in France as well as Prescott Street and The Coade in London are on track to achieve BREEAM Excellent.

On a smaller scale we also use SKA ratings for minor refurbishments, typically tenant space improvements and lobby/common area modernisations. Five ratings were undertaken on refurbishments this year all achieving our minimum of SKA Gold.

Procurement & Supply Chain

We have updated our approach to procurement by creating a Sustainable and Responsible Supplier Code of Conduct. It includes relevant environmental requirements already incorporated in some existing contracts, such as: monitoring and reducing energy use and carbon, energy supply, and waste. This is already operating in facilities contracts in France and in major construction contracts and allows better focus on reducing our Scope 3 emissions. We will build on this by updating our sustainability requirements for design and construction of new builds, refurbishments and also fitouts.

We have begun to obtain data from suppliers focusing on our larger construction contracts initially collecting waste and carbon data as part of this. We will use the results from the initial Scope 3 emissions assessment to focus our engagement work and obtain more detailed carbon data.

Supply chain engagement on sustainability is now a key focus starting with regular meetings on environmental and energy performance with the contractors responsible for energy using systems at the top 15 energy consuming buildings. This has focused initially on educating the contractors and developing action plans for these buildings.

Social

Our Strategy – Creating shared value

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

UN SDGs Covered			Long-Term Targets	2023 Focus Areas
UN Goal	Applicable Target	Applicable Indicator		
No poverty	1.2	1.2.2		
Quality education	4.4	4.4.1		
Gender equality	5.1	5.1.1		
	5.5	5.5.2		
Decent work and economic growth	8.6	8.6.1		
Reduced inequalities	10.2	10.2.1		
Sustainable cities and communities	11.7	11.7.1		
			Promote Health & Wellbeing Design and manage our properties to promote the health, wellbeing and satisfaction of our tenants Tenant satisfaction surveys across our managed portfolio will measure progress.	Improve occupier engagement and experience including piloting online occupier portals, refreshed handbooks and welcome packs Grow our social value, focusing on measures under 'Improved employability of young people' outcome Improve social value measurement further by covering more measures from our framework in line with National Themes, Outcomes and Measures (TOMs) Deepen key charity and community partnerships aligned to Social Value Framework Gain and maintain Living Wage Foundation accreditation Continue implementation of new Diversity, Equity and Inclusion plan
			Invest in Communities Invest in our local communities and provide support to disadvantaged groups and charitable causes, with a commitment to publish the Social Value of our business in our 2025 Group Annual Report. Achieve Living Wage Foundation accreditation by 2025	
			Invest in People Invest in the development, wellbeing and mental health of our employees. Every employee will have access to: - a multi-disciplinary health and wellness programme - a dedicated training and development budget	

- Achieved
 ◐ Partially achieved
 ○ Not achieved

2022 Targets & Performance

Target	Performance	
All assets under management to deliver an initiative in support of workplace health and wellbeing.	◐	71% Buildings delivered health and wellbeing initiatives including social/wellbeing initiatives and building infrastructure projects for occupant welfare
Further develop the methodology for calculating the Social Value from our operations based on the Social Value Framework.	●	- Initial baseline data collected and gap analysis completed enabling partial calculation of Social Value as shown in this report £191,916 Social Value generated (excluding supply chain) including 562 staff volunteering days and support for 28 charities and community organisations
Develop and roll out a Responsible Procurement Policy focusing on key procurements.	◐	New Sustainable & Responsible Supplier Code of Conduct created
Implement key recommendations from 2021 occupier survey feedback.	●	- Held initial occupier engagement webinars on sustainability strategy to fill knowledge gap identified in survey - Electric vehicle charger roll out commenced
Undertake a feasibility study to understand what would be required for CLS to become accredited by the Living Wage Foundation and set a target date for accreditation that is no later than 2025 and initiate that process.	●	- Feasibility study completed – found all employees & contractors compliant prior to October Living Wage increase - After the increase, study refreshed & SLT agreed accreditation to be sought in 2023
Maintain access for every employee to a multi-disciplinary health and wellness programme and a dedicated training and development budget.	●	- Health & wellness programme (Vitality) maintained with further support for employee financial management and mental health - Training and development programme maintained and enhanced with the setup of new online training portal
Re-baseline the diversity monitoring data using recently collected data and establish our priorities for the period 2023-2025 that will build on our commitment to maintaining an inclusive workplace which values diversity, as per our existing Diversity, Equity and Inclusion Policy.	●	- Rebaselining of diversity data complete - Priorities for DE&I established (as outlined in report) and new plan put in place alongside Policy

Environmental, social and governance review

Social continued

Social Value

'Social Value' is the additional, measurable and sustainable social, economic and environmental outcomes our activity delivers beyond shareholder returns.

Our Sustainability Strategy includes an aspiration to create shared value with our stakeholders. We do this by supporting safe, vibrant, healthy and prosperous neighbourhoods as well as by collaborating with our occupiers, supporting local business and investing in communities and charitable causes to share our success and support long-term social value creation for our occupiers, employees, and local communities.

Social Value Framework
Our Social Value Framework provides the basis and structure for measuring the social value created by our business and so our positive contribution to society. Our approach to delivering and measuring social value is based on the widely recognised UK national social value Themes, Outcomes and Measures (TOMs) framework.

Themes are wider sustainability categories, such as Jobs, Outcomes, such as 'Improved employability of young people', feed into the Themes and act as the targeted goal of our actions. Measures are the individual KPIs that we can use to measure the progress towards each outcome.

This year, for the first time, we have started to use the framework to measure a social value baseline created from our operations and set targets to improve upon in the coming years. We were not able to calculate all measures this year as we need to liaise further with our supply chain to obtain necessary data.

Read more online at www.clsholdings.com/sustainability

Social Value Framework

5 themes				
Jobs Promoting local skills and employment	Growth Supporting the growth of responsible regional business	Social Creating healthier, safer and more resilient communities	Environment Decarbonising and safeguarding our world	Innovation Promoting social innovation
15 outcomes				
- Improved employability of young people - More local people in employment	- Ethical Procurement is promoted - More opportunities for local MSMEs and VCSEs - More local employment - Reducing inequalities - Improving staff wellbeing and mental health	- More working with the community - Our occupiers are more satisfied - Creating a healthier community - Crime is reduced	- Carbon emissions are reduced - Air pollution is reduced - Sustainable procurement is promoted	Social innovation to safeguard the environment and respond to the climate emergency
27 measures ¹				

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

Promoting Local Skills and Employment

Outcomes	Equivalent Value	Measure	2023 Target	TOMs References
Improved employability of young people	£362 (22.5 hours)	No. of staff hours spent on local school and college visits	40 Hours, £650 equivalent value	NT8
	£0 excluding supply chain	No. of hours dedicated to support young people into work	20 Hours, £2,000 equivalent value	NT11
	£5,399	Meaningful work placements/internships that pay Real Living wage according to eligibility – 6 weeks or more	Increase	FM23a
More local employment	18% (UK)	Percentage of local employees (FTE)	Maintain	NT2
	Not measured this year	Total amount (£) spent in local supply chain	Measure Baseline	NT18

Promoting local skills and employment is a relatively new theme to CLS in terms of driving social value. Previous work has been organic and associated with development projects and as a business with a low headcount, creating opportunities for work placements and internships is challenging.

This year we made substantial progress by incorporating the 'Improved employability of young people' outcome

into the remit of the CSR Committee. This led to us establishing new relationships with the National Literacy Trust's flagship literacy and employability programme, Words for Work and Roots and Shoots, who provides vocational training for young people from the inner city, mainly from the London boroughs of Lambeth and Southwark. We have agreed to turn these relationships into major initiatives in 2023.

Healthier, Safer and more Resilient Communities

Outcomes	Equivalent Value	Measure	2023 Target	TOMs References
Our Occupiers are more satisfied	UK: 77% France: 69% Germany: 73% (2021 figures)	Occupier satisfaction score (NPS)	80%	RE35 FM58
	Not done this year	A Post Occupancy Evaluation has been carried out	N/A	RE36 FM59
More working with the Community	£7,241 (450 hours)	No. of hours volunteering time provided to support local community projects	Increase	NT29 RE33 FM56
	£22,453	Donations or in-kind contributions to local community projects	Maintain	NT28 RE32 FM55
Creating a healthier community	Not measured this year	Initiatives aimed at reducing crime	Measure baseline and conduct feasibility study	NT24 RE28 FM49

With the lifting of pandemic restrictions in 2022 we maintained our commitment to supporting our local communities and charitable causes and restarted our key in person volunteering activities in our core focus areas of food poverty, homelessness, and youth education, skills and training. Over 28 community and charitable organisations were supported by our philanthropic donations. This included significant support to the situation in Ukraine and support for refugees.

Our target is for all employees to participate in at least one community or charitable volunteering initiative. We achieved 67% of staff providing 562 hours. In the UK, initiatives included volunteering with Bee Urban, a local social enterprise that focuses on responsible beekeeping, horticulture and community growing and supporting at community days with the local Vauxhall City Farm and the Vauxhall Foodbank. Another example was our facilities management team joining with key supplier representatives to collect over 30kg of rubbish during our

beach clean-up day with the Marine Conservation Society.

In Luxembourg, our volunteering collaboration with "Serve the City Luxembourg" led to our team there collecting 22kg of waste along the city's river in only 2 hours.

The French team spent a day assisting at "Maison d'Accueil Eglantine", an organisation that hosts around 60 vulnerable mothers with their children helping them to find a job and a decent accommodation.

Environmental, social and governance review

Social continued

Supporting Growth of Responsible Regional Business

Outcomes	Equivalent Value	Measure	2023 Target	TOMs References
Ethical procurement is promoted	90% in the UK	% of invoices paid within 30 days	95%	NT61
	83% in France			RE60
	96% in Germany			FM47
	Not measured this year	% of contracts which include commitments to ethical employment practices in the local and global supply chain, including verification that there is zero tolerance of modern slavery, child labour and other relevant requirements such as elimination of false self-employment, unfair zero hours contracts and blacklists	Measure Baseline	RE26
				FM43
More opportunities for local MSMEs and VCSEs	Not measured this year	Provision of expert business advice to VCSEs and MSMEs	N/A	NT15
				RE18
				FM26
	£1,448 (90 hours)	Number of voluntary hours donated to support Voluntary, Community & Social Enterprise organisations	Increase	NT17
				RE20
Reducing inequalities	£67,343	Equipment or resources donated to Voluntary, Community & Social Enterprise organisations	Maintain	FM28
				NT16
				RE19
				FM27
	Not measured this year	Total amount (£) spent with Voluntary, Community & Social Enterprise organisations within your supply chain	Measure Baseline	FM25
Improving staff wellbeing and mental health	100%	% of staff that are paid at least the relevant Real Living wage as specified by Living Wage Foundation	Maintain and seek accreditation	NT41
				FM40
	Not measured this year	% of contractors in the supply chain required (or supported if they are micro or small business) to pay at least Real Living wage	Measure Baseline	NT42
Improving staff wellbeing and mental health				FM41
	£13,140	Equality, diversity and inclusion training provided both for staff and supply chain staff	Increase	NT21
				RE25
				FM36
	£12,659	No. of employees provided access to, for at least 12 months, comprehensive and multi-dimensional wellbeing programmes	Maintain	NT20
				RE24
				FM33

Prompt payment summary

	UK	Germany	France	Group (weighted average)
SMEs				
(within 30 days)	90%	96%	83%	94%
All suppliers (Within 60 days)	99%	99%	97%	99%

Prompt Payment

CLS is a signatory to the Prompt Payment Code ('PPC'), a voluntary scheme backed by the UK Government to set standards of best practice for payment of suppliers. The PPC requires all signatories to pay 95% of their undisputed invoices from suppliers within a 60 day period and additionally 30 days for businesses with fewer than 50 employees. In addition, we report on the Group's UK companies' payment practices twice yearly in accordance with The Reporting on Payment Practices and Performance Regulations 2017. Whilst there is no

equivalent legislation in France and Germany, we have provided their figures as well as a weighted average for the Group.

We recognise that we have had challenges meeting compliance with the PPC, including for smaller businesses not reaching the required 95% level within 30 days in 2021. This is primarily due to issues with the implementation of a new accounting and property management system in the UK and France. We will establish a target to address this in 2023.

Living Wage

In the UK, we are committed to providing both our employees and our contractors with the real Living Wage and in London, with the London Living Wage. For the last two years new relevant UK supplier contracts, including facility management contracts, when renewed, have committed to paying the Living Wage and London Living Wage as a minimum.

We undertook a study this year on the implications of signing up to Accreditation by the Living Wage foundation. We are pleased to confirm all our employees and relevant UK contractors are compliant. As such, we now have approval to gain the accreditation to demonstrate our commitment to the lowest paid people during the cost of living crisis.

The recent approval of the new Directive on adequate minimum wages in the European Union means minimum wages in countries across the EU where we operate will be set in a framework reasonably equivalent to the voluntary living wage approach we follow in the UK.

Decarbonising and Safeguarding our World

Outcomes	Equivalent Value	Measure	2023 Target	TOMs References
Carbon emissions are reduced	£43,174	Savings in CO ₂ emissions on contract achieved through de-carbonisation	Savings equivalent to 4% reduction in LfL emissions	NT31
	Net Zero Carbon Pathway (see Environment section)	Policy and programme to achieve net zero carbon including monitoring plan with specific milestones	Maintain	NT44
Air pollution is reduced	Introduction of EV lease scheme (UK) in 2022	Corporate travel schemes available to employees on the contract	Maintain	NT46
	Cycle to work scheme (UK & Germany) and season ticket loan (UK) available to employees			
	Not measured this year	Percentage of procurement contracts that include sustainable procurement commitments or other relevant requirements and certifications.	Measure Baseline	NT35

Full details of our work around carbon emissions reduction are included in the Environment section of this report.

In 2022 to support employees with their own decarbonisation and air pollution reduction we introduced an electric vehicle lease scheme as part of HR benefits. This complements the existing cycle to work schemes for UK and German employees and season train ticket loan for UK employees.

Promoting Social Innovation

Outcomes	Equivalent Value	Measure	2023 Target	TOMs References
Social innovation to enable healthier safer and more resilient communities	Not measured this year	Innovative measures to enable healthier, safer and more resilient communities to be delivered on the contract	No target currently set	NT52
	£18,697	Innovative measures to safeguard the environment and respond to the climate emergency to be delivered on the contract	Maintain	NT53

Innovation this year was focusing on trialling artificial intelligence optimisation of building management systems in Germany. The project at Hansaallee 299 in Düsseldorf yielded good results with savings of 19% from reduced heating and cooling energy use.

We also trialled innovative enzyme-based cleaning of HVAC equipment across three of our UK buildings. It showed the potential to cost-effectively create an estimated 43 tCO₂e saving annually across 3 sites.

Environmental, social and governance review

Social continued

Stakeholder Engagement

Managing sustainability risks and opportunities, including from climate change, requires a strategy that spans the full breadth of our value chain – from acquisitions to the securing of finance, to the day-to-day operation of our properties right through to disposal or redevelopment. This means we must engage with all stakeholders touched by this chain to create change and achieve our long-term objectives.

Partners

The close integration of our properties within local communities, combined with our long-term investment model, underpins our commitment to the success of the neighbourhoods we operate in. We work collaboratively with our occupiers and local community groups to support the health and prosperity of our neighbourhoods. The partners we collaborate with are crucial for realising this shared value.

We also continue to be proactive in linkages with peers and the wider industry including retaining full membership of the Better Buildings Partnership industry body where we are provided access to environmental legislation updates for the UK and Europe.

“CLS have worked in partnership with Vauxhall City Farm for a number of years volunteering on the farm. They have been instrumental in helping us create a community garden...creating a positive experience for our 60,000 visitors.”

Monica Tyler,
Chief Executive, Vauxhall City Farm

More details of our work and partnerships are provided in the Social Value sections.

Occupiers

‘Our tenants, our focus’ is a core value. This year we built on the results of our occupier survey from 2021 which identified a low level of engagement on sustainability and a need to improve communications on energy data and our Net Zero Carbon pathway.

Our volunteering collaboration with “Serve the City Luxembourg”

We instigated an occupant focused webinar series to highlight our Sustainability Strategy and Net Zero Carbon Pathway and the work we are doing to implement them. Feedback highlighted the potential to increase sharing of data with occupiers to improve sustainability outcomes. We will continue and grow this engagement in 2023 focusing on where we can collaborate and make improvements.

Installation of electric charging points topped the list of occupant requested improvements last year in the UK, and was in the top three in France in our occupier surveys. This year we responded to this need by commencing our roll out of electric vehicle charging points in the UK, at 12 of our sites.

We continued our target to provide wellbeing initiatives across all our portfolio. Again, this was close to being achieved with 71% of assets adding initiatives such as enhanced outdoor spaces like terraces and gardens and improved bike facilities.

In addition, we ran a variety of events at our properties, such as Christmas gift-giving for children in association with KidsOut Giving Tree at various properties in the UK, food trucks at properties in Germany and an ice-cream vans at some of our properties in the UK in summer.

We also continue our work to improve responsiveness to occupier requests.

We will return to assess the impacts and survey our occupiers next year.

Supply Chain

Embedding sustainability into our supply chain remains a key challenge given the focus on reducing Scope 3 GHG emissions in the Net Zero Carbon Pathway and the need for tier 1 suppliers to help us achieve a range of other sustainability targets using their services.

In 2022 we created a Sustainable and Responsible Supplier Code of Conduct to support our procurement policy. This will be refined and released this coming year.

In the UK we engaged closely with our HVAC contractors to enable a new programme of operational energy efficiency improvements to be rolled out in the coming year.

In France, contractual requirements for facilities and other major contractors now include social and environmental requirements.

New contracts for waste in Germany were tendered with an emphasis on providing data and on recycling, these are due to come into effect in 2023.

Our People

We have nearly 100 employees looking after a multi-billion pound property portfolio across three countries. We recognise how vital attracting, motivating and retaining a diverse workforce is to our long-term success. This includes appropriate remuneration and benefits packages, providing training and development opportunities, maintaining open and continuous employee engagement, and supporting a vibrant and engaged culture that welcomes diversity, promotes equity and fosters tolerance and teamwork.

Recruitment

Finding and retaining the right people is vital to our long-term success. We believe a diverse workforce is a key strength and allows us to collaborate better across departments and markets, generate ideas and build new initiatives to drive us forward.

Our voluntary turnover rate in 2022 was 22%, consistent with high rates in the sector. Notwithstanding this, we are proud that we continue to attract, motivate and retain high-calibre employees, which, in turn, benefits the performance of the Group.

Our policies and procedures demonstrate our commitment to equal opportunities and diversity in employment, starting with our hiring practices, which includes unconscious bias training for all hiring managers. All employees and applicants are treated equally regardless of gender, marital status, race, colour, nationality, ethnicity, religion, disability or sexual orientation, nor are they disadvantaged by conditions or requirements, including age limits, which cannot be justified objectively. Entry and progression within the Group is solely determined by the job criteria, personal aptitude and competence.

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

“In 5 months of operation, nearly 300 training hours were logged on the new LEARN platform.”

Training and Development

All employees are actively encouraged to undertake training to achieve professional qualifications and to keep up to date with developments in their specialised areas. Each employee is allocated a personal training budget which they can use for their professional development.

We ensure that those with direct reports undertake management training on areas such as diversity and performance management.

We have recently implemented a new Learning Management System, called LEARN. As a complement to technical training on offer, LEARN provides employees across the Group with self-service access to a broad range of 'soft-skills' training, aimed at developing core competencies, such as communication skills, time management and team collaboration. All course materials on LEARN can be accessed in a range of languages, proving accessibility across all teams. In 5 months of operation, nearly 300 training hours were logged on the new LEARN platform.

We are committed to knowledge sharing and leveraging in-house expertise, and offer internal workshops, in which teams present on their specific role within the organisation, thereby developing employees' wider business knowledge and understanding of how the Group's activities inter-relate.

We also encourage all employees to consider areas of wider professional development. We have held seminars with the assistance of our network of external advisors. This year that included a deep dive into solar photovoltaic technology and its installation and maintenance as well as a seminar on acoustics and office wellbeing.

Remuneration

Our overall remuneration and benefits package is designed to attract, motivate and retain employees. Our remuneration structure is simple, combining salary and benefits with an annual bonus and a long-term retention bonus, based on the Group's medium-term performance. In addition, the Group has a share incentive plan, which is open to all employees in the UK, Germany and Luxembourg. The scheme matches employee contributions in the ratio of 1:1 and take-up continues to grow, year on year; an indication of employees' vested interest in the company's success.

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

“Everyone has visibility and a voice. Our culture is professional, inclusive and friendly reflecting our purpose, vision and values.”

Engagement

For the first time since the pandemic we brought together all permanent employees from all our offices for our staff conference in Windsor. Under the theme "Better Together", the conference combined explorations of our values, strategic priorities, business challenges and opportunities, with team-building and personal development exercises. Views on a range of topics were shared, with amalgamated insights and outcomes fed directly into the senior leadership team and Board's work on business strategy and culture.

We have a dedicated intranet and internal social media channels which allow us to promote new policies, procedures, Group activities, and employee events as well as recognise individual or team achievements.

Environmental, social and governance review

Social continued

With a predominantly flat management structure, all employees can be informed of matters concerning their interests and the financial and economic factors affecting the business quickly and effectively. Weekly team meetings are held across the Group and our Executive Directors present our annual and half yearly results to all employees, which is followed by a question and answer session. This is designed to give everyone an understanding of the business and how their work contributes to the Group's performance. This has been added to with quarterly CEO communications of key strategic updates for the business.

The Workforce Advisory Panel, chaired by Senior Independent Director Elizabeth Edwards, meets quarterly to discuss workforce related policies and practices. See pages 126 and 127 for more detail. Engagement is also about understanding the needs of our employees so we can create a better working environment. This, in turn, drives performance, loyalty and success.

We seek the views of our employees in a number of ways such as through staff satisfaction surveys, conducted through a third-party advisor so as to ensure anonymity. The Board-commissioned 2020 staff survey provided the Workforce Advisory Panel and leadership with areas for focus in 2021 and 2022. This is due to be repeated in 2023.

Employee engagement initiatives, occur regularly, notably our all-employee conference this year, that included open feedback sessions, and semi-regular social events.

On an individual basis, employees receive a minimum of two appraisal/ review conversations each year and all employees agree objectives with their manager each year that are tracked to maximise completion.

Culture

Our open-door policy encourages everyone to share opinions, creating greater transparency, honesty and trust.

We pride ourselves on the way we build relationships, and our flexible approach allows us to see potential and opportunities in ways that others do not. We act with agility and speed to make the most of possibilities as they arise. The Workforce Advisory Panel contributes to a culture of openness by creating increased direct contact between employees and the Board. Our staff conference showed that everyone has visibility and a voice. Our culture is professional, inclusive and friendly reflecting our purpose, vision and values.

We have continued our Group-wide mental wellbeing workshops; our already strong track record of wellbeing-centric benefits including weekly yoga sessions and added new individual financial guidance support, often a key area of individual stress. We also rebooted our 'in-person' socials and events to foster our sense of team. We will continue to make the wellbeing of our staff a priority in 2023 by adding mental health support to our health coverage this coming year.

“ We recognise that diversity enriches our creativity and adds value for our stakeholders. ”

Diversity, Equity and Inclusion

We have employees from over 16 countries, which helps to foster a diverse, collaborative, cosmopolitan environment.

We are an inclusive and respectful employer that welcomes diversity and promotes equality, tolerance and teamwork. We recognise that diversity enriches our creativity and adds value for our stakeholders. Our Diversity, Equity and Inclusion Policy underlines our commitment to attracting, promoting and developing talent no matter who they are.

Across the Group, 42% of people management positions are filled by women. We recently ranked 59th out of the FTSE250 in a FTSE Women Leaders report analysing women on listed company boards and direct reports.

In 2021, we recalibrated our approach to diversity monitoring and invited UK employees to self-report on a broader range of demographic information. This was further updated in 2022 and is shown along with additional information in Diversity, Equity and Inclusion graphs on page 84. Note these use the term “gender” as used in equal pay legislation but we have distinguished between sex and gender.

More information is also provided in the Workforce Engagement and Nominations Committee Reports on pages 118 to 127.

We have used this to inform and establish our priorities for the period 2023-2025 that will build on our commitment to maintaining an inclusive workplace with a greater focus on equity. Priorities are shown in the table below along with actions taken this year.

Diversity, Equity and Inclusion Priorities 2022-2025	2022 Actions
Enhance training offering on DE&I issues	Commenced mandatory unconscious bias training for managers
Acknowledge holidays and key awareness days for minority groups including establishing dialogue with ethnically diverse colleagues	Planned annual calendar of key cultural days and awareness events facilitated by CSR committee (e.g. Race Equality Week, Eid and Disability Awareness Day)
Formulate approaches to support development and promotion of women and people of colour into senior management (e.g. training programme & reciprocal mentoring)	Enhanced maternity pay provision from 4 to 6 months full pay
Review unconscious bias in recruitment processes and options for improvement	Commenced mandatory unconscious bias training for managers
Review corporate policies for impacts on DE&I (including appraisals, reward and recognition)	Enhanced maternity pay provision from 4 to 6 months full pay
Release updated DE&I policy and create DE&I KPIs to track progress and survey employee views	No action this year

Environmental, social and governance review

Social continued

Health and Safety

It is a primary focus of the Board that the Group manages its activities so that the health and safety of its employees, customers, advisors and contractors, and the general public is not compromised. As part of this process the Group employs specialist accredited advisors to advise on all health and safety matters in each country in which we operate. The Group also operates a Health and Safety Committee, which covers issues related to the portfolio and its employees. Chaired by the Chief Operating Officer, the Committee comprises Facilities Managers, Property Managers, employees and advisors, and reports to the Chief Executive Officer. The Chief Executive Officer also attends Health and Safety Committee meetings. The Committee reports quarterly to the Executive Committee and yearly to the Board, updates are provided at each scheduled board meeting. The Health and Safety Policy is reviewed annually and approved by the Board.

All regions maintain and follow local health and safety policies and report issues to the Chief Executive Officer. We also have specialist management and reporting of health and safety for our developments and major refurbishment projects. This reporting process has worked effectively throughout the year and has ensured ongoing compliance with health and safety legislation. The Group sets health and safety objectives covering our workforce and portfolio which are monitored by the Health and Safety Committee.

UK

Each managed or occupied property within the UK portfolio undergoes an annual risk assessment against which our targets can be measured. Our targets address three key areas: risk management and control; document compliance; and incidents. These areas are reviewed each quarter through the Health and Safety Committee and reported to the Board.

Despite the increase in accident frequency, largely related to having more people on site post-pandemic, this remains significantly below the national rate and generally risks remain well managed.

Germany

All CLS buildings must comply with building permits and are regularly reviewed by local authorities to ensure compliance with building law. Facilities governed by special regulations are reviewed more frequently by an appropriate certified specialist. Services (such as fire safety, electricity supply, ventilation, lifts and heating) are reviewed as required by law or business standard and at least once a year by authorised personnel. Reports and protocols are reviewed by the CLS operational team. We ensure that all scheduled reviews are conducted in accordance with local laws. Facilities managers provide comprehensive reports on a monthly basis to the CLS operational team.

There was one incident, a fire in Adlershofer Tor that was quickly brought under control and had no effects on any people. Generally risks remain well managed.

France

All CLS buildings must comply with the Code du travail (Labour Code), which defines our responsibilities. Each tenant is in charge of their own security on its own premises in accordance with the security obligations of the building. The building facilities (such as the electricity supply and building and mechanical safety checks) are reviewed once or twice a year by a statutory controller. The reports of the statutory controller are reviewed and acted upon by our operational team. This process is audited externally twice a year. The accountability remains with CLS France. As at the date of this report, 100% of regulatory audit reports have been processed.

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

Development and Major Refurbishments

Our duties for Health and Safety for developments and major refurbishments in the UK are covered by CDM 2015 which makes us accountable for the impact our decisions and approach have on health, safety and welfare for our projects.

Our duties begin from the very start of a project (i.e. early planning and design) and continue beyond the end of a project including covering issues that arise from the maintenance and use of the building after construction is finished.

Our development team manages these obligations. They set out, in the briefing and tender process, to make suitable arrangements for managing projects, enabling those carrying them out to manage health and safety risks in a proportionate way. The arrangements are monitored and reviewed at regular project meetings for the duration of the project. In summary our team:

- Appoint a principal designer and contractor that have appropriate skills, knowledge, experience and organisational capability;
- Monitor project programme to ensure sufficient time and resources are allowed;

- Regularly review actions of the principal designer and contractor to carry out CDM duties appropriately;
- Ensure suitable welfare facilities are provided throughout the construction;
- Provide pre-construction information to designers and contractor including design brief, design guidelines and appropriate management information and reports (e.g. Asbestos audit);
- Require and hold a copy of the construction phase plan prepared by the principal contractor before that phase begins; and
- Ensure that the principal designer prepares a health and safety file for the project, that it is revised as necessary and made available to anyone who needs it for subsequent work at the site. This is incorporated within online project management system and then integrated with operation and maintenance manuals at completion.

We currently have two major projects in the UK. These have been running since 2021. They are managed slightly differently, by different contractors, meaning that key project statistics collected vary, as shown in the table below.

Health & Safety section

UK

	Risks under control			National Accident Frequency Rate
	Risk Management and Control	Document Compliance	Accident Frequency Rate	
2022	94.9%	96.9%	165	930
2021	99.4%	97.4%	87	930

Germany

	Risks under control			Incidents
	Risk Management and Control	Document Compliance	Accident Frequency Rate	
2022	99.7%	98.5%	0	1
2021	99.1%	95.1%	0	0

Development and Major Refurbishments (UK)

	Accidents	Incidents/near misses	Internal audits	Site inspections	Total work hours	Site observations – negative	Site observations – positive	Toolbox talks
Prescot St	0	2	36	16	132,822	n/a	n/a	n/a
Vauxhall Walk	2	0	n/a	n/a	n/a	744	684	75

Governance

Our Strategy – Being a responsible business

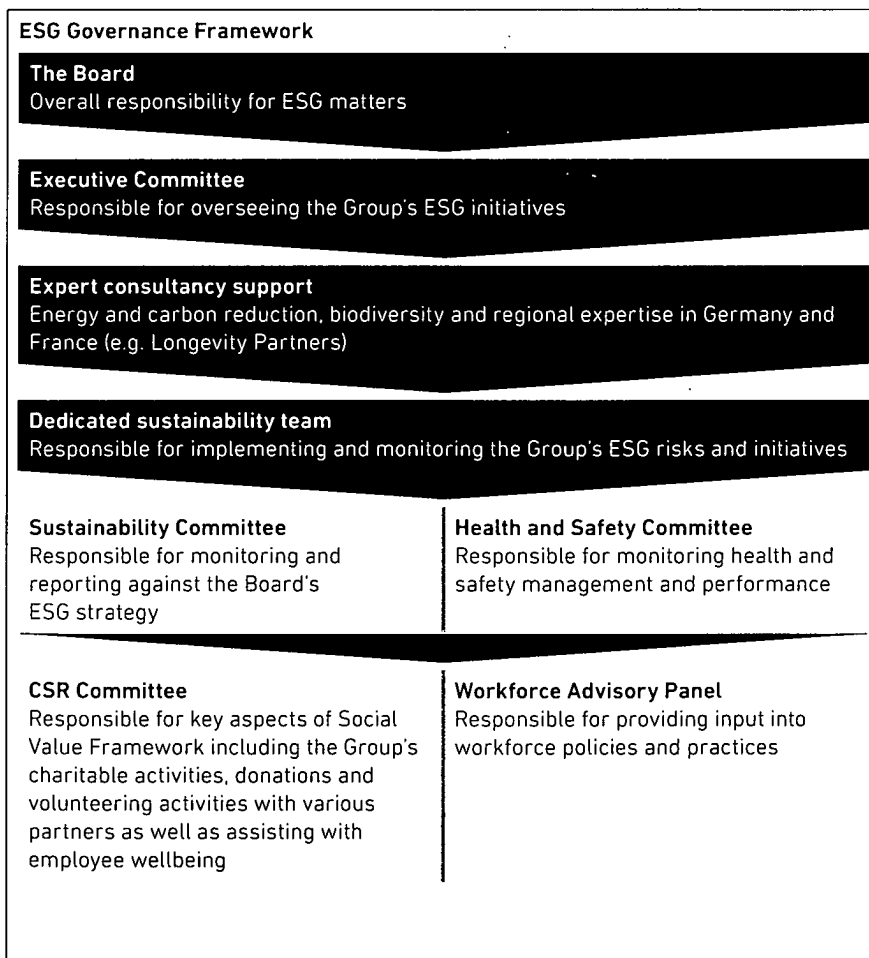
Strong governance and transparency will provide the basis for demonstrating our values, supporting people, and working with our stakeholders to uphold high standards.

Reporting, Benchmarking & Commitment Frameworks	Long-Term Targets	2023 Focus Areas
A fundamental part of our sustainability strategy is to be transparent and follow recognised and widely accepted voluntary standards for reporting and benchmarking our sustainability impacts, performance, risks and opportunities as well as regulatory reporting requirements.	Responsible procurement Promote the ethical procurement of goods and services across our value chain and adopt an enhanced Responsible Procurement Policy across our supply chain Prompt payment Meet the Prompt Payment Code target with 95% of invoices from SMEs paid within 30 days ESG-linked loans 50% of Group debt comprised of ESG- linked loans by 2030 Investment Further integrate sustainability into our investment and financing strategies	Improve compliance with prompt payment code focusing particularly on % SMEs paid within 30 days Increase % of Group debt comprised of ESG-linked loans above current c.20% Provide 90% of employees with 4 hours or more of job-specific training in sustainability Create more non-financial incentives (awards & recognition) to encourage employee action on sustainability

- Achieved
 ● Partially achieved
 ○ Not achieved

2022 Targets & Performance

Target	Performance
Fully embed Sustainability Committee in the operations of the Group.	● Committee met twice this year with renewed terms of reference to review strategy, progress and risks
Ensure all relevant business areas provide timely updating of zero carbon model, EPRA, GRESB and KPI data, and project implementation.	● All data provided in a timely fashion and new tools created to streamline internal processes and facilitate internal reporting on a quarterly basis



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

The Board has overall responsibility for ESG matters, in which climate-related aspects are included, and monitors the management of our climate-related risks and opportunities. The Chief Executive Officer is the main Board member with overall accountability for ESG and sustainability. The Group's Chief Operating Officer chairs the Sustainability Committee and oversees the performance of our climate-related work.

They are supported by the sustainability team, led by the Head of Sustainability, which has day-to-day management responsibility of climate-related issues and ensures compliance with industry best practices.

Environmental, social and governance review

Governance continued

Reporting, Benchmarking & Commitment Frameworks

A fundamental part of our Sustainability Strategy is to be transparent and follow recognised and widely accepted voluntary standards for reporting and benchmarking our sustainability impacts, performance, risks and opportunities as well as regulatory reporting requirements.

We now align to EPRA sBPR, SASB and GRESB frameworks for reporting and benchmarking sustainability. These are the leading frameworks for the real estate industry and it means we also address relevant United Nations Sustainable Development Goals (SDG's). The relevant SDG's are highlighted in each section of this report.

We also monitor the performance of our buildings (new and existing) using BREEAM and EPC (or local equivalent) ratings.

Additionally, we follow the regulatory requirements to report against the TCFD framework on climate risk and Streamlined Energy & Carbon Reporting (SECR) requirements for UK energy use and carbon emissions.

Our targets for carbon reduction and energy efficiency are aligned with CRREM and Science Based Targets pathways which we are committed to meet.

We are not covered by the EU Taxonomy for Sustainable Activities although we are well aligned through our investment in the refurbishment of existing commercial properties.

The above frameworks are generally equivalent to GRI and CDP requirements also.

Sustainability Committee

The Sustainability Committee, chaired by our Chief Operating Officer, meets at least twice a year and provides strategic oversight on ESG matters including climate risk and resilience and helps embed them more fully into the strategy and operations of the Group.

The Committee:

- reviews progress and suitability of sustainability strategy and its components;
- assists with the embedding of the Net Zero Carbon Pathway and Social Value Framework throughout the Group;
- allows more efficient and effective monitoring and reporting of the Group's ESG objectives; and
- increases the discussions and focus upon sustainability risk including climate-related risks and opportunities within the organisation.

The Head of Sustainability provides written updates to the Committee on the latest environmental and social data from the business, performance versus sustainability targets, our climate-related work, the associated risks and opportunities, and progress against our current year and longer term targets including our Net Zero Carbon Pathway. Reports are provided for every Board meeting whilst monthly updates to the Senior Leadership Team also include target progress reports.

The Committee also gets regional updates related to risk and regulatory compliance. Outcomes from the Committee are fed back to the Chief Executive Officer.

The management and delivery of key sustainability initiatives and collection of various environmental and social data for internal and external reporting and insights is then the responsibility of the dedicated Sustainability team who also work with various areas of the business on implementation. We also utilise the services of expert third-party consultants where necessary. Where appropriate, training and presentations by the sustainability team and external third parties are provided to the Board and management to maintain up-to-date industry knowledge.

Other Committees

Our CSR Committee is chaired by our Head of Sustainability and meets monthly. The Committee reports to the CEO quarterly and to the Board annually. It is responsible for key aspects of our Social Value Framework including the Group's charitable activities, donations and volunteering activities with various external partners as well as assisting with employee wellbeing. More detail on the Social Value Framework is in the Social Value section of this report.

More details on the Health and Safety Committee are provided in the Health and Safety section of this report.

More details on the Workforce Advisory Panel are provided in the Corporate Governance section of this report.

Goals and Incentives

The achievement of key sustainability goals is aided by financial and non-financial incentives for leadership and employees with target-linked bonuses to be introduced from 2023, recognition on the company intranet and awards, such as the CSR champion awards presented at the company Christmas dinner this year.

Sustainability Risk

Sustainability represents one of the six principal risks of the CLS Group (see pages 96 to 103 for more detail on risk management for CLS). Each individual sustainability risk is then captured within the Sustainability Risk Register tool, maintained by the Sustainability team and reviewed twice a year by the Sustainability Committee or when a material change in the risk landscape occurs. This includes the Group's climate-related risks.

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

This year, CLS is disclosing the risks associated with their operations, resulting from climate change, in line with the TCFD framework. This is both the transitional and physical risk exposure of assets and wider business. More information about these disclosures and the internal governance structure and processes in place to identify, quantify and respond to both the risks and opportunities posed by climate change, across each of our three countries, can be found in the Climate-related Transition Risks and Opportunities section as well as Climate-related Physical Risks sections.

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

The table over summarises key sustainability risks as taken from the risk register.

Environmental, social and governance review

Governance continued

Sustainability Risk Register Summary

Theme	Hazard/Impact description	Impact	Likelihood	Mitigation	Residual risk rating
Environmental – general	Environmental KPI's, reported to the market via industry schemes (e.g. GRESB and Science Based Target initiative). Lack of progress against targets can attract scrutiny leading to stakeholder or investor challenges	Moderate	Unlikely	The CLS Sustainability team track and report progress against ESG KPI's throughout the year. Annual targets ensure progress is accurately and robustly reported at half-year and year end. The Sustainability Strategy and Net Zero Pathway as well as each annual report, ensure environmental KPI's are effectively managed. Where progress lags anticipated timescales, this is scrutinised by the Sustainability Committee and where necessary, actions taken	Low
Climate change – Transitional	Policy and legal; market; technology; and reputation risks – combined	Moderate	Moderate	Refer to detailed risk table in Climate-related Transition Risks and Opportunities section for further detail on risks and mitigations	Low
Climate change – Physical	Impacts on assets from flooding, extreme wind, precipitation, extreme cold and extreme heat combined	Moderate	Moderate	Refer to detailed risk tables in Climate-related Physical Risks section for further detail on risks and mitigation based on ClimateScore Global analysis	Low
Responsible resource use	Use of high environmental impact materials and generation of waste in construction, refurbishment and fit outs. Includes material toxicity in production, re-conditioning/re-using components and recycling materials	Moderate	Unlikely	Waste contractor procurement, waste measurement, responsible and sustainable procurement policies and design, refurbishment and fitout guide environmental criteria	Low
Responsible resource use	Not considering biodiversity net gain requirements and sustainable land use in developments, redevelopments and refurbishments	Moderate	Unlikely	Biodiversity strategy and rewilding, design and refurbishment guide standards	Low
Responsible resource use	Drought conditions and sustainable water management	Moderate	Moderate	Sustainability Strategy, water target, investment in property improvements, design and refurbishment guide standards	Low
Human resources management	Occupational Health and Safety	Moderate	Moderate	Health and Safety controls, including Health and Safety Committee and management systems in each operating country	Low
Human resources management	Perception of unsustainable organisation and lack of investment in related skills for employees impacts attraction, retention and development of talent	Critical	Moderate	Training and development plans, Sustainability Strategy and regular employee engagement	Low
Human resources management	Diversity, Equity and Inclusion as well as employee wellbeing in the organisation	Critical	Likely	DE&I plan 2023-2025. Comprehensive wellbeing programme	Moderate
Occupant satisfaction	Occupant wellbeing and satisfaction	Critical	Moderate	Social Value Framework, responsive occupier engagement plan based on regular occupant surveys, office refurbishments.	Low
Business ethics and integrity	Unlawful or ethical behaviour by employees or associated parties (e.g. corruption, bribery and fraud)	Moderate	Unlikely	Internal policies and controls	Low

Compliance and Business Ethics

CLS upholds the highest standards of business ethics. Through our internal controls, procurement management and reporting processes, the Board is confident that the Company is in compliance with this law. The Board recognises the importance of the Group's responsibilities as an ethical employer and views matters in which the Group interacts with the community both socially and economically as the responsibility of the whole Board.

The Modern Slavery Act 2015

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

The Bribery Act 2010

Following the enactment of the Bribery Act 2010, the Group implemented an Anti-Bribery and Anti-Corruption Policy which further demonstrated its commitment to business ethics. The policy, which was updated this year and approved by the Board, can be found on our website. To ensure continued compliance with the Bribery Act 2010, training is given to new employees with formal internal control checks during the system-based procurement process.

Supply Chain & Responsible Procurement

Responsible Procurement is the sourcing of services, supplies, and/or works in a way that includes ethical and sustainable considerations. These include: social, labour, and environmental factors, whilst always aiming to act in a way that is open, fair, and transparent and still deliver economic outcomes.

A focus area for 2022 was to develop a Sustainable and Responsible Procurement Policy. This has turned into a Sustainable and Responsible Supplier Code of Conduct to match with industry best practice and to allow the corporate procurement policy to be revised separately.

It includes relevant requirements incorporated existing contracts, such as Living Wage compliance, and further elements to strengthen sustainability requirements in procurements and contracts in areas such as: energy use, energy supply, and waste. This is to allow increased focus on reducing our Scope 3 emissions. It also means suppliers will sign-up to requirements alongside contracts. It also covers business ethics, child labour, environmental standards (products & processes), employee health and safety, health and wellbeing, human rights, labour standards and working conditions. It applies to significant contractors and suppliers and covers their supply chain also.

The code of conduct also introduces a new method to better monitor and manage sustainability risk in the supply chain too.

Green financing

We currently have £212.2 million in sustainability-linked loans which represents c.20% of our total financing. The KPIs required for the interest rate reduction have been agreed for both loans and aligned with our sustainability strategy. Our 2022 KPIs were met and we are continuing to seek to increase the percentage of sustainability-linked loans as opportunities arise.

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 consistent with recommendations from the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD); as required under the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022. This includes showing how climate change considerations are integrated into our governance processes, potential impacts on our strategy and financial planning, how it is incorporated in risk management, and relevant climate-related metrics and targets for our business.

The table below summarises the key disclosures in accordance with the required framework and signposts the location of the detailed responses within this report which include: Governance Framework, Sustainability Risk, Climate-related transition risk and Climate-related physical risk sections.

TCFD Alignment check

The GRESB TCFD Alignment Report has been used to check our alignment with each of the four Core Elements of the TCFD, as well as the corresponding real estate industry peer benchmarks. The Benchmark Average is based on the same peer group as for the GRESB Benchmark Reports.

The Group's TCFD Alignment Level was assessed as A (Maximum alignment) versus the GRESB Average of B (Advanced alignment). The chart below demonstrates CLS' level of alignment with the TCFD framework across each of the four core elements.

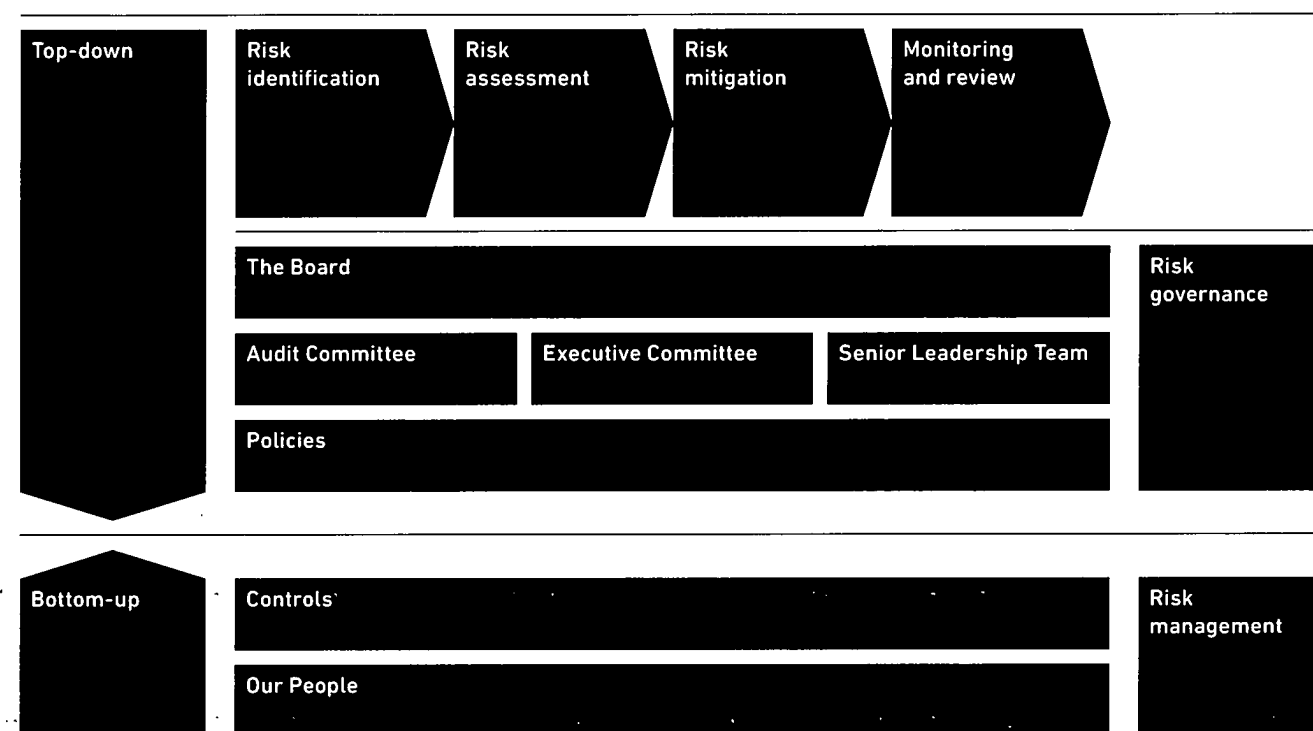
TCFD Overview

TCFD Recommendation	Required disclosures	Disclosure level	Annual Report section references	Progress summary & next steps
Governance				
Disclose the organisation's governance around climate-related risks and opportunities	A) Describe the Board's oversight of climate-related risks and opportunities	Full	Governance Framework pages 116-117	- Clear structure and oversight of climate-related matters - Board receives regular briefings on climate-related risks and opportunities
	B) Describe management's role in assessing and managing climate-related risks and opportunities	Full	Governance Framework	- CEO has key responsibility for climate-related risks and opportunities supported by COO and Head of Sustainability - Sustainability Committee established and forms key part of structure
Strategy				
Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material	A) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	Full	Climate-related Transition Risk pages 62-67 Climate-Related Physical Risk pages 68-71	- Transition risks and opportunities in policy and legal; market; technology; and reputation categories and their timeframes are outlined in more detail this year - Physical risks are outlined in more detail this year, based on ClimateScore platform analysis
	B) Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning	Full	Climate-related Transition Risk Climate-Related Physical Risk	- Transition risks and opportunities are primarily managed through the delivery of our Sustainability Strategy and Net Zero Carbon Pathway - Physical risk impacts on our business model and strategy are outlined in more detail this year
	C) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2 degrees or lower scenario	Full	Climate-related Transition Risk Climate-Related Physical Risk	- Our Sustainability Strategy and Net Zero Carbon Pathway align with our business model and strategy to make CLS resilient to climate-related transition risks - Analysis suggests our business model and strategy remain resilient in the short to medium term to climate-related physical risks in all scenarios
Risk Management				
Disclose how the organisation identifies, assesses and manages climate-related risks	A) Describe the organisation's processes for identifying and assessing climate-related risks	Full	Climate-related Transition Risk Climate-Related Physical Risk	- Transition risks have been identified and assessed by the Sustainability team - Physical risks have been identified and assessed using the ClimateScore Global platform - Risks reviewed by the Sustainability Committee in accordance with TCFD guidance
	B) Describe the organisation's processes for managing climate-related risks	Full	Climate-related Transition Risk Climate-Related Physical Risk	Transition and Physical risks are managed in accordance with mitigations and controls outlined in the tables and reviewed by the Sustainability Committee
	C) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	Full	Sustainability Risk pages 99 and 101 Risk Management pages 96-103	- Climate-related transition and physical risks are included in Sustainability Risk Register and reviewed by the Sustainability Committee - The Sustainability Risk Register then forms part of overall Group Risk Management
Metrics and Targets				
Disclose the metrics and targets used to assess and manage the relevant climate-related risks and opportunities where such information is material	A) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Full	Climate-related Transition Risk Climate-Related Physical Risk	- Metrics selected for tracking climate-related transition and physical risks. These are shown in tables in the referenced sections - Many of these metrics are independently assured
	B) Disclose Scope 1, Scope 2 and if appropriate Scope 3 greenhouse gas (GHG) emissions and the related risks	Full	Climate-related Transition Risk Climate-Related Physical Risk	- Full disclosure of all 3 scopes of GHG emissions is provided for the first time this year - Associated risks are shown in the Risk Register summary
	C) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance targets	Full	Our Performance pages 53-55 Sustainability Risk	- Sustainability Strategy and Net Zero Carbon Pathway targets address climate-related transitional risks - Additional Metrics identified for climate-related transition and physical risks - We will establish targets for managing physical risks as part of climate resilience strategy

Risk management

Our risk management framework

How we manage and govern risk



Top-down – the Board and its committees create the boundaries

The Board

The Board has overall responsibility for risk and for maintaining robust risk management and internal controls. The Board is responsible for establishing the extent to which it is willing to accept some level of risk to deliver CLS' strategy i.e. determining a risk appetite. It is also responsible for undertaking a thorough risk assessment. The strategy and strategic objectives for any one year are discussed alongside monitoring the longer-term viability of the Group. The Board sets business wide delegated authority limits. Risk management processes, which include health and safety, human resources and sustainability risk management amongst others, are employed within the business and updates are reported to the Board at each meeting.

The Audit Committee

The Audit Committee is the key oversight and assurance function for risk management, internal controls and viability. An update on risks and the control environment is presented at each Audit Committee meeting including the results of any internal control review procedures undertaken in the period. Senior managers also attend Audit Committee meetings to discuss specific risk areas and these discussions are supplemented by external advisors where relevant. The Audit Committee then reports up to the Board on the effectiveness of risk management and internal controls.

The Executive Committee

The Executive Committee meets weekly and comprises the CEO and the CFO together with other senior leaders as required. It has day-to-day operational oversight of risk management. Major business-wide decisions such as property acquisitions, disposals and significant strategy changes are discussed at the Executive Committee meetings including consideration of their impact on risk assessment and appetite. These are reviewed by the Board before implementation, subject to authorisation limits.

The Senior Leadership Team

The risks, being both principal and emerging, which the Group faces are reviewed and monitored in Senior Leadership Team meetings throughout the year and presented to the Board and Audit Committee at least every six months for further discussion and oversight. The Senior Leadership Team comprises the CEO, the CFO, the COO, regional business heads as well as other senior managers (see page 112 for more information) and meets every fortnight.

Bottom-up – Management of risks throughout the business

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

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

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

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

The Group invested in an internal controls and risk software at the end of 2021. Work continued throughout 2022 to populate this system so that we can fully embed an effective risk management structure within our operations as well as monitor and report the risks and their associated internal controls more efficiently to the Audit Committee and the Board.

Our priorities for 2022	What we did in 2022
• Roll-out of risk and internal control software. • Implement Grant Thornton findings. • Establish milestone targets for Net Zero Carbon pathway. • Engage external consultants to assist us with in-depth analysis of climate-related resilience risk set across different climate scenarios. • Establish Risk and Sustainability Committee. • Establish benchmarks and targets for Social Value Framework. • Make improvements based on tenant surveys. • Simulate a major business interruption to test the Group's updated business continuity plan. • Ensure Cyber Essentials plus ranking retained.	• We established our Sustainability Committee to oversee the implementation our sustainability strategy, incorporating our Net Zero Carbon Pathway and Social Value framework. The Committee discussed strategy implementation, Net Zero Carbon Pathway progression and development of our Social Value Framework. • Software for modelling the impact of physical climate risk on our property portfolio was launched. • The Board and Senior Leadership Team had an externally facilitated risk workshop to discuss the principal risks of the Group, the associated risk appetite and risk assessment and emerging risks. • Cyber security protection levels have been raised to a market-leading position as well as ensuring compliance with industry standards such as Cyber Essential Plus (see pages 38 and 39 for more detail).

Risk assessment and appetite

Risk appetite

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

Very low: Avoid risk and uncertainty

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

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

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

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

Risk management continued

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

Principal risk	2022 Risk appetite	2021 Risk appetite	Change in risk appetite
1. Property	High	Medium	Increased
2. Sustainability	Medium	Medium	No change
3. Business interruption	Low	Low	No change
4. Financing	Medium	Medium	No change
5. Political & economic	Medium	Medium	No change
6. 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. In 2022, the market uncertainty meant that in order to continue to operate our business model effectively, a model that has been tried and tested over decades, it was necessary to increase appetite for property risk. The Board do not consider this an increase in their appetite per se but rather a reflection that their appetite for property risk will align with the market in which the Group does business. In addition to the macro-economic factors, on reviewing our risk appetite the Board took note of the prior year divergence between risk appetite and risk assessment.

Risk assessment

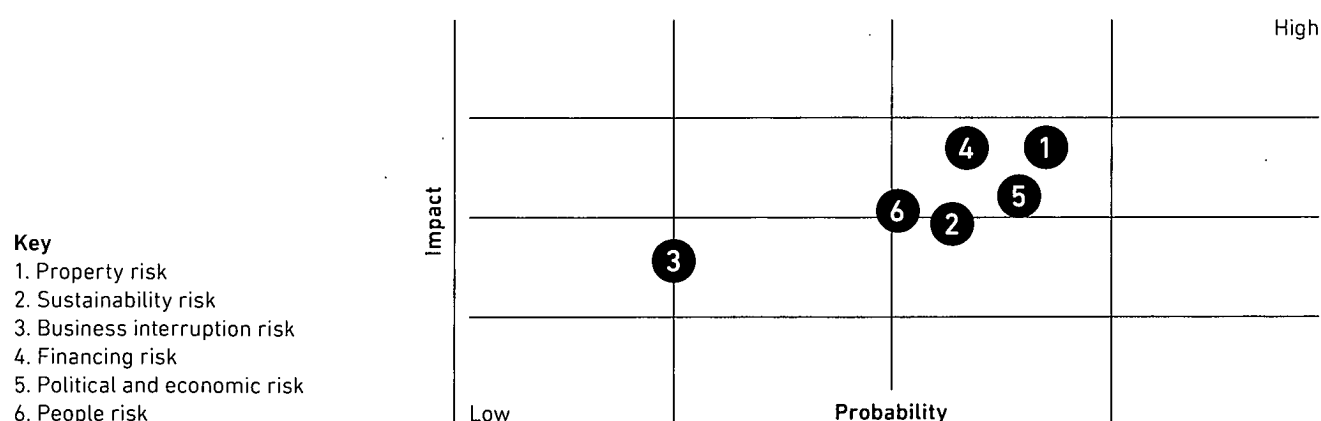
The general risk environment in which the Group operates has remained at a higher level over the course of the year. This is largely due to the uncertain Global and European economic conditions, particularly higher interest rates and inflation and the impacts of the continued war in Ukraine.

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 market uncertainty is discussed in the CEO review and the individual country property reviews. The Board continues to be confident in the CLS business model and the office market (see pages 28 and 29).

In considering our principal risks, set out on the following pages 96 to 103, any potential impact as a result of the market uncertainties has been taken into account.

Principal risk	Risk assessment	Change in risk profile in year	Current direction of travel
1. Property	High	Unchanged	No change
2. Sustainability	Medium	Unchanged	Increasing
3. Business interruption	Low	Reduced	No change
4. Financing	High	Increased	No change
5. Political & economic	High	Unchanged	No change
6. People	Medium	Unchanged	Reducing

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 continuously have the potential to alter this positioning and hence these risks are closely monitored within our risk management framework throughout the year.



Risk assessment vs risk appetite

The Board's risk appetite in relation to the Group's principal risks is broadly aligned. As shown in the table below, there is divergence of risk appetite and risk status in relation to the financing, and political and economic principal risks. The Board accepts there are factors in relation to these principal risks that are outside the Group's control and are likely to change over time. Mitigating actions have been put in place to ensure 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, this variance is debated as to whether and how the gap should be closed.

2022 ratings	1. Property	2. Sustainability	3. Business interruption	4. Financing	5. Political & economic	6. People
Risk assessment	High	Medium	Low	High	High	Medium
Risk appetite	High	Medium	Low	Medium	Medium	Medium

Our principal risks

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

The 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	Risk assessment	Change in risk profile in the year	Current direction of travel	Key risks	KPI/ OPI	Link to Strategy and Business Model:	Find More detail here
1. Property	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	EPS TSR(R) TAR VR ACR	We acquire the right properties We secure the right finance We deliver value through active management and cost control	Country review pages 22 to 27
2. Sustainability	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.	EPS TSR(R) TAR VR ACR	We acquire the right properties We deliver value through active management and cost control	ESG pages 50 to 95 for more detail

Key to Risk

● High	⬆ Increasing
◐ Medium	⬇ Reducing
○ Low	⊖ No change

Risk management continued

Principal risk	Risk description	Risk assessment	Change in risk profile in the year	Current direction of travel	Key risks	KPI/OPI	Link to Strategy and Business Model:	Find More detail here
3. Business interruption risk	Data loss; or disruption to corporate or building management systems; or catastrophic external attack; or disaster, may limit the ability of the business to operate resulting in negative reputational, financial and regulatory implications for long-term shareholder value.				• Cyber threat • Large scale terrorist attack • Environmental disaster, power shortage or pandemic	EPS TSR(R) TAR VR ACR	We acquire the right properties We secure the right finance We deliver value through active management and cost control	IT and digital strategy pages 38 to 39
4. Financing risk	The risk of not being able to source funding in cost effective forms will negatively impact the ability of the Group to meet its business plans or satisfy its financial obligations.				• 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	EPS TSR(R) TAR Cost of debt	We secure the right finance We continually assess whether to hold or sell properties	Chief Financial Officers review pages 46 to 49 and Financing pages 36 and 37
5. Political and economic	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	EPS TSR(R) TAR VR ACR	We acquire the right properties We secure the right finance We deliver value through active management and cost control	
6. People	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 • Poor employee engagement levels	EPS TSR(R) TAR VR ACR	We deliver value through active management and cost control	ESG pages 50 to 95

Key to Risk

● High

◐ Medium

○ Low

⬆ Increasing

⬇ Reducing

⊖ No change

1. Property risk

This risk remained high during 2022 due to an uncertain market in response to rising interest rates and a worsening economic outlook.

Mitigation in 2022	Mitigation in 2023
• In-house management model allowing close links with our tenants • First hand knowledge of tenants changing requirements • Asset management committees meet once a month to discuss each property • Investment of £58.3 million in our properties reflecting tenant demands • Refurbishments taking place in over 30 properties (see pages 32 to 35 for more detail) • Rigorous and established governance approval processes for capital and leasing decisions • Disposal of six properties with low yield, limited asset management potential or risk/reward ratio unfavourably balanced • Continue to maintain a high quality and diversified tenant base • Health and safety committee that closely monitors activity and regulation and reports to every Board meeting	• Continued engagement with tenants to understand their needs and space requirements • Targeted capital expenditure often with a focus on ESG credentials • Deliver the disposal of low yielding and asset management opportunity poor properties • Continued monitoring of covenant strength and health of tenants • Continue high quality provision of property and facilities management services with an in-house team • Maintain focus on operating our buildings safely

2. Sustainability risk

The overall risk assessment remains at Medium. The trend of global increases in emissions, regulations, population, resource use, poverty, cost of living and the increasing world-wide focus on this area, as well as the resulting focus on carbon and energy/waste/resource reduction and habitat preservation and restoration, means the risk in this area is increasing.

Mitigation in 2022	Mitigation in 2023
• Sustainability Committee instigated to monitor progress • Detailed sustainability risk registers maintained by our in-house team which were formally reviewed every six months • Acquisition of climate score platform and TCFD physical risk assessment • All KPIs for 2022 on green loans met • On track with NZC pathway projects and performance • Independent assurance received on all environmental EPRA SBPR KPI data (see page 90) for more detail • Scope 3 tracking commenced with full calculation for the first time • Baseline social value calculation completed	• Continue delivery of NZC pathway • Complete planned energy efficiency and PV projects • Build on physical risk assessment to develop a climate resilience strategy • Implement a Sustainable and Responsible Supplier Code of Conduct • Complete and commence implementation of biodiversity net gain plan • Start update to BREEAM In-use V6 • Improve social value calculation to include supply chain • Apply for Living Wage accreditation in the UK • Continue implementation of diversity, equity and inclusion plan

3. Business interruption risk

The business interruption risk is deemed to have reduced to Low in the year due to our robust IT infrastructure and established ways of working. Companies will continue to see attempted cyber-attacks, phishing and fraud but our knowledge and expertise in this area remains strong and so there is no change in the current direction of travel.

Mitigation in 2022	Mitigation in 2023
• Obtained a Centre of Internet Security 'A' rating • Started the transition from annual penetration testing to a continuous penetration testing regime through automation • Employees tested and trained on cyber security • External partners used to complement internal resource and provide independent reviews • Annual review of each property's specific emergency plan	• Maintain market-leading protection position and Cyber Essentials Plus certification (see pages 38 and 39 for more detail) • Progress work on enhancing digital assets within the Group's properties (e.g. cyber-attacks on building management systems) • Continue implementation of shared property and finance system across the Group • Continue use of external partners to deliver holistic approach

Risk management continued

4. Financing risk

The heightened economic uncertainty and interest rate increases throughout the year has resulted in this risk increasing to High.

Mitigation in 2022	Mitigation in 2023
- Financed, refinanced or extended 12 loans to a value of £229.9 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 72.4% 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 213 for more detail) - Maintained a wide number of banking relationship with 25 lenders across the Group to diversify funding sources - Maintained low weighted average cost of debt (2.69%) - Maintained average debt maturity of 3.8 years - Significant headroom across three main loan covenants of between 25% and 35% - All loans have equity cure mechanisms to repair breaches	- Be a net seller of property in 2023 to try to reduce Group LTV below 40% - Obtain bids from multiple counterparties to compete for new lending - Continue weekly treasury meetings - Continue weekly updates to cash flow forecasts - Maintain level of fixed rate debt between 60 and 90% - Monitoring lender exposure to ensure no one lender represents more than 20% of total Group debt - Continue to ensure a minimum 50% of floating rate debt is hedged - Given the significant quantum of debt expiry in 2023 and 2024 conversations with banks to be started earlier than the usual 6 months ahead of refinancing - Continue implementing well-established Group financing strategy (see detail on pages 36 to 37)

5. Political and economic risk

The economic and political uncertainty experienced throughout 2022 remain heightened and the risk is classified as High. However, there are tentative signs that geopolitical turmoil is calming and it appears that interest rates and inflation have peaked but as yet there is no change in current direction of travel.

Risk mitigation in 2022	Mitigation in 2023
- Reviewed sanctions processes - Used third-party compliance screening tool for anti-money laundering checks, and sanction and PEP lists - Monitored changing regulation particularly in respect of decoupling from EU for any impact on our business model - Encouraged employees to join key industry forums	- Continue to monitor events and trends closely, making business responses if needed - Continue to monitor tenants for sanction issues - Maintain membership of key industry bodies for example the British Property Federation, British Council of Offices and Better Buildings Partnership

6. People risk

The risk assessment remains Medium with the direction of travel somewhat reducing with the post-Covid-19 "great resignation" over. However low unemployment rates across Europe means CLS must remain an attractive employer as the war for talent continues.

Risk mitigation in 2022	Mitigation in 2023
- CLS Group wide staff conference held in Windsor, UK - Engaged workforce advisory panel (see page 126) - Quarterly mental health workshops carried out - Successful recruitment of Head of Germany Asset Management - Implemented multi-lingual learning platform	- Undertake staff survey - Continue work with workforce advisory panel - Monitor market to ensure competitive remuneration packages across the Group - Introduce revised employee bonus scheme aligned to Group performance

Our 2022 strategic report, from pages 2 to 105, has been reviewed and approved by the Board of Directors on 10 March 2022.

Approved and authorised on behalf of the Board

David Fuller BA FCG
Company Secretary

10 March 2022

Emerging risks

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

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

In 2022, the Board and the Senior Leadership Team participated in a facilitated risk workshop to explore the risks and emerging risks for the CLS Group. No new emerging risks were identified and the mitigations remain the same.

Risk	Potential Impact	Mitigation	Time Horizon		
			Short < 2yrs	Medium 2-5 yrs	Long > 5 yrs
Regulation/ compliance	Increased capital cost of maintaining our property portfolio. 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 technology	The attractiveness of our properties may decline if the challenges to adapt office facilities, to changing work practices/ environment expectations of customers and advances in technology and digitisation, are not met.	Each region updates the Senior Leadership Team on trends, including technology, throughout the business. The in-house management model also gives valuable insights into tenants' ongoing needs and potential trend changes that can be incorporated into the future fit-out of properties.	●	●	●
Changes in office occupation trends	Changes in social attitudes to agile and flexible working practices may reduce demand for space compared to historic trends as well as there being changing needs of occupiers.	In-house asset management model provides the means for the property team to: proactively manage customers; and gain real-time insight and transparency on changes in needs and trends.	●	●	●
Workforce and society	Failure to adapt to evolving expectations of an intergenerational working population may reduce attractiveness as an employer in the market.	The establishment of the Workforce Advisory Panel and the staff survey process provide forums for employees to communicate views on the working environment. The Group also interacts with recruitment agents to keep abreast of trends in the employment marketplace.	●	●	●
	In response to conflicts, economic disparity and climate change, there may be greater social tensions and movements which may cause staffing issues.				
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.	Our sustainability strategy continues to evolve and has been developed in alignment with Global Real Estate Sustainability Benchmarks (GRESB), consideration of the UN Sustainable Development Goals (SDGs) and climate risk modelling.		●	●
	Inability to obtain sufficient carbon credits at suitable price to offset residual carbon emissions in order to achieve net zero carbon.	We are investigating various solutions to achieve sufficient offsets by 2030.			●

Going concern & viability

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 high rent collection and low bad debts, and has a long-term track record in financing and refinancing debt including £229.9 million completed in 2022 and a further £237.3 million subsequent to year end, of which roughly half has been executed and half for which credit approval has been obtained by lenders or terms have been agreed.

Going concern period and basis

The Group's going concern assessment covers the period to 31 July 2024 ("the going concern period"). The period chosen takes into consideration the maturity date of loans totalling £474.4 million that expire by July 2024, of which £226.0 million expire in the last three months of the going concern period. The going concern assessment uses the forecast cash flows approved by the Board at its November 2022 meeting as the Base case, updated for the actual results achieved for 2022, benchmarked against 2023. The assessment also considers a Severe but plausible case and Reverse stress testing.

Forecast cash flows – Base case

The forecast cash flows prepared for the Base case take account of the Group's principal risks and uncertainties, and reflect the current greater uncertainty and more challenging economic backdrop. The forecast cash flows have been updated using assumptions regarding forecast forward interest curves, inflation and foreign exchange, updated for a worsening of these assumptions in 2023 and 2024. The Base case includes the impact of revenue growth, principally from contractual increases in rent, and increasing cost levels in line with forecast inflation. An assumed property valuation reduction of 5% over the going concern period has also been included.

The Base case is focused 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 £474.4 million expiring within the going concern period will be refinanced as expected (£335.0 million) or will be repaid (£139.4 million, of which £125.4 million is linked to forecast property

disposals, with the balance being planned repayments). The Group acknowledges that these refinancings are not fully within its control; however, it is highly 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 2022 when £229.9 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 £237.3 million.

Both the Base case and the Severe but plausible case also include 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 2022. The Group acknowledges that property disposals are not fully within its control; however, it is highly confident these transactions will be completed within the going concern period, based on its history of achieving disposals, disposals post-year end and the status of transactions. 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; and higher interest rates. The 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 20% until July 2024, impacting forecast refinancings, sales and cash cures. This is in addition to the 5% in the Base case and the reduction experienced in 2022.

In the Severe but plausible case, CLS would need to take some 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 some of its existing £50 million of currently unutilised facilities of which £30 million is committed until 30 June 2023 and £20 million is available subject to certain criteria being met and until further notice. As with the Base case, it is assumed that loan facilities are refinanced as they become due. If needed, further disposals could be considered as there are no sale restrictions on CLS' £2.4 billion of properties.

Reverse Stress Testing

The use of a Severe but plausible case above allows for the simultaneous consideration of the impact of a number of the Group's principal risks at the same time. The Board has also considered Reverse stress testing of the individual assumptions which were flexed in the Severe but plausible case to determine at which point the Group runs out of liquidity. These included lower rents, increased service charges, higher property and administration expenses, falling property values and higher interest rates. The most sensitive of the impacts of the Reverse stress tests is on the Group's loan covenants, given that non-compliance would trigger cure payments that would further reduce available liquidity. On average across its 46 loans, CLS has comfortable headroom for the three main covenant ratios of LTV, ICR and DSCR. This headroom has reduced from the half-year 2022 position given the investment property valuation reductions.

The Board considers that the Reverse stress testing is a remote scenario, given the magnitude of the downside assumptions applied, in the context of the historic and forecast performance of the Group and the current economic environment. There is also a remote likelihood that all the changes modelled would occur at the same time, and to this extent, during the going concern period, due to the severity of the assumptions applied and their magnitude, and the length of the going concern period. In addition, the assumptions have been applied equally to all regions and thus there is no benefit given for CLS' geographic and tenant diversity.

Conclusion

Given our track-record, and the progress made on refinancing and disposals since 31 December 2022, the Directors are highly 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. After due consideration, and having taken into account the key judgements made in relation to the magnitude and timing of debt maturity and asset disposals during the going concern period, and the current progress on both these categories of transactions, the Directors can confirm that they have a reasonable expectation that the Group and the Company will be able to continue in operation and meet its liabilities as they fall due, with no material uncertainties that would cast significant doubt on the ability of the Group and the Company to continue as a going concern for the period to 31 July 2024. The Directors continue to adopt the going concern basis in preparing these Group and Company financial statements.

Viability Statement

Background, period and basis

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 same strategy and business model, and track record, are relevant considerations for the viability assessment.

The viability assessment covers the period to 31 December 2026 ("the viability period"), a period chosen as it is aligned with the period of the forecast cash flows approved by the Board at its November 2022 Board meeting. These forecasts comprise the Base case but they have been updated for the actual results achieved for 2022 and the first two months of 2023. 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 sufficient visibility to reliably assess viability.

Forecast cash flows – Base case

As with the Going Concern assessment, the forecast cash flows prepared for the Base case take account of the Group's principal risks and uncertainties, and reflect the current greater uncertainty and more challenging economic backdrop. The forecast cash flows have been updated using assumptions regarding forecast forward interest curves, inflation and foreign exchange, updated for a worsening of these assumptions in 2023 and 2024 but with some improvement in 2025 and 2026. The Base case includes the impact of revenue growth, principally from contractual

increases in rent, and increasing cost levels in line with forecast inflation. An assumed property valuation reduction of 5% over the viability period but no subsequent bounce back in valuations has also been included.

The Base case is focused on the cash and working capital position of the Group throughout the viability period. In this regard, the Base case assumes continued access to lending facilities in the UK, Germany and France but given the longer time period than the going concern period the amounts are consequentially greater. Within the viability period, debt facilities of £674.5 million expiring will be refinanced as expected (£535.1 million) or will be repaid (£139.4 million, of which £125.4 million is linked to forecast property disposals, with the balance being planned repayments). The Group acknowledges that these refinancings are not fully within its control; however, it is highly 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 2022 when £229.9 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 £237.3 million.

Both the Base case and the Severe but plausible case also include property disposals in the viability period in line with the Group's business model and the forecast cash flows approved by the Board in November 2022. The Group acknowledges that property disposals are not fully within its control; however, it is highly confident these transactions will be completed within the viability period, based on their history of achieving disposals, disposals post-year end and the status of transactions. The value of the properties available for disposal is significantly in excess of the value of the debt maturing during the viability 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 viability period have been considered in both the Base and the Severe but plausible case and are expected to be insignificant.

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; and higher interest rates. The 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 20% until June 2024, impacting forecast refinancings, sales and cash cures, with no further falls or recovery of values thereafter. This is in addition to the 5% in the Base case and the reduction experienced in 2022.

In the Severe but plausible case, CLS would need to take some mitigating actions in terms of depositing cash to equity cure some loans as envisaged under the facilities of up to £65 million, 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 some of its existing £50 million of currently unutilised facilities of which £30 million is committed until 30 June 2023 and £20 million is available subject to certain criteria being met and until further notice. As with the Base case, it is assumed that loan facilities are refinanced as they become due. If needed, further disposals could be considered as there are no sale restrictions on CLS' £2.4 billion of properties.

Conclusion

Given our track-record, and the progress made on refinancings and disposals since 31 December 2022, the Directors are highly confident that the debt falling due for repayment in the viability 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. After due consideration, and having taken into account the key judgements made in relation to the magnitude and timing of debt maturity and asset disposals during the viability period, and the current progress on both these categories of transactions, the Directors can confirm that they have a reasonable expectation that the Group and the Company will be able to continue in operation and meet its liabilities as they fall due over the viability period.

Board Leadership and Company Purpose

Chairman's Introduction

Lennart Sten
Independent Non-Executive Chairman

Board focus areas in 2022

Monitored the impact of UK REIT status on the Group

Reviewed and decided on the Company's long-term strategy

Reviewed and approved financial statements following recommendations from the Audit Committee

Carried out an internal evaluation of the performance of the Board and its Committees

Kept a close watch on the changing economic and political landscape

Decided upon a new dividend policy

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 2022.

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 107.

Living our purpose and culture

2022 was another challenging year for our business and employees, with the ending of lockdowns at the beginning of the year bringing an end to two years of uncertainty, only to be followed by the start of war in Ukraine, a resulting spike in energy prices, higher inflation and rising interest rates.

I and my fellow Board members were acutely aware of the impact this economic uncertainty poses to our business, and this year we have held significant discussions on how we challenge ourselves and adapt to these circumstances.

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

Our well established purpose, vision and values, which we regularly articulate, are embedded into every thing we do. This has been essential in our ability to adapt to the changing office environment and also a key strength in our ability to work collaboratively in order to drive the business forward.

One of our core values is “our tenants, our focus”. As has been explained earlier in this report, tenants and future tenants want landlords to invest in both the design and sustainability credentials of our office space. Our teams work closely with tenants to ensure we understood their needs in order to deliver the sustainable space they want.

Balancing the interests of stakeholders

This is at the forefront of our decision-making processes when considering the long-term strategy for the Group and individual decisions.

It is true that, at different times, we have to take decisions that may prioritise one set of stakeholders over another, but we always ensure these decisions are not to the detriment of other stakeholders. What is important is for us to engage with them at an early stage and listen to feedback.

Our Workforce Advisory Panel continues to provide excellent feedback on important issues relevant to our employees, in particular this year the impact of inflation on pay. This resulted in the adoption of a tapered salary increment across the Group. Elizabeth Edwards, our Senior Independent Director, chairs the Panel and enables effective two way feedback from each meeting.

UK Corporate Governance Code

The implementation of our Sustainability Strategy continues to help the communities in which we invest, through employee participation in specific projects, either supporting them with our time, expertise or financial assistance.

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

Looking forward

Despite the challenges that lie ahead, we are confident that our strategy will deliver high-quality and flexible office space that will continue to ensure the success of the Company in 2023. We are looking forward to the year ahead.

Lennart Sten

Non-Executive Chairman

10 March 2023

Board leadership and Company purpose

➕ See pages

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

Board of Directors	110-111
Board activities	113
Approach to s.172(1)	44-45
Strategy, Purpose, Vision and Values	IFC

Division of responsibilities

➕ See pages

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

Governance framework	116
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Composition, succession and evaluation

➕ See pages

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

Nomination Committee Report/Chairman's statement	118-125
Internal Board evaluation	124-125

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	128-132
Going concern basis	104
Viability Statement	105
Assessment of the principal risks facing the Group	99-103
Annual review of systems of risk management and internal control	130
Fair, balanced and understandable	130

Division of responsibilities

➕ See pages

The Remuneration Committee is responsible for the design, implementation and oversight of the Group's Remuneration Policy, which was approved by shareholders on 25 April 2020. A new Remuneration Policy will be put to shareholders on 27 April 2023.

Remuneration Committee Report	133-151
2023 Remuneration Committee Policy	152-167

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 106 to 171.

Compliance with the Code

Save as identified below and explained in this report, the Board considers that throughout 2022 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 117
- 17 – Nomination Committee membership, explanation on page 118

Board Leadership and Company Purpose

Governance at a glance

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 28-31.

We acquire the right properties + Read more on pages 32-35	The Board Governance role The Board considers the Group's investment criteria and market conditions in the regions to ensure it supports its long-term strategy. What we considered for 2022 • Received detailed updates on the markets in which we operate together with investments at each Board meeting • Considered acquisitions strategy in light of challenging market and ability to meet investment criteria
We secure the right finance + Read more on pages 36-37	The Board Governance role The Board considers the Group's financing strategy to ensure it remains appropriate, dynamic and diverse. What we considered for 2022 • Received regular updates on the Group's debt position • Received detailed updates on the Group's financing strategy • Considered the impact of other debt facilities
We deliver value through active management and cost control + Read more on pages 38-39	The Board Governance role The Board considers the Group's operational strategy to deliver on the Group's vision to be a supportive, progressive and sustainably focused commercial landlord. What we considered for 2022 • Received regular updates on asset, property and facilities management operations • Ensured appropriate resourcing levels to facilitate active in-house management • Monitored performance against budget and organisational structure as part of cost control measures • Reviewed and approved 2023 budget and forecasts
We continually assess whether to hold or sell properties + Read more on page 30	The Board Governance role The Board oversees management's assessments to ensure the Company focuses on holding properties with the potential to add value in line with the Group's investment strategy and sustainability goals. What we considered for 2022 • Received regular updates on vacancy rates and rent collections • Received regular senior management recommendations for capital and operational expenditure in relation to building management • Received updates on the sustainability strategy including Net Zero Carbon pathway
We reward shareholders, customers and employees + Read more on pages 30	The Board Governance role 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. What we considered for 2022 • 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

Board members' range of experience

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

2022 AGM

At the 2022 AGM, all the resolutions as set out in the Notice of Meeting were unanimously passed on a poll.

The Company notes that there were 20.57% votes against Resolution 11, the re-election of Christopher Jarvis as a Director of the Company. The Board has considered the views of shareholders and also the provisions of the UK Corporate Governance Code.

With this in mind, after serving more than 14 years, Christopher Jarvis will not be standing for re-election at the 2023 AGM and will be stepping down from his position as a Director of the Company at the conclusion of the 2023 AGM. We would like to thank Christopher for his many years of service and wish him all the best in his future endeavours.

33%

Female representation
as at 31 December 2022

100%

Board meeting attendance for
the year ended 31 December 2022

44%

Board independence including the
Chairman at 31 December 2022

Board Leadership and Company Purpose

Board of Directors

The right skills to deliver our strategy

Lennart Sten

Independent Non-Executive Chairman

Appointment as a Director 1 August 2014

Tenure 8 years 4 months

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

Qualifications: Degree in Law, Stockholm University

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

Anna Seeley

Non-Executive Director and Vice Chair

Appointment as a Director 11 May 2015

Tenure 7 years 7 months

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

Fredrik Widlund

Chief Executive Officer

Appointment as a Director 3 November 2014

Tenure 8 years 1 month

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

Qualifications: Degree in Business Administration, Stockholm University

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

Attendance table

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

● Attended ○ Did not attend

Andrew Kirkman
 Chief Financial Officer

Appointment as a Director	1 July 2019
Tenure	3 years 5 months

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

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

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

Elizabeth Edwards
 Senior Independent Director

Appointment as a Director	13 May 2014
Tenure	8 years 7 months

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

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). Non-Executive Director, Schroders European REIT plc. Trustee, Refuge. Trustee, Central School of Ballet. Warden, the St Olaves and St Saviours Schools Foundation. Past Master, Worshipful Company of Chartered Surveyors

Bill Holland
 Non-Executive Director

Appointment as a Director	20 November 2019
Tenure	3 years 1 month

Former roles: Senior Partner, KPMG real estate audit practice

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

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

Denise Jagger
 Non-Executive Director

Appointment as a Director	1 August 2019
Tenure	3 years 4 months

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

Christopher Jarvis
 Non-Executive Director

Appointment as a Director	25 November 2008
Tenure	14 years 1 month

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

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

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

Bengt Mortstedt
 Non-Executive Director

Appointment as a Director	7 March 2017
Tenure	5 years 9 months

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

Qualifications: Degree in Law, Stockholm University

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

Board Leadership and Company Purpose

Senior Leadership Team

Fredrik Widlund

Chief Executive Officer

Please see full biography on page 110

Andrew Kirkman

Chief Financial Officer

Please see full biography on page 111

David Fuller

Chief Operating Officer and
Company Secretary

Tenure 13 years 10 months

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

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

Francesca Fear

Group Financial Controller

Tenure 7 years 3 months

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

Francesca is a Fellow of the Institute of Chartered Accountants and has over 10 years' experience in audit and reporting.

Rachel Broughton

Head of Development

Tenure 11 years 4 months

Rachel is responsible for the Group's Development activities.

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

Dan Howson

Head of UK

Tenure 12 years 4 months

Dan is responsible for the Group's UK portfolio. Dan is a Chartered Surveyor and has over 20 years' experience in the UK property sector.

Rolf Mensing

Head of Germany

Tenure 16 years 6 months

Rolf is responsible for the Group's German portfolio.

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

Philippe Alexis

Head of France

Tenure 25 years 2 months

Philippe is responsible for the Group's French portfolio.

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

Board Leadership and Company Purpose

Key Board activities

Board and Committee meetings		Key announcements, decisions and Board approvals
• Main Board • Audit Committees • Remuneration Committee	MAR	• Approval of the 2021 annual report and accounts • Approval of the 2021 final dividend
Annual General Meeting	APR	• All shareholder resolutions passed • Completion of acquisition of office building in Düsseldorf
• Main Board • Nomination Committee	MAY	• Property tour in Berlin • Approval of updated dividend policy • Consideration of capital allocation • Announcement of Tender Offer
	JULY	• Completion of acquisition of office building in Dortmund
• Main Board • Audit Committee • Remuneration Committee	AUG	• Approval of the 2022 half-yearly report and interim dividend • Review of principal risks and uncertainties including emerging risks • Approval of the Tender Offer • Sale of three properties
• Strategy day	SEP	• Consideration of the Group strategy • Sustainability Update • Financing Strategy discussion
	OCT	• Completion on the sale of Sentinel House in Greater London
• Board Meeting • Audit Committee • Nomination Committee • Remuneration Committee	NOV	• UK property tour • Trading update • Three significant new leases secured in Germany • Reviewed the Group's principal risks and considered emerging risks which could potentially impact long-term strategy • Risk Workshop held by Grant Thornton

Board Leadership and Company Purpose

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 2022 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.

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.

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

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

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

Proxy voting

The proxy forms for the Annual General Meeting which was held in 2022 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 2023 Annual General Meeting, the Company will comply with the Listing Rules in respect of the voting requirements for the re-election of independent Directors where a Company has a controlling shareholder.

The usual pattern of investor meetings took place in 2022, as set out below, via face to face meetings, and voice and video calls.

Key shareholder events

March

34 institutional investor meetings

April

34 institutional investor meetings

Analyst presentation

May

8 institutional investor meetings

June

1 institutional investor meeting

August

9 institutional investor meetings

Analyst presentation

September

19 institutional investor meetings

November

6 institutional investor meetings

Maintaining a healthy culture

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

CLS' culture and the role of the Board

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

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

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

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

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

How the Board assesses and monitors culture

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

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

Division of responsibilities

The Board's role

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

Board and Committee structure

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

Chair leadership and effectiveness

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

Roles and responsibilities of the Directors

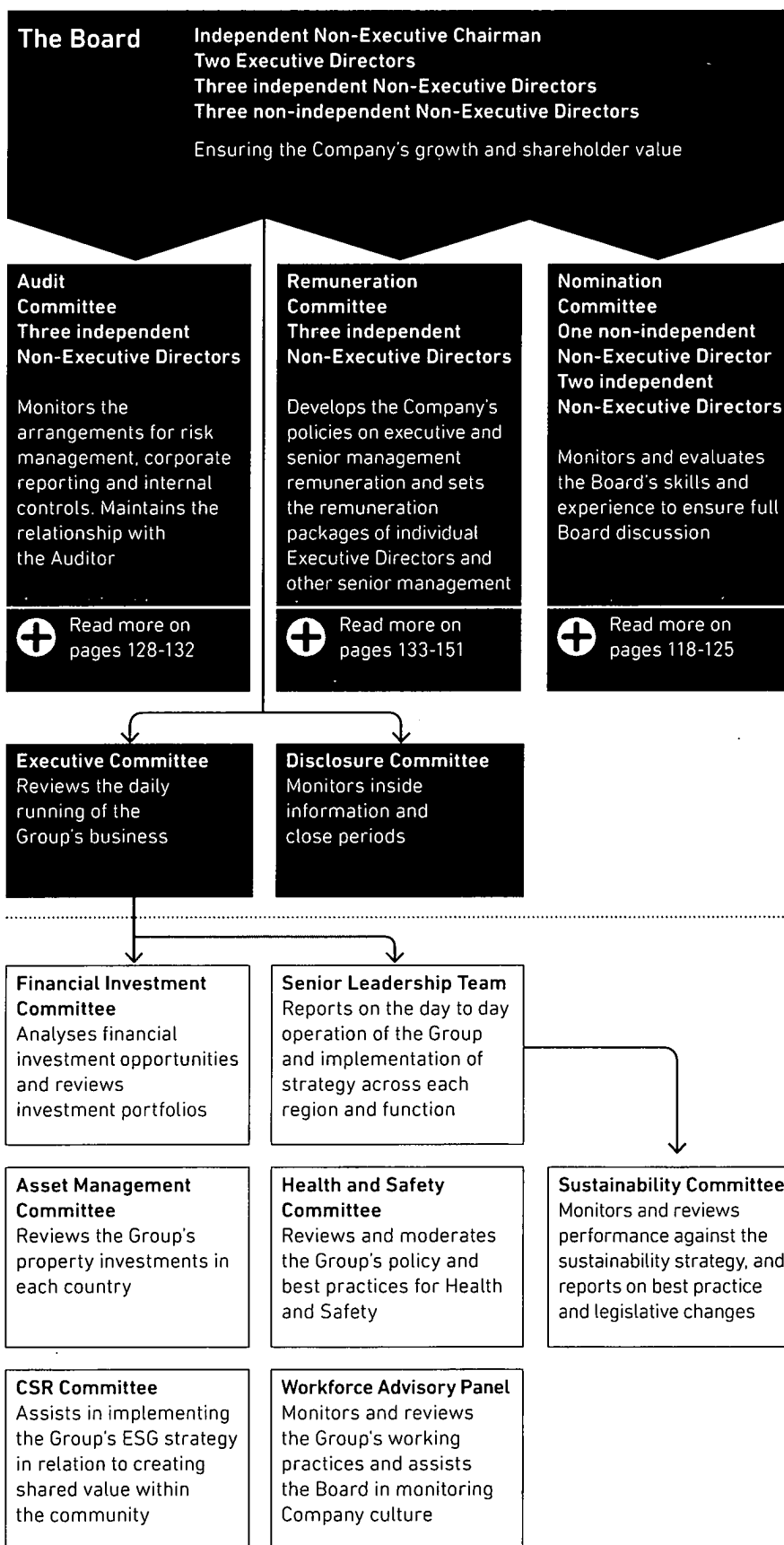
The Board's composition and responsibilities are set out in a formal schedule of matters specifically reserved to it for decisions. Matters reserved for Board decisions include identifying strategic long-term objectives, approving the annual Group budget, and approving substantial property transactions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

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

Division of responsibilities

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

Board and committee structure



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

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

Conflicts of interest

The Company's Articles of Association contain procedures to deal with Directors' conflicts of interest. The Board considers that these have operated effectively during the year and no conflicts were raised or had arisen.

Non-Executive Directors

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

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

As highlighted by this year's Board evaluation, following an internal assessment and subsequent discussion, the Board was satisfied with the experience, expertise and performance of each Board member; they continue to add significant value to the operation of the Company through their knowledge and experience, and exercise objectivity in decision-making and proper control of the Company's business.

Independence

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

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

The Company was therefore not compliant with Provision 11. The Board is of the view that despite not having a majority of independent Non-Executive Directors, the current balance provides appropriate oversight and supports our governance framework. Notwithstanding this assessment, it is envisaged that an independent director will be appointed to replace Christopher Jarvis during 2023.

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

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

External directorships

Current external directorships for all Directors can be found on pages 110 and 111. All additional directorships must be approved by the Chairman, taking into account potential conflicts of interest and time commitment. It is our policy that full-time Executive Directors should not take on more than one non-executive directorship in a FTSE company or other significant appointment.

Information, support and development

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

Directors can obtain independent professional advice at the Company's expense and access to the advice and support of the company secretary on all governance matters. A schedule of appropriate training and development courses, seminars and briefings is circulated to Board members at each meeting, which they are encouraged to attend. To further their development and knowledge we organise for Directors to meet key employees and undertake site visits.

Composition, Succession and Evaluation

Nomination Committee Report

Succession planning will be our focus during 2023

Anna Seeley
Chair, Nomination Committee

“Continuity and consistency will be key during the current period of economic uncertainty.”

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 2022. This report is intended to give an insight into the work of the Committee during the year.

Role of the Committee

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.

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 twice during 2022 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.

Nomination Committee members' attendance during the year ended 31 December 2022

Anna Seeley (Chair)	● ●
Lennart Sten	● ●
Elizabeth Edwards	● ●

● Attended ○ Did not attend

Main activities throughout the year

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

As highlighted in this year's internal Board Evaluation process, we worked hard to re-establish working relationships following the end of lockdown measures. We achieved this through a German 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 but it also highlighted some of the challenges we face in retaining the next generation of senior leaders.

We note the changes to the Listing Rules, which focus on gender and ethnic diversity at Board level. At the year end, our Board comprised one third women and has a broad range of skills and experience to support the implementation of our strategy. Additionally, Elizabeth Edwards serves as our Senior Independent Director. We recognise the importance of ethnic diversity in Board composition and it will form part of our considerations in future appointments, in line with our Diversity and Inclusion policy.

Induction and ongoing development

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

Whilst there were no further appointments during the year, I set out our induction programme, which has been designed to involve a full overview of the Group and how it operates. The process starts with individual meetings with the Non-Executive Chairman, Chief Executive Officer and the Chief Financial Officer.

Following this a programme of meetings with senior managers across the Group and tours of the Group's portfolio and offices in the UK, Germany and France are organised. Additionally, the Board aims to hold one Board meeting a year either in France or Germany so that it can gain first hand knowledge into the activities, challenges and opportunities across the portfolio.

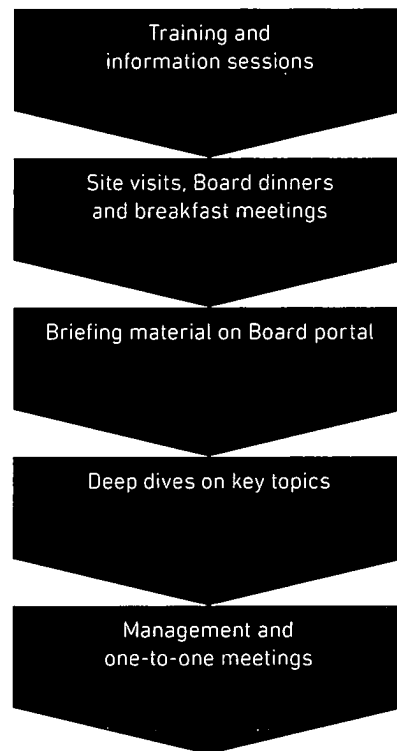
Our individual portfolio tours and Board meetings allow Directors to engage directly with a range of employees below Board level, which we believe is important in relationship building, understanding our talent pipeline, people and culture. It also raises the profile and understanding of the role of 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, with the lifting of travel restrictions, the Board was able to visit our portfolio in Berlin where they also met with the German valuers, allowing them to gain a greater understanding of the local investment market. 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 which allowed us to reconnect quickly following the end of lockdown. However, the value of in-person meetings could not be underestimated following a long period of videoconferencing and I am pleased to see the strengthening of those relationships.

Professional development at a glance



Strategic report

Corporate governance

Financial statements

Additional information

Composition, Succession and Evaluation

Nomination Committee Report continued

Appointments to the Board

As recommended by the UK Corporate Governance Code, the Committee leads the process for Board appointments and makes its recommendations to the Board for final approval. There were no appointments to the Board during the year.

Our process for Board appointments starts with the Committee's review of Board composition, 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 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.

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.

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

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

Board composition and skills

Following a review of Board composition during the year, we remained pleased with the structure and operation of the Board together with the balance of skills and experience of our directors. These factors were highlighted in the 2022 internal Board Evaluation process.

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

Of the three non-independent Non-Executive Directors, I am a director of Creative Value Investment Group Limited (CVIG), the investment vehicle for The Sten and Karin Mortstedt Family & Charity Trust; Bengt Mortstedt remains one of our largest shareholders; and Christopher Jarvis provides significant insight into the German real estate market, where he remains active.

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.

Succession planning review process

1	2	3	4	5	6
Individual CEO meetings with Heads of Functions	Assessment of teams and high performers	Identification of individuals' development needs and timeline	Group-wide report compiled	CEO presents to the Nomination Committee	Nomination Committee presents key findings to the Board

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.

Nevertheless, the Committee notes that Christopher Jarvis has served for longer than nine years and he has decided to retire from the Board at the 2023 AGM. During 2023, the Committee will seek the appointment of a further non-executive director who has the necessary skills and experience to replace those lost by his departure.

The Committee further notes that the Chair, Lennart Sten, will have served nine years in August 2023. Elizabeth Edwards, Senior Independent Director, will also have served more than nine years in May 2023. As a Board, we strongly believe that during a period of economic uncertainty and with the addition of another Board member, continuity is essential and therefore it is likely Lennart and Elizabeth will remain in post beyond nine years.

We will keep this decision under regular review during 2023 and 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 2022 (currently 33%) 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 diversity, especially at senior management level.

As set out earlier in this report, we believe this will be a gradual process as the workplace evolves and policies, especially in the area of parental leave, are aligned to offer equal benefits.

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

Anna Seeley

Chair, Nomination Committee

10 March 2023

Our focus for the year ahead

- Annual review of our succession plans for the Board
- Annual review of succession plans and talent pipeline below Board level
- Ongoing Board development
- Implement findings from internal Board Evaluation process
- Undertake an external Board Evaluation process
- Appointment of a new non-executive director

Composition, Succession and Evaluation

Nomination Committee Report continued

Board Diversity Policy

Objectives

Policy objectives

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

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

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

Implementation

Whilst no executive search firm was used during 2022, the Committee continues to monitor the composition of the Board and meets at least annually to review and discuss it.

The brief that is given to our independent executive search firms is to ensure that this Policy objective is met. When considering appointments to the Board, the Committee endeavours to consider candidates with a broad range of experiences. There were no further appointments made in 2022.

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Targets

Policy targets

One third female share of Board Directors by 2023.

Minimum of one Board Director from an ethnic minority background.

Progress against target

38% female representation on our Board. Currently at least one third female representation on our Board as at the year end.

In line with the Principles of the Parker Review, when the Board seeks to appoint a Non-Executive Director, it will expect its independent consultants to ensure candidates come from a diverse range of backgrounds.

Snapshot of Company skills & diversity

at 31 December 2022

Board skills and experience

Property	Wide ranging experience of the property sector including our European markets
International markets	Experience and in-depth knowledge of dealing in, and the operation of, international markets
Financial management	Substantial background of financial experience from wide ranging industries and markets
Governance	Significant listed company governance experience and understanding of investor requirements
Risk management	In-depth insight and experience of risk management within the property sector
ESG matters	Experience with listed and non-listed organisations on their approach to ESG matters in the built environment and across other corporate disciplines
Human resources	Knowledge of HR operations, setting and monitoring culture, and diversity and inclusion

Composition, Succession and Evaluation

Nomination Committee Report continued

Review of Board effectiveness

Appointment of consultants

The last external Board evaluation was undertaken by Independent Audit Limited in 2020, using their online governance assessment service Thinking Board. They have no connection with CLS or any individual director.

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

Based on the results of the 2022 review, this approach met the Board's objective.

Board Evaluation Framework

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

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

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

After an introductory overview, each thematic section provided a chart of the responses, with commentary that 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 November meeting.

Evaluation process

Year 1

Externally facilitated questionnaire using Independent Audit's Thinking Board software.

Stage 1

Design and scope of questionnaire to address core areas and key themes, and facilitate the ability to provide confidential written responses to where improvements could be made

Year 2

Internal questionnaire and follow up on results of previous performance evaluations

Stage 2

External questionnaire including follow up on results of previous performance evaluations

Year 3

Internal questionnaire and follow up on results of previous performance evaluations

The process was divided into four stages:

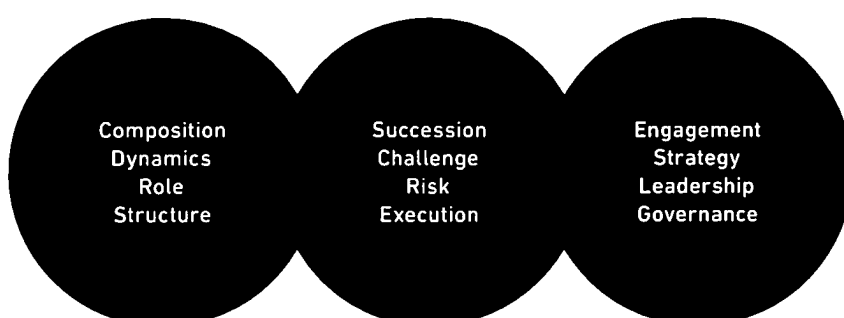
Stage 3

Review of the results of the questionnaire and benchmark findings against the 2022 internally facilitated review outcomes as well as 2020 external evaluation outcomes.

Stage 4

Presentation of report to the Board for discussion and to prepare a plan for achieving desired outcomes

Board Evaluation Framework



- Board leadership and Company purpose
- Division of responsibilities
- Composition, succession and evaluation

2022 Internal Board evaluation results and objectives for the forthcoming year

Four key areas within the internal Board Evaluation Framework.

1. Leadership

There was unanimous agreement that members work together on a basis of trust and openness, that the right people are around the table and that Directors have a good understanding of their duties. There was a consistent view that the Chairman led and listened, and this was also true for the CEO. Members agreed that they kept abreast of changes to the regulatory and governance landscape, and concluded that as a result they were effective in discharging their duties.

2023 objective

Continue to have: more contact with senior leaders below Board level; and better interaction with employees at all levels.

2. Accountability and risk

The Board considered that sufficient time had been allocated to the strategic opportunities, risks, emerging technology and changes in the real estate industry, and that consideration of scenario planning had improved. The Board considered the additional focus on internal controls and risk planning had also improved during the year. Board members agreed there was good focus on compliance and members are satisfied that the organisation is under control.

2023 objective

Continue to focus on the documentation of internal controls. Continue to develop the discussions around risks.

3. Board and Committee operation

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

2023 objective

Continue focus on employee engagement and communications below Board through various activities including property tours and informal meetings.

4. Board dynamics

Board dynamics are positive and information was considered to be of a high standard, clear and comprehensive. Meetings were well chaired and supported by the Secretariat. Additional informal conversations with the Chair would be welcomed in between meetings.

2023 objective

Develop informal communication channels between the Board members. More interaction with the Chair and more contact with the business.

Objectives and outcomes arising from 2021 external board evaluation results

Objectives	Outcomes
More contact with senior leaders below Board level and better interaction with employees.	With the end of lockdowns and the restarting of in-person meetings, the Board, through its focus sessions met with many senior leaders below Board level to present on their area of expertise. In May and November, the Board went on a Berlin and London property tour respectively, supported by our wider asset, property and facilities management teams.
Understanding the strategic opportunities, as well as the risks, from emerging technology; and scenario planning. Focusing on internal control documentation and assurance.	In September the Board had its annual strategy meeting which focused on strategic opportunities and risks. At the Board meeting in November, an externally facilitated risk workshop was undertaken to assist in the understanding and monitoring of key risks.
Continued focus on emerging risks and cyber risks.	The Board received updates from the Head of IT, which included a detailed presentation of the Group's Digitisation Strategy and IT security infrastructure (including cyber risks).
More informal time together and more contact with the business.	There was, naturally, limited interaction outside of scheduled meetings in the first half of the year due to the pandemic. The Board was able to meet in-person at its September strategy meeting, and at its November Board meeting, the Board met for dinner with the Senior Leadership Team after a London property tour which enabled informal conversations between members.

Workforce engagement

Board leadership and company purpose

Helping to enhance our working environment

Elizabeth Edwards
Senior Independent Director Chair,
Workforce Advisory Panel

Dear Shareholder,

As Chair of the Workforce Advisory Panel, I am pleased to present the 2022 report from the Panel. The aim is for this report to provide an insight into the work of the Panel during the year.

Role of the Panel

Provision 5 of the Code requires the Board to understand the views of the Company's key stakeholders, including the establishment of mechanisms to engage with the workforce. In recognition of the Code requirements, and considering the size and complexity of the Group, the Board has established a Workforce Advisory Panel that has been operational for over three years.

The main role of the Panel is to allow employees to voice their views on the Group's workforce practices and policies, and to encourage effective engagement between the Board and its employees.

Through the Panel the Board ensures it has visibility of the views of employees, particularly when making decisions that could directly affect the workforce. The Panel also facilitates a gateway for the Board to feed back to the workforce on how their concerns are being addressed.

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

As Chair of the Panel, it is my responsibility to understand the views of the workforce that are raised during Panel meetings and articulate these to the Board. Additionally, it is also my responsibility to work together with the Chief Executive Officer and Head of Group Human Resources to facilitate further discussion and action feedback from the Panel. I also ensure that the views of the Board are relayed to the Panel.

Main activities during the year

At each meeting, the Chair provides the Panel with an overview of the high level strategic discussions that have taken place at Board meetings and other relevant topics.

Panel members also gather the views and concerns of all employees on workplace practices across the Group ahead of each meeting, which forms the basis for discussion.

In light of economic developments within all regions, the Panel frequently discussed staff concerns regarding rising inflation rates and how these would be considered in salary reviews. This feedback was communicated to the Board and Senior Leadership Team who implemented a new salary review and bonus scheme, taking into account the effects of inflation.

As we saw an increased return to the office this year, the Panel considered working practices and staff in all regions received clarity on work from home expectations and what equipment would be provided according to business needs.

Similarly, the Panel considered the impact working from home practices and the Covid pandemic had on company culture. The outcome was that events were organised to enhance staff cohesion through the CSR committee and also

for the CEO and SLT to set up more all staff meetings to maintain open communications.

The Panel also reviewed the increased staff turnover rate that had occurred in 2022. Conversations revolved around how in line this was with other industries and what could be done to mitigate turnover in the future. We concluded that although this was concerning it was in line with market trends in other industries. Nonetheless, the Panel agreed that there should be increased transparency on individuals' path to progression at CLS to provide reassurance that there are opportunities for growth in the business, which will be encouraged.

Reviewing the Group's Policies

This year the Panel reviewed the Group's Maternity Policy and the Sustainability policy, which ensured we received important input from the wider workforce on how we maintain industry standards and also seek to enhance our sustainable culture.

Elizabeth Edwards

Chair, Workforce Advisory Panel

10 March 2023

Our focus for the year ahead

- Continue to address staff concerns in relation to salary and inflation
- Continue to facilitate communication between the Board and employees
- Continue to discuss the views of the employees and review CLS' workplace practices

Workforce inclusivity The Panel met four times during 2022. At the start of 2022, the Panel consisted of eight employees from across the Group. The selection process is undertaken through an interview process from a shortlist of employees who either volunteered or were nominated by their peers. This ensures we have diverse cross section of our workforce represented on the Panel. Membership of the Panel was refreshed in 2022 with six new members joining from across the Group. We believe it is important to allow all employees an opportunity to participate and bring new perspectives to the Panel.	<table><tr><td>1. UK</td><td>43%</td></tr><tr><td>2. France</td><td>14%</td></tr><tr><td>3. Germany</td><td>29%</td></tr><tr><td>4. Luxembourg</td><td>14%</td></tr></table>	1. UK	43%	2. France	14%	3. Germany	29%	4. Luxembourg	14%	<table><tr><td>1. Legal, IT and Administration</td><td>29%</td></tr><tr><td>2. Finance</td><td>14%</td></tr><tr><td>3. Property</td><td>57%</td></tr></table>	1. Legal, IT and Administration	29%	2. Finance	14%	3. Property	57%
1. UK	43%															
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4. Luxembourg	14%															
1. Legal, IT and Administration	29%															
2. Finance	14%															
3. Property	57%															

Audit, risk and internal control

Audit Committee Report

Ensuring oversight, risk management and integrity of financial reporting

Bill Holland
Chair, Audit Committee

“This year we have focused on the transition of the new external Auditor and continuing to implement matters highlighted in our internal controls and risk reviews.”

Dear shareholder

On behalf of the Audit Committee, I am pleased to present the report of the Committee for the year ended 31 December 2022. 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

There was no change to the membership of the Committee throughout 2022.

My experience means I have recent and relevant financial experience, and my fellow Committee members all have significant experience of the real estate sector. Further details of our experience can be found on pages 110 to 111.

The Committee met four times during 2022

Political and Economic risk

With Covid subsiding but instead the war in Ukraine impacting the global economy, the Committee considered the changing risk environment. Wider debate on risks and Board appetite were facilitated in 2022, and where a gap between risk status and risk appetite existed, mitigation was discussed and applied where possible. This year we monitored Political and Economic risks more closely to ensure that they were being correctly considered. Such risks remained heightened due to the continuing war in Ukraine and the possibility of gas supplies to Germany being reduced, which had the potential to affect assumptions around real estate valuations. However, given mitigating actions that were implemented, we were comfortable with the commentary around those risks and our exposure.

Grant Thornton Risk Workshop

In November 2022, the Committee with all Board members and the Senior Leadership Team undertook a risk workshop facilitated by Grant Thornton. The objective of the workshop was to revisit CLS' risk management processes, top risks and risk appetite to help ensure

Audit Committee members' attendance during the year ended 31 December 2022

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

● Attended ○ Did not attend

that there is a consistent view and understanding across the Board and Senior Leadership Team. Members were asked to consider the top risks currently facing the Group and the existing mitigations against CLS' impact scoring. Such discussions helped to align understanding of how risk appetite should be viewed alongside risk status. Emerging risks were also considered and discussed.

Cyber risk

The Group's first Digital Strategy review in 2018 led to a formal cyber security strategy and tactical plan to mitigate the risks associated with operating a business in the digital age. For the first time, industry standards were used as the foundation for building a holistic, sustainable cyber security programme that balances the need to mitigate risk with the need to run all of the Group functions. This year, we received a report on the Group's cyber security risk exposure which was noted to be still low compared to other B2C organisations.

Sustainability

Given the increased focus on sustainability from investors and tenants, we reviewed our 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 GRESB, this Annual Report and Green Loans. It was confirmed that the Group had been sufficiently measuring the different data reporting requirements and that whilst data assurance had been sought through a third party, it was anticipated that this may come within the Group audit remit in the future. As such, it was agreed that in 2023 we will review the scope and process for sustainability data assurance including possible integration with financial auditing.

Corporate Governance

In response to the Government establishing the Audit, Reporting and Governance Authority (ARGA) as the successor to the Financial Reporting Council (FRC), we received reports from external advisors outlining the progress that had been made and any areas of particular relevance to the business. We will continue to monitor consultation developments to ensure that CLS is thoroughly prepared for the transition and legislative changes.

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 selective internal controls testing and reviewed our risk analysis that had been documented on our CoreStream software. It was noted there were no major control failings and the risks remained appropriate. Areas of improvement for 2023 were identified which included improving controls around tenant take-ons and to investigate the implementation of a tenant deposit policy. At the moment, this is decided on a case-by-case judgemental basis. Our in-house asset management and credit control teams mean that the risks related to not having a tenant deposit are somewhat mitigated.

Key features of our system of internal control include:

- a comprehensive system of financial reporting and business planning;
- a defined schedule of matters for decision by the Board, revisited by the Board at least annually;
- an organisational structure with clearly defined levels of authority and division of responsibilities;
- formal documentation and approval procedures;
- the close involvement of the Senior Leadership Team in all aspects of day-to-day operations, including regular meetings with line managers to review all operational aspects of the business and risk management systems;
- annual Board review of Group strategy including forecasts of the Group's future performance and progress against strategy; and
- formal sign-off on the Group's Anti-Facilitation of Tax Evasion, Whistleblowing, Securities Dealing and Anti-bribery policies by all employees annually.

As noted above, the programme of internal controls testing consisted of sample testing on the following areas of process:

- purchase ledger: authorisation of purchases; authorisation of payments; and recovery through service charges; and

Our focus for the year ahead

- Ensure valuations and assumptions surrounding the valuations are appropriate
- Monitor principal and emerging risks to ensure they remain appropriate and mitigations are in place
- Review and monitor internal controls and receive regular updates on internal controls testing
- Receive regular reviews on the implementation of a new property and finance software system
- Develop a good working relationship with the new external Auditor, with a focus on the key issues outlined in each audit report during the year
- Monitor the impact of changes to accounting and governance laws and regulations
- Implementation of risk and internal controls software
- Enhance our sustainability data assurance processes

- sales ledger: recording on tenant database; completeness of sales invoicing; and debt collection.

Financial reporting and significant financial judgements

Our consideration of the significant judgements in the financial statements is set out on page 132 and included a particular focus on property valuations, going concern and revenue recognition.

Bill Holland

Chair, Audit Committee

10 March 2023

Audit, risk and internal control

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 2023 and August 2022 we reviewed the full year and half-year results. 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.
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 2022 annual report and accounts at our Committee meetings in March 2023 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 6 to the financial statements gives a full description and reconciliation of our APMs. Additionally, having considered how the report was formulated, reviewed internally and by the external Auditor, we considered that the 2022 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 168.
Reviewing our risks, risk management systems and internal financial controls	The Committee assists the Board in undertaking a robust assessment of the Group's emerging and principal risks. It receives reports at its meetings which identify principal risks and any movements in them, which it then reviews and reports to the Board on its findings, for wider discussion and approval. The ways in which the Group's principal and emerging risks are identified and addressed are set out on pages 96 to 103. During the year, in addition to reviewing the established framework for internal controls and risk management systems, the Committee received and discussed reports from management on the operation of the Group's internal controls. It also participated in a risk workshop held by Grant Thornton revisiting CLS' risk management processes, top risks, risk appetite and emerging risks. The outcomes of Grant Thornton's risk workshop found agreement that the six strategic risk areas, which we have used to categorise the business, remained the same. We reviewed the overall status of the risks, the changes of risk profile in 2022, and the current direction of travel for 2023. It was noted that in 2022, the risk profiles remained largely unchanged, except for financing risk that had increased due to the economic landscape. In regard to the current direction of travel of the risks faced, sustainability was deemed to be the sole risk that was increasing given the increased reporting requirements and demand from investors and tenants. The establishment of CLS' Sustainability Committee is going some way to mitigate this risk, but the area will be kept under review. We also continued to monitor the roll-out of the Group's new property and finance system, which went live in the French region in Q3. The initial roll-out was more successful than it had been in the UK and no control deficiencies were identified, however, functionality challenges arose. Internal controls testing focused on mitigating actions that would also be considered for the Germany/Luxembourg go-live, scheduled for 2023. These included earlier data migration ahead of implementation, more end-to-end regional testing and scheduling user training closer to the go-live date.

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 organisation, and the regular updates the Committee receives on internal controls testing (from management and externally), the Committee is confident that there remains no requirement for an in-house internal audit function. How assurance on internal controls is achieved is set out on page 129.
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.
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 £51,000 (2021: Deloitte £40,000) 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, risk and internal control

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 valuers and extended an invitation to the whole Board to attend. During the meeting we discussed the methodology used for the six monthly valuations of the Group's properties and received in-depth reports on the local markets in which the properties were located. Independently, the external Auditor also met with the Group's valuers using real estate specialists and provided the Committee with a summary of their review contained within their reports at the half-year and year end. The Committee was satisfied with the explanations in relation to the portfolio and its associated key risks, such as specific local market updates, vacancy levels and rental demand.
Going concern and Viability Statements	The Committee considered management's assessment of the Group's going concern and Viability Statements giving the assessment greater scrutiny in light of the larger than usual amount of debt required to be refinanced, or repaid following planned property disposals, during the going concern period. The going concern assessment considered a base case and a severe but plausible case and reverse stress testing. For the first time, the near-term impacts of climate change risks within the going concern period were considered in both scenarios and were expected to be immaterial. The Committee noted the Group's track-record and reputation and is highly confident that the debt falling due for repayment in the going concern period will be refinanced or settled in line with Management's plans, rather than requiring repayment on maturity, or will be extinguished following planned property disposals in the period. After due consideration, the Committee is satisfied that the assessment and statements are appropriate. In addition, having taken into account the key judgements made in relation to the magnitude and timing of debt maturity and asset disposals during the going concern period, and the current progress on both these categories of transactions, 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 31 July 2024. In accordance with Provisions 30 and 31 of the UK Corporate Governance Code, our going concern and Viability Statements can be found on page 104-105.
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 total revenue was broadly consistent year on year and 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 reviewed by management and brought to the Committee. 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.

Aligning performance with reward in challenging times

Denise Jagger
Chair, Remuneration Committee

“We have sought to design simplified, meaningful remuneration structures which incentivise long-term performance.”

Dear shareholder

I am pleased to present the Report of the Remuneration Committee (the 'Committee') for the year ended 31 December 2022.

This report sets out the implementation of the Company's current Directors' Remuneration Policy ("Policy") for the year ended December 2022 and the proposed new Policy ("New Policy") which will operate for the three years from 27 April 2023 subject to shareholder approval at the 2023 AGM. We also set out how we intend to implement the New Policy for the financial year ending 31 December 2023. The sections contained in this report are:

- the Annual Statement from the Chair of the Remuneration Committee;
- 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; and
- The proposed New Policy, which we are asking shareholders to approve at the 2023 AGM.

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 27 April 2023.

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

The Committee's membership did not change during the year to 31 December 2022.

Committee members' attendance during the year ended 31 December 2022

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

● Attended ○ Did not attend

Remuneration

Remuneration Committee report continued

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

During 2022, 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 the Committee keeps up-to-date during the year to enable timely discussions where business decisions may affect remuneration. I also met with our retained remuneration consultant, PricewaterhouseCoopers LLP ('PwC'), on a number of occasions during the year to review the detail of our New Policy and to ensure alignment with best practice PwC attended Committee meetings to share their experience and provide an update on wider remuneration trends as context for the Committee's decision making.

2022 Group performance and outcomes

In common with other businesses, we have faced an number of challenges this year. Despite the end of lockdowns at the beginning of the year, we saw the start of the war in Ukraine, the rising cost of energy and significant increases in the rate of inflation and interest rates all of which continued throughout the year. Unsurprisingly, these significant events had an impact on the overall results of the Group and the achievement of KPIs.

As events unfolded during the year, the Board took appropriate action to ensure that the Group was in the strongest possible position. This included a focus on delivering lettings of our quality refurbishments that are coming back to us as these are the primary drivers of growth. It also agreed to pause new acquisitions and only make disposals at appropriate values. With regard to financings, we looked to execute our planned refinancings ahead of schedule whilst also continuing to focus on cost control.

As a result, CLS continues to perform in line with expectations. Investment, and especially letting, markets have yet to return to pre-pandemic levels although we are seeing increasing levels of activity across our portfolio. Our focus on our tenants remains absolute and that investment in relationships is reaping rewards. Our portfolio also remains well-balanced in terms of strategically well placed locations; the potential to capture the reversionary uplifts from vacancies, under renting and selected refurbishment and development; and the

ability to provide tenants with modern, flexible, high-quality sustainable space. It is clear that our historically successful strategy and business model will enable us to adapt to the current market conditions.

Our 2021 final dividend was payable in April 2022 and our 2022 interim dividend in September 2022. On both occasions, the Board considered the overall performance of the Group and concluded that it was appropriate to pay the dividend in line with our updated dividend policy following UK REIT conversion. Given the overall performance of the Group, the Board has decided to propose a flat final 2022 dividend which, together with the 10.6% increase in the interim dividend, results in an increase of 3.2% in the full year dividend, which is 1.47x covered by EPRA earnings.

At the year end, when the annual 2023 salary and 2022 bonus review took place, the Group wished to reward employees with pay increases that took account of the inflationary environment whilst recognising the cost of living disparity between higher and lower income earners. In response, the Group deployed a tiered salary increment process providing a higher percentage increase for the lower income earners and lower percentage increase for the higher income earners. In the UK, we also brought forward this increase to December 2022 (from January 2023). As a result, a 4% salary increase was applied on average throughout the Group, excluding the Executive Directors. The Committee considered that this was an appropriate response to Group performance, the current economic environment and the efforts of the workforce in difficult circumstances. The Committee was also pleased to note that, where appropriate, additional salary adjustments were made for some employees to achieve market parity and reward professional development.

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 offered to our general employee population. In line with our tapered process and the timing for all UK employees, Fredrik Widlund received a 2% increase from December 2022. The Committee noted that on appointment Andrew Kirkman's salary was lower than

that of his predecessor to reflect his newness in post and that, in line with Policy, it should be reviewed once he had become established in the role. Taking into account his significant development in role, his valuable contribution since appointment and recognising the current recruitment market, the Committee concluded that Andrew should receive a 2% salary uplift in November 2022 (taking his total increase in 2022 to 5%) and a further 5% from 1 January 2023, pursuant to current Policy limits. We believe that this approach, consistent with the treatment of the wider workforce in similar circumstances set out above, further strengthens his alignment to shareholders and will support delivery of our strategy in the long run.

Key performance indicators

EPRA vacancy rate was 7.4%, which was below target given that a large number of refurbishments were made available to let during the year and the challenging lettings market brought about by macro economic events meant it has taken longer to let space. Therefore only 29% of the maximum available bonus was achieved for this KPI.

EPRA EPS was 11.6 pence, which was slightly above the threshold target, resulting in a bonus of 25% of the maximum for this element being achieved. This was driven by lower net rental income and higher financing costs.

Total Accounting Return, based on EPRA NTA, was -3.7%, and therefore below the threshold target as NTA decreased from 350.5 pence per share to 329.6 pence per share, almost entirely as a result of revaluation declines. This resulted in nil payout under this element.

As a result, the 2022 contribution to the bonus pool of Element A of the PIP was 18% of maximum and 27.7% of salary for the CEO and 18.4% of salary for the CFO. The value of notional shares in the Bonus Pool, which is linked to share price performance, fell by 27.5%, resulting in a reduction in its value for the CEO of £30,021 and CFO of £12,231. Further details on targets and assessment against these can be found on page 142.

As set out in more detail on page 142, the Committee determined that the attainment against our KPIs reflected the performance of the Group although some factors that led to below target performance were outside management's control. For example,

in May, the Board determined that no further acquisitions take place during 2022. This meant the 2022 budget, against which targets were set, resulted in the inability to enhance earnings or net asset values through acquisitions. In addition, macro elements such as the market decline in property values, could not have been foreseen by management. The Committee considered the factors leading to the KPI outcomes (and the significant reduction in the Bonus Pool) and, taken together, concluded that based on their holistic view of the financial and operational performance of the Group, that there should be no reduction in the notional balance of shares under PIP Element A.

The 2020 LTIP Awards were granted on 13 May 2020 with targets based on CLS' performance versus 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"). The relative TSR element was assessed over 3 years ending on 31 December 2022. 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 2022 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 2020 awards. As part of this process, the Committee will consider whether the formulaic vesting outcome is aligned with the underlying performance of the Company including whether any windfall gains were made.

The third grant under the LTIP was made in March 2022, with the same award levels as in 2021 at 150% of salary for the CEO and 120% of salary for the CFO. The Committee considered whether it should exercise discretion upon grant, in relation to the size of the 2022 LTIP award, taking account of the Group's share price at the time of grant. The Committee sought advice from its advisors, PwC, and reviewed emerging market practice, and concluded that given that the share price was not significantly different to 12 months previously, it would be more appropriate to review the award upon vesting in 2025 to ensure that there were no windfall gains and that it was in line with shareholders' expectations.

It is also noted that the 80,760 shares granted to the CEO and 41,310 shares granted to the CFO in 2019 under Element B of the PIP vested on 7 March 2022.

In line with our commitment to link executive remuneration to annual corporate performance and long-term shareholder returns, the Committee considers the outcome of executive remuneration to be commensurate with Group performance, noting that the level of both PIP Element A bonuses are significantly lower than in 2021 (caused by KPI performance and the impact of share price on Executive Director bonus pools). The Committee is comfortable that the Policy operated as intended during 2022.

Discretion

Under the terms of the PIP, and in line with the 2020 Policy, as Total Accounting Return performance fell below threshold, there was an opportunity for the Committee to exercise discretion by reducing the amount available to carry forward in the Bonus Pool. After careful consideration, taking into account the strong performance of the Executive Directors in such a turbulent time and that a significant proportion of TAR related to factors outside their control, the Committee decided not to exercise their discretion and reduce the award due below the formulaic outcome under the PIP Plan rules.

New Remuneration Policy

When the current Policy was renewed at the 2020 AGM, it received the support of 98% of shareholders. The Committee believes that the Policy has operated as intended, with continued support from shareholders as reflected in the voting outcomes (over 99% in favour) for the Directors' Remuneration Report in each of the last two years. However, the economic landscape has changed drastically since May 2020, and, like many businesses, we are facing challenges around high inflation, rising interest rates, and heightened economic uncertainty. Alongside this, the market for key talent in the real estate sector has become increasingly competitive and many companies are having to manage much higher than usual attrition rates. Given these challenges, it has become increasingly important that we have a Policy in place which can retain and incentivise our high performing executive team who must navigate through these uncertain times and deliver long term value for all our stakeholders. Such a policy requires flexibility which, if necessary, would allow the Company to continue to recruit quality individuals.

With the help of our remuneration advisors, we undertook an extensive review which considered current and emerging market practice, benchmarking data, historic remuneration outcomes and shareholder body views on pay. In developing remuneration proposals for the Executive Directors, the Committee was mindful of the need to offer a remuneration package that is representative of the highly competitive market for talent in the real estate sector, as well as a package that appropriately reflects their roles and responsibilities and motivates them to drive the success of the business. On this basis, the Committee designed a New Policy and undertook a consultation process with the Company's 12 largest shareholders, representing over 75% of the Company's issued share capital and the main shareholder representative bodies (IA, ISS, Glass Lewis). The Committee is grateful for the time that shareholders have taken to consider proposals and provide feedback. At the end of the consultation the majority of shareholders consulted indicated they were supportive of the proposals.

Remuneration

Remuneration Committee report continued

The key changes for the proposed New Policy for 2023 and the rationale for them are as follows:

- Removal of the 5% cap on salary increases. The cap could become quite restrictive in the current inflationary environment. The proposal aligns with standard market practice.
- Move to a more market standard bonus plan. CLS is unique in the real estate sector in operating a bonus banking style plan (PIP Element A). Initially, this was put in place to bridge the gap between the annual bonus and LTIP when there was no formal long-term incentive plan measured over a 3 year performance period in place. Given that CLS now operates a standard LTIP, a move to a more simple, market aligned bonus construct is more appropriate. The maximum opportunity under the annual bonus will remain unchanged at 150% of salary. 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. This is aligned to a deferral mechanism commonly used in the real estate sector and maintains the efficacy of malus and clawback policy.
- Increasing Policy maximum for LTIP. The proposal is to increase the Policy maximum from 150% of salary to 200% of salary to provide the Committee with the flexibility to award at a higher level to support recruitment, retention and incentivisation of the executive team in delivering the business strategy over the coming years. Total maximum remuneration remains at the lower end of the market despite the increase in LTIP opportunity. The Committee also notes that the increased remuneration levels will only be earned for strong performance under the LTIP measures. In seeking this increase, the Committee has determined that the 2023 LTIPs would remain at the current level.

There are some other more minor changes being proposed to the New Policy to align to best practice. Details of all proposed changes can be found in the Summary of proposed changes to the Policy Section on pages 153-154.

Implementation of Policy for 2023 Quantum

As set out above, the Committee noted that the current package for the CFO, Andrew Kirkman, does not appropriately reflect his significant development in the role over the past three years and his valuable contribution to our business. Given the buoyant recruitment market in the sector, this has created a real retention issue that the Committee felt it must address. Therefore, we concluded that an uplift in his remuneration package through an increase in salary, 5% in 2023, and annual bonus opportunity to 125% of salary, as permitted under the current Policy, was appropriate. For Fredrik Widlund, as explained earlier, there will be a 2% salary increase in respect of 2023 and an unchanged bonus opportunity of 150% of salary. Any bonus earned by the executives above 100% of salary will be deferred into shares for 3 years.

Reflecting on the current economic climate and the fall in CLS' share price since the grant of the 2022 LTIP, which has the potential to lead to windfall gains, the Committee has determined that this would not be an appropriate time to increase the LTIP award towards the New Policy maximum of 200% of salary. Therefore, the 2023 LTIP awards will remain unchanged at 150% and 120% of salary respectively for the CEO and CFO. This will be kept under review for 2024 and the Committee intends to use the proposed Policy increase only when this is appropriate.

The proposed 2023 packages remain below the lower quartile of both the FTSE250 and FTSE350 Supersector Real Estate indices for both Executive Directors.

Performance Measures

There will be a reweighting of the annual bonus metrics as set out below:

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

The introduction of a strategic performance element in the annual bonus will provide flexibility to set meaningful 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 enables the introduction of ESG metrics into our incentives. Linking the Executive Directors' pay to ESG objectives is reflective of broader investor views and ensures that the Executive Directors are rewarded for delivery against the company's ESG strategy.

The Committee will reweight the existing LTIP metrics to 35% on Relative TSR (previously 50%) and 65% on Relative EPRA NTA Growth (previously 50%). This places more emphasis on the EPRA NTA per share metric which provides a better line of sight for all participants (including those below board level). The Committee has also refined its approach to the peer group for both metrics; it continues to be based on the FTSE350 Supersector Real Estate Index but will now exclude certain companies that are deemed to be less relevant for comparison. The revised comparator group will still constitute over 20 companies. Further details on the comparator group have been set out on page 150.

Corporate governance

Through the implementation of current Policy, we have taken the following steps to ensure alignment with the Code as well as prevailing shareholder guidance.

- Overseen the implementation of our Policy to ensure alignment of our structures with corporate governance best practice and long-term value creation for shareholders.
- Reviewed our terms of reference to ensure the Committee has appropriate oversight of the Directors' and senior management'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 robust mechanism in place to enforce this.
- Assessed workforce pay policies and practices to ensure that they are aligned to our wider culture and remain an effective driver of Group success.

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

Performance of the Committee

The Committee undertakes a review of its performance each year. During 2022, this review was undertaken internally by way of a questionnaire and concluded that the Committee continued to perform effectively and had unfettered access to the information and advice it needed to make informed decisions on all matters related to remuneration.

Advisors to the Remuneration Committee

To ensure that the Group's remuneration practices are in line with best practice, the Committee has appointed independent external remuneration advisors, PwC, through a competitive tender process. PwC attends meetings of the Committee by invitation.

During the year, the Committee sought advice from PwC in relation to emerging market practices, general matters related to remuneration and the New Policy proposals. On occasion, the CEO and COO were invited to parts of Remuneration Committee meetings to respond to questions from the Committee.

Such attendances specifically excluded any matter concerning their own remuneration. The Company Secretary acts as secretary to the Committee.

PwC is one of the founding members of the Remuneration Consultants Group Code of Conduct and adheres to this Code in its dealings with the Committee. The Committee reviews the objectivity and independence of the advice it receives from PwC at a private meeting each year. It is satisfied that PwC is providing independent, robust and professional advice. The fees for the advice provided by PwC in 2022 were £122,000 excluding VAT (2021: £24,180). The fees were fixed on the basis of agreed annual advice but had increased this year due to the remuneration policy review. Other services provided by PwC in the year included tax advice on UK REIT conversion.

Concluding remarks

The Group has continued to face headwinds as a result of the current economic climate but has again performed in line with expectations in this context as shown by the results contained in this annual report. The Remuneration Committee believes that the Executive Director pay outcomes are appropriately reflective of performance over the year. We believe our approach to pay for 2022 aligns with the Company's strategies of growing profitability and delivering appropriate returns in-line with expectations. The Committee therefore hopes that shareholders will be supportive of the changes we are proposing to the Policy which we believe are in the best interests of all stakeholders.

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 2023 AGM in respect of the advisory vote on the Annual Report on Remuneration and the approval of the 2023 Remuneration Policy.

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

Denise Jagger

Chair, Remuneration Committee

10 March 2023

Our focus for the year ahead

- Oversee the implementation of the new New Policy for Executive Directors and the Group's Remuneration Policy
- Monitor Group performance against KPIs, focusing on the new Strategic Objective KPI encompassing ESG criteria to ensure it aligns to the overall strategy
- 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 the Head of HR in relation to developments in employee benefit structures continued to ensure compliance with the Code

Remuneration

Remuneration Committee report continued

Remuneration at a glance

The Company's Remuneration Policy is designed to attract, retain and motivate its leaders and to ensure that they are focused on delivering business priorities within a framework designed to promote long-term success, aligned with shareholder interests.

The diagram below illustrates the elements of pay and time period of each element of the Policy for Executive Directors. The link between our Policy and strategy and how it aligns with the provisions of the UK Corporate Governance Code can be found on pages 107-108.

Key points to note

- The 2020 Remuneration Policy was approved by shareholders on 23 April 2020. A new 2023 Remuneration Policy will be put to shareholders at the AGM on 27 April 2023.
- The Committee has reviewed the application of the Remuneration Policy in light of overall corporate performance.
- KPI performance has resulted in historically low PIP Element A bonus outcomes and a reduction in the bonus pool value.
- The Committee considered the impact of potential windfall gains on the 2022 LTIP awards made in March 2022 and will review outcomes upon vesting to ensure that these are a true reflection of performance.

	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.		

Total Executive remuneration

Total Executive remuneration		
	2022 £'000	2021 £'000
CEO – Fredrik Widlund	664	946
CFO – Andrew Kirkman	377	450

2022 Single Figure and Element A outcomes*

* See page 142 for further details

Remuneration

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 secure the right finance - Target a low cost of debt - Utilise diversified sources of finance to reduce risk - Maintain high level of liquid resources		
	We deliver value through active management and cost control - Maintain high occupancy rates - Maintain a diversified customer base underpinned by a strong core income stream - Maintain strict cost control		We continually assess whether to hold or sell properties - Focus on holding those properties with the potential to add value through active asset management - Sell those properties which are low yielding or where the risk/reward ratio is unfavourably balanced		
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 real estate sector. - LTIP ensures more competitive market positioning, provided that the executive team delivers long-term sustainable performance.		Link to Code Provision 40 factors: - Alignment to culture. - Proportionality.	
	Performance linked	- A significant part of the Executive Directors' reward is determined by the Company's success in delivering its strategy. - Failure to achieve threshold levels of annual and long-term performance may result in 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.		Link to Code Provision 40 factors: - Predictability. - Alignment to culture.	
	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.		Link to Code Provision 40 factors: - Risk. - Alignment to culture. - Clarity.	
	Simple and transparent	- All aspects of the remuneration structure are clear to participants and openly communicated. - The new annual bonus simplifies the structure for Executive Directors and 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: - Simplicity. - Clarity.	
	Our chosen incentive plan measures clearly support the Company strategy				
Annual Bonus	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 as intended to be implemented in 2023, 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 and in particular the value outstanding in respect of awards at any given time, is made clear in the Directors' Remuneration Report.
Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	- The shift to a more market standard bonus simplifies our structure 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.
Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	- 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.
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 introduction of 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

Remuneration Committee report continued

Annual Report on Remuneration

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 2021 and 2022 financial years for each Executive Director:

2022

Executive Director	Salary £000	Taxable benefits ⁵ £000	Bonus (PIP) ³ £000		LTIP ⁴ £000	Pension £000	Other fees ⁶ £000	Total rem £000	Total ⁷ fixed £000	Total ⁸ variable £000
			Cash	Deferred shares						
Fredrik Widlund ¹	532	5	69	–	40	–	18	664	537	127
Andrew Kirkman ²	322	7	28	–	16	4	–	377	333	44

2021

Executive Director	Salary £000	Taxable benefits ⁵ £000	Bonus (PIP) ³ £000		LTIP ⁴ £000	Pension £000	Other fees ⁶ £000	Total rem £000	Total ⁷ fixed £000	Total ⁸ variable £000
			Cash	Deferred shares						
Fredrik Widlund ¹	515	9	109	–	290	–	23	946	524	420
Andrew Kirkman ²	311	7	44	–	84	4	–	450	322	128

- Mr Widlund would have received total pension contributions of £48,300 (2021: £46,815). In accordance with the Policy, the entire amount was paid as a salary supplement (this element of salary is not bonusable or pensionable). Mr Widlund's 2022 LTIP was attributed to the deferred balance paid under PIP Element A (see "LTI in single figure calculation" on page 143).
- Mr Kirkman would have received total pension contribution of £29,567 (2021: £28,610). In accordance with the Policy, £25,567 (2021: £24,610) was paid as salary supplement and £4,000 (2021: £4,000) was paid to his SIPP (this element of salary is not bonusable or pensionable). Mr Kirkman's 2022 LTIP was attributed to the deferred balance paid under PIP Element A (see LTI calculation on page 143).
- The Bonus total for 2022 comprises 50% of the PIP Element A 2022 contribution (including dividend equivalents) into the Director's Plan Account. The reason that only 50% of Element A is disclosed as Bonus is because the balance is deferred and at risk of forfeiture in respect of future years' performance and therefore under the Regulations is required to be disclosed on vesting.
- The LTIP column consists of 50% of the value of the opening balance of deferred notional shares under PIP A Account. This approach reflects the fact that this value is subject to forfeiture over the remaining life of the PIP cycle. The value of the notional shares under Element A has been based on the average market value of a share for the 30-day period to 31 December 2022 of £1.533 in accordance with the rules of the PIP.
- Taxable Benefits relate to the provision of private medical insurance.
- Other fees relate to: Mr Widlund: £17,767 (2021: £22,567) in respect of the dividend equivalents following the vesting of Mr Widlund's 2019 Element B Award and £1,425 (2021: £582) in respect of Mr Widlund's Matching Shares that vested during the year under the All Employee Share Incentive Plan. Mr Kirkman: £499 (2021: nil) in respect of Mr Kirkman's Matching Shares that vested during the year under the All Employee Share Plan.
- Total fixed column is the total of salary, pension and benefits.
- Total variable column is the total of bonus (PIP) cash and deferred shares, LTIP and other fees.

Performance Incentive Plan (PIP) – 2022 Element A structure

The schematic below illustrates the ongoing operation of PIP Element A:

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

Summary of PIP Element A matrix outcomes in the year (audited)

The Remuneration Committee determined the 2022 PIP contribution and forfeiture outcomes during 2022. A summary of the 2022 KPIs and their achievement is as follows:

KPI	Weighting	Maximum forfeiture	Forfeiture threshold	On-target performance	Good performance	Maximum performance	2021 actual achievement
EPRA earnings per share	40%	10.5p	11.42p	12.35p	12.28p	14.2p	11.6p
Total Accounting Return*	40%	(3)%	0%	3%	6%	9%	-3.7%
EPRA vacancy rate	20%	10%	8%	5%	4%	3%	7.4%
Overall achievement	100%						18.0%

* Based on EPRA NTA.

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

	CEO	CFO
Maximum Element A award (% salary) in 2022	150%	100%
Maximum Element A award (£) in 2022	£723,293	£295,665
KPIs achievement as % of maximum	18.4%	18.4%
Contribution to Account based on achievement above	£133,327	£54,501
Bonus as a % of 2022 salary	27.7%	18.4%

The following table sets out the breakdown of the performance calculation of the 2nd award under Cycle 4:

KPI	CEO	CFO
EPRA earnings per share	£89,688	£36,662
Total Accounting Return	£0	£0
EPRA vacancy rate	£43,639	£17,838
2022 total bonus	£133,327	£54,501

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 2022 and their opening value, the contributions to and payments from the accounts in respect of 2022 and the value of the notional shares as at 31 December 2022.

	CEO	CFO
PIP Plan Element A Accounts (cycle 4)		
Number of deferred notional shares in Account at the start of Year 2	51,587	21,017
Value of deferred notional shares at the start of Year 2 ¹	£109,108	£44,453
Change in value of deferred notional shares	£(30,021)	£(12,231)
Final value of deferred notional shares	£79,087	£32,222
Plus dividends attributable to deferred shares during the year	£4,101	£1,671
2022 bonus (contribution into the Account)	£133,327	£54,501
Cumulative Account following contribution	£216,515	£88,393
Less: 2022 payment out of the Account	£(108,258)	£(44,197)
Value of deferred notional shares carried forward into Year 3	£108,257	£44,196
Number of deferred notional shares carried forward into Year 3 ²³	70,616	28,829

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 2021, which was £2.115 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 2022, which was £1.533 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.

Under the terms of the PIP, and in line with the 2020 Policy, as Total Accounting Return performance fell below threshold, there was an opportunity for the Committee to exercise discretion by reducing the amount available to carry forward in the Bonus Pool. After careful consideration, taking into account the strong performance of the Executive Directors in such a turbulent time and that a significant proportion of TAR related to factors outside their control, the Committee decided not to exercise their discretion and reduce the award due below the formulaic outcome under the PIP Plan rules.

Reconciliation of PIP Element A with single figure table for 2022

	CEO	CFO
Annual bonus – Cash in single figure table		
50% of dividends attributable to deferred notional shares during the year	£2,051	£835
50% of 2022 bonus contribution	£66,663	£27,250
Total annual cash bonus	£68,714	£28,085
LTI in single figure table²		
Comprising 50% of the opening balance of the PIP Element A account from cycle 4	£54,554	£22,226
Value of LTI due to share price increase/(decrease)	£(15,011)	£(6,115)
Total LTI	£39,543	£16,111

1 The reason that only 50% of Element A 2022 Company Contribution is disclosed as Bonus is because the balance is deferred and is at risk of forfeiture in respect of future years' performance and therefore under the Regulations is required to be disclosed on vesting.

2 An estimated value of the 2020 LTIP awards is also included in the single figure LTIP as set out in the section below.

Remuneration

Remuneration Committee report continued

Long-Term Incentive Plan (LTIP)

LTIP awards granted in 2020

The 2020 LTIP Awards were granted on 13 May 2020. CLS' performance is measured against 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").

The relative TSR element was assessed over a 3 year performance period ending on 31 December 2022. 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 2022 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 2020 awards.

In line with the Company's shareholder approved remuneration policy, the Committee will also consider whether the formulaic 2020 LTIP vesting outcome is aligned with the underlying performance of the Company, including the consideration of windfall gains before determining final vesting.

Vesting outcome for 2020 LTIP award (audited)

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 2023 annual report on remuneration:

Measure	Weighting	Performance target		Actual performance		
		Median (25% vesting)	Upper quartile (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%	tbc	tbc	tbc	tbc	tbc
Vesting of LTIP (as % of maximum)	100%					tbc

	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
Executive Director								
Fredrik Widlund	13 May 2020	379,918	tbc	tbc	tbc	tbc	13 May 2023	13 May 2025
Andrew Kirkman	13 May 2020	185,737	tbc	tbc	tbc	tbc	13 May 2023	13 May 2025

LTIP awards granted in 2022

The 2022 LTIP awards were granted on 16 March 2022 in the form of nil-cost options. In line with the Policy the awards had a face value of 150% of base salary for the CEO and 120% for the CFO. The normal vesting date of the LTIP Awards will be 16 March 2025, 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. No discretion was used by the Committee in determining the basis of the award granted, which is in line with previous years, however the outcome will be reviewed at vesting to ensure no windfall gains have occurred as a result of changes in the share price between the grant and vesting.

As set out in the table below, the number of shares granted under the award was calculated using a share price of £2.07, being the quoted closing price of the Company's Ordinary Share on 16 March 2022.

Scheme interests to be awarded under the LTIP (audited)

Name	Role	Base salary at date of grant	Face value of 2022 LTIP award (% of base salary)	Face value of 2022 LTIP award	Value at vesting (threshold vesting of 25%)	Number of shares granted	Vesting date	End of Holding period
Fredrik Widlund	CEO	£482,195	150%	£723,293	£180,823	349,416	16 March 2025	16 March 2027
Andrew Kirkman	CFO	£294,683	120%	£353,620	£88,405	170,830	16 March 2025	16 March 2027

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 2024:

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

Straight-line interpolation between 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 2022 (2021: none). As a result of the applicable HMRC limits, Fredrik Widlund instead received the full 10% as a salary supplement and Andrew Kirkman received part of his 10% contribution as a salary supplement and the balance as a contribution to his Self Invested Personal Pension Plan (see Note 2, Single Total Figure for Executive Directors' Remuneration (Audited)).

The maximum Company contribution for all UK employees is 10% (2021: 10%). In accordance with the Policy, the CEO received 10% as a salary supplement and the CFO received a proportion of the 10% as a salary supplement (with the balance being paid into his pension plan), in light of applicable HMRC limits.

Overall 2022 remuneration

The Committee is satisfied that the current Policy operated as intended and that the overall 2022 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 2022 and 2021:

	Base membership fees £000		Other committee fees £000		Additional fees £000		Taxable benefits ⁶ £000		Total £000	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Elizabeth Edwards ¹	55	55	10	10	1	10	1	–	67	66
Christopher Jarvis	45	45	–	–	–	–	4	1	49	46
Bengt Mortstedt	45	45	–	–	–	–	28	16	73	61
Anna Seeley ²	120	120	–	–	–	–	–	–	120	120
Lennart Sten ³	220	220	–	–	–	–	–	–	220	220
Denise Jagger ⁴	45	45	15	15	–	–	5	3	65	63
Bill Holland ⁵	45	45	15	15	–	–	1	2	61	62

¹ 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).

² Ms Seeley received the annual following fees: Non-Executive Vice-Chair fee of £120,000 (inclusive of all Committee fees).

³ Mr Sten received the following annual fees: Non-Executive Chairman fee of £220,000 (inclusive of all Committee fees).

⁴ Ms Jagger received the following fees: Board membership £45,000; Remuneration Committee Chair £10,000; Audit Committee membership £5,000.

⁵ Mr Holland received the following fees: Board membership £45,000; Audit Committee Chair £10,000; Remuneration Committee membership £5,000.

⁶ 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.

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. £11,610 was paid to Mr Whiteley in respect of the dividend equivalents following the vesting on 7 March 2022 of 16 March 2022 shares granted in 2019 under PIP Element B, which had already been disclosed in that year's single figure of remuneration and remain subject to a two-year holding period.

Payments for loss of office (audited)

No payments for loss of office were made in 2022.

Remuneration

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 current shareholding requirement has been met. Under the Policy the Committee has implemented minimum shareholdings for the Executive Directors, which requires that the Chief Executive Officer should build a holding with a value of at least 250% of salary and the Chief Financial Officer at least 200%. At 31 December 2022, the interests of the Directors in the ordinary shares of 2.5 pence each of the Company were:

Director	Unconditional shares	Conditional PIP Element B shares	SIP shares (partnership)	SIP shares (matching)	Total interests ³	Shareholding ³ (% salary)	Shareholding ⁴ requirement met	Conditional PIP Element A shares	LTIP unvested awards
Fredrik Widlund ¹	486,807	92,401	4,651	4,651	588,510	187	N	51,587	1,044,233
Andrew Kirkman ²	417,639	26,358	3,112	3,112	450,221	233	Y	21,017	566,827
Elizabeth Edwards	9,809	–	–	–	–	n/a	n/a	–	–
Christopher Jarvis	48,440	–	–	–	–	n/a	n/a	–	–
Bengt Mortstedt	26,010,140	–	–	–	–	n/a	n/a	–	–
Denise Jagger	–	–	–	–	–	n/a	n/a	–	–
Bill Holland	18,931	–	–	–	–	n/a	n/a	–	–
Anna Seeley	12,273	–	–	–	–	n/a	n/a	–	–
Lennart Sten	111,350	–	–	–	–	n/a	n/a	–	–

1 On 7 March 2022, 80,760 Conditional PIP Element B shares vested of which 34,605 were sold to settle Mr Widlund's tax liabilities. As at the date of this report: the SIP balance for Mr Widlund consists of: 3,898 Partnership Shares and 3,898 Matching Shares. As set out on page 142 a closing balance of 69,672 Conditional PIP Element A notional shares will be awarded on 10 March 2023.

2 As at the date of this report: the SIP balance for Mr Kirkman consists of: 3,305 Partnership Shares and 3,305 Matching Shares. As set out on page 142 a closing balance of 28,444 Conditional PIP Element A notional shares will be awarded on 10 March 2023.

3 Shares counting towards total interests and therefore shareholding requirement include beneficially owned, pre-tax number of PIP Element B shares, pre-tax number of vested but unexercised awards and all SIP shares, but excludes the notional shares awarded under PIP Element A and unvested LTIP awards. Shareholding values based on 30-day average share price up to 31 December 2022, £1.533.

4 Mr Widlund has up to 5 years from the date of the existing policy (April 2020 – April 2023) to reach the required minimum of 250% of salary. Mr Widlund met the shareholding requirement in 2021 and it is noted that his shareholding increased during the year by 8,653 shares but the overall value decreased by £324,212.

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

Otherwise than as set out in the notes above, there have been no movements in interests held by Directors between 31 December 2022 and the date of this report.

Overall link to remuneration and equity of the Executive Directors

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

	2022 single figure £000	Shares held at start of year	Shares held at end of year	Value of shares at start of year	Value of shares at end of year	Difference increase/ (decrease)
CEO	664	579,857	588,510	1,226	902	(324)

Starting share price £2.115 (one-month average share price to 31 December 2021). End share price £1.533 (one-month average to 31 December 2022).

Total returns to shareholders 2012–2022

To comply with the remuneration regulations, the Company's TSR performance is compared to the TSR performance of the FTSE 250 and the FTSE 350 Supersector Real Estate indices over the last 10 years. The Committee believes that these are the most appropriate as these are the indices and sector in which the Company has been included since listing.

Historical CEO remuneration

The table below sets out total CEO remuneration for 2022 and prior years, together with the percentage of maximum PIP Element A awarded in that year and the 2020 LTIP TSR element which completed its performance period on 31 December 2022.

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
CEO total remuneration (£000)	721	349	656	828	1,062	1,117	1,078	830	944	664
Element A of PIP – % of maximum	86.6%	89.0%	81.0%	76.0%	93.3%	62.7%	87.3%	43.3%	31.1%	18.4%
Element B of PIP – % of maximum	n/a	n/a	n/a	76.0%	93.3%	62.7%	87.3%	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	n/a	tbc

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

Percentage change in Directors' and employee remuneration

The table below shows how the percentage change in each Directors' salary/fees, benefits and bonus between 2020, 2021 and 2022 compared with the percentage change in each of those components of pay for employees.

	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 %
Fredrik Widlund	3.2	(46.3)	(37.0)	1.0	12.5	(27.3)	19	–	(72)
Andrew Kirkman	3.4	–	(36.3)	1.6	16.7	(27.9)	108	(87)	(56)
Elizabeth Edwards	–	100.0	–	4.8	–	–	8	n/a	–
Christopher Jarvis	–	300.0	–	(8.2)	(50.0)	–	(18)	(71)	–
Bengt Mortstedt	–	75.0	–	0.0	128.6	–	–	(76)	–
Denise Jagger	–	66.7	–	0.0	–	–	157	–	–
Bill Holland	–	(50)	–	0.0	–	–	883	n/a	–
Anna Seeley	–	–	–	1.7	(40.0)	–	50	–	–
Lennart Sten	–	–	–	1.7	100.0	–	86	n/a	–
Employees	(1.5)	12.6	(25.8)	1.4	(5)	2.7	(5)	(10)	–

There were no changes to the Board/Committee fees for the years ended 2020, 2021 and 2022. 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 145, single total figure for Non-Executive Directors Table Notes).

The Group's pay review, taking effect from 1 December 2022 for UK employees, awarded an average percentage increase in wages and salaries of 4% to all employees (including the Executive Directors).

The nature and level of benefits to employees in the year ended 31 December 2022 was broadly similar to those of the previous year.

Remuneration

Remuneration Committee report continued

CEO pay ratio

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

Year	Method	Pay ratio		
		25th	50th	75th
2020	Option A	12:1	9:1	6:1
2021	Option A	16:1	12:1	7:1
2022	Option A	14:1	11:1	8:1
2023	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 142.

The remuneration figures for the employee at each quartile were determined as at 31 December 2022. Each employee's pay and benefits were calculated using each element of employee remuneration, consistent with the CEO, on a full-time equivalent basis. No adjustments (other than to achieve full-time equivalent rates) were made and no components of pay have been omitted. The salary and total pay and benefits for employees at each of the percentiles are as shown in the table below.

Pay data	Base salary	Total pay and benefits
CEO	482,195	663,884
Employee at 25th percentile	41,114	54,997
Employee at 50th percentile	50,060	70,677
Employee at 75th percentile	92,067	112,542

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 have fallen in 2022 compared to 2021 mainly due to the reduction in the CEO's single figure of remuneration. The CEO's single figure of remuneration fell in 2022 as a result of a lower contribution to and payout from PIP Element A and there being no vesting from 2020 LTIP (noting that the Committee has yet to determine the outcome of the relative EPRA NTA growth per share condition). The employee total pay and benefits set out above are slightly lower than 2021 reflecting a reduction in incentive payments. The Committee notes that the Company continued to increase salaries and pay bonuses to a significant majority of employees and 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 ratio to fluctuate in future years as number of shares vesting under the LTIP, and their value, changes.

Relative importance of the spend on pay

	2022 (£'000)	2021 (£'000)	Percentage change Increase/ (decrease)
Remuneration paid to employees of the Group	8,104	9,562	(15.2)%
Distributions to shareholders	32,388	30,758	5.3%
Share buyback	25,758	nil	100%
Group revenue	138,617	139,824	(0.9)%

Wider workforce considerations Cascade of pay through the organisation

The Group aims to provide a remuneration package for all employees which is market competitive and operates the same core structure as for Executive Directors. 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 in a tax-efficient manner. Additionally, the Group's pension contributions to an employee's pension scheme are determined by their length of service from a minimum of 5% 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 13. 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 guideline
Executive Directors	2	Y	Y	–	Y	Y	Y	Y
Senior Leadership Team (excl. Executive Directors)	6	Y	Y	–	–	Y	Y	–
Senior management (excl. Senior Leadership Team)	5	Y	Y	–	–	Y	Y	–
Wider Workforce	79	Y	Y	Y	–	–	Y	–

Employee engagement

We regularly communicate with our employees on a range of issues, including executive pay. In 2019, Elizabeth Edwards was designated the Non-Executive Director responsible for overseeing employee engagement and chairs the Workforce Advisory Panel, consisting of representatives from across the organisation and at varying levels of seniority. This Panel provides the opportunity for an open discussion between employees and the Board. We have also used employee surveys as an effective means of gathering wider views.

The Committee will continue to seek the views of the Workforce Advisory Panel to provide valuable insight when making wider remuneration decisions. This engagement is critical in ensuring we offer a reward package across the business that continues to attract and retain the talent necessary to achieve our Group objectives.

Fairness and diversity

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

Gender pay reporting

The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 requires companies with over 250 UK employees to disclose their gender pay gap annually. CLS Holdings plc has 61 UK employees as at 31 December 2022 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.

Remuneration

Remuneration Committee report continued

Statement of implementation of policy in following financial year

The table below sets out the intended implementation of the new Policy for 2023, subject to shareholder approval on 27 April 2023. Full details of the new Policy are set out on pages 152-167 of this report.

Element of remuneration	CEO	CFO
Salary	2% increase made in December 2022 for 2023, which is below the average workforce increase (4%) 2023 salary: £491,839 (2022: £482,195)	5% increase from January 2023. The Committee noted that the current package for Andrew Kirkman does not appropriately reflect his significant development in the role over the past three years, his valuable contribution to our business and is significantly behind the market as a result of his starting salary being set below that of the predecessor. 2023 salary: £315,606 (2022: £295,665)
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 125% of salary (increased from 100% of salary)
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) – 20% weighting (previously 40%) • EPRA vacancy rate – 20% weighting (no change) • Strategic objectives (including ESG) – 20% weighting (new measure) 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 2023. 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 new proposed policy maximum increasing to 200% of salary)	120% of salary (no change, albeit new proposed policy maximum increasing to 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	Reweighting of existing metrics as set out below: • Relative TSR – 35% weighting (previously 50%) • Relative EPRA NTA Growth – 65% weighting (previously 50%) The Committee has refined its approach to the peer group for both metrics, such it continues to be based on the FTSE350 Supersector Real Estate Index but will now exclude certain companies that are deemed to be less relevant for comparison. The comparator group will still constitute 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. No changes are being proposed to NED fees for 2023. See the section below for further details on fee levels	

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

As noted above, given the change to the annual bonus plan, the approach to awards under the legacy PIP Element A will be as follows:

- The annual contribution earned in 2022 (year 2 in cycle 4) will be the last contribution to the executives' PIP element A account.
- Payments from the account will run off, to the end of the 4 year cycle in 2024 (50% of the account balance will pay out at the end of 2022 and 2023, with the final 100% of the account paying out at the end of 2024).
- Forfeiture of the participant's account balance during this runoff period will continue to be subject to a holistic assessment by the Committee with malus and clawback unchanged.

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 2023 £000	Fees 2022 £000	Change %
Chairman fees	220	220	0
Non-Executive Vice Chair	120	120	0
NED Base Membership fee	45	45	0
Senior Independent Director	10	10	0
Audit Committee Chair	10	10	0
Remuneration Committee Chair	10	10	0
Committee membership	5	5	0
Workforce Advisory Panel	£750 p/d	£750 p/d	0

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. See page 145 for total fees received in 2022 by each of the Non-Executive Directors based on their respective responsibilities.

Long-Term Incentive Awards to be granted in 2023

The table below describes how the LTIP will be implemented in 2023. 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 2022

The consideration of matters relating to Directors' Remuneration for 2022 is on pages 133 to 151.

Shareholder voting

The following table represents the voting outcome for the Directors' Remuneration Report at the 2022 Annual General Meeting and the current Policy that was approved at the 2020 Annual General Meeting.

	Directors Remuneration Report (2022 AGM)		Directors Remuneration Policy (2020 AGM)	
	Number of votes	% of votes cast	Number of votes	% of votes cast
For	330,441,289	99.62	338,679,725	97.76
Against	1,259,693	0.01	7,771,550	2.24
Total votes cast	331,700,982		346,457,165	
Votes withheld	16,624		17,235	

Remuneration

Remuneration Policy

The principles of our Remuneration Policy

We set out below the principles the Remuneration Committee has followed in designing the new Policy:

Competitive

- Salaries are targeted to be at a conservative level and variable pay is targeted at or above median so that combined, total remuneration should be competitive when compared with companies of similar size and scale, i.e. peers in the FTSE 350 real estate sector and the FTSE 250.
- LTIP should ensure a 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 under 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 alignment

- 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 new annual bonus simplifies the structure for the executives and is aligned to market practice.
- The LTIP is also aligned to standard market practice and is simple for participants and shareholders alike to understand.
- The overall framework for remuneration is therefore aligned with good governance.

New Remuneration Policy

In accordance with the regulations, the New Policy (the "Policy") as set out below will operate from 1 January 2023 and be put to a binding shareholders' vote and become formally effective if approved at the 2023 Annual General Meeting on 27 April 2023. It will apply for a period of three years until the 2026 AGM, unless a revised Policy is approved by shareholders before then.

The current Policy, which was approved on 23 April 2020, remains operative until this time and can be found on our website at www.cls Holdings plc and on pages 104 to 115 of our 2019 Annual Report. Note, awards under the legacy in-flight PIP Element A will continue to apply to the existing policy.

The Committee uses constituents from the FTSE 350 Real Estate Supersector and the FTSE 250 as comparators for executive remuneration.

Summary of proposed changes to the Policy

The table below summarises the changes to the current Policy for the 2023 AGM. The proposed changes will help simplify the remuneration structure, motivate the executive team to deliver on the business strategy and align our approach closer to the market.

Element	Proposed changes	Rationale
Executive Directors		
Base Salary	Removal of cap Remove the 5% cap on salary increases.	- This cap could become overly restrictive in the current inflationary environment. - Change aligns with standard practice.
	New joiner salary Enhance flexibility for increases to new joiner salary.	Provides more scope for the Committee to move new recruits/internal promotes towards its preferred market positioning over time if warranted by performance.
Benefits	No changes proposed.	
Pension	Alignment to wider workforce Simplify wording in the Policy table regarding alignment to the wider workforce for incumbents and new hires, so they are treated the same.	Aligns with the IA guidance for incumbents and new hires to be treated the same and in line with the wider workforce.
Annual Bonus ("Bonus")/ Performance incentive Plan Element A (the "PIP")	Quantum: No change to maximum opportunity of 150% of salary.	
	Structure Replace the existing bonus banking plan (the PIP Element A) with a market standard Annual Bonus Plan.	- CLS is unique in the real estate sector in operating a bonus banking style plan. - Initially, this was put in place to bridge the gap between the annual bonus and LTIP when there was no formal long-term incentive plan measured over a 3 year performance period in place. - Given CLS now operates a standard LTIP, a move to a more standard market aligned bonus construct is appropriate. - Simplifies the remuneration structure.
	Deferral - Under the new annual bonus plan, 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. - Dividend equivalents will be payable on deferred shares.	- Moves to a deferral mechanism well used in the real estate sector and better aligned with market practice - Maintains the efficacy/capability of malus/clawback provisions
	Performance measures - Amend Policy wording to state that financial measures will account for no less than 50% of the bonus opportunity. - Remove requirements for performance measures to be directly linked to the business KPIs.	- Aligns approach to market practice. - Increases flexibility for the Committee to choose appropriate measures, responding to business/strategic changes and include ESG based targets.
	Approach to awards under the legacy PIP Element A - The annual contribution earned in 2022 (year 2 in the cycle 4) will be the last made into the executives' PIP element A account. - Payments from the account will run off, to the end of the 4 year cycle in 2024 (50% of the account balance will pay out at the ends of 2022 and 2023, with the final 100% of the account paying out at the end of 2024). - Forfeiture of the participant's account balance during this runoff period will continue to be subject to a holistic assessment by the Committee with malus and clawback unchanged.	This is in line with the Policy, approved by shareholders at the 2020 AGM.

Remuneration

Remuneration Policy continued

Element	Proposed changes	Rationale
Long-term Incentive Plan ('LTIP')	Structure	LTIP structure is already aligned to market and best practice.
	• No change to structure.	
	Quantum Increase Policy maximum from 150% of salary to 200% of salary.	- To provide the Committee with the flexibility to award at a higher level to support recruitment, retention and incentivisation of the executive team in delivering the business strategy over the coming years. - Whilst the proposed change positions the LTIP opportunity at or above the median of the FTSE 350 Real Estate companies and FTSE 250, total maximum remuneration is still at the lower end of the market. - Note: Increased remuneration levels will only be earned for strong performance under the LTIP measures. - Note: Reflecting on the current economic climate and the fall in CLS' share price since the grant of the 2022 LTIP, which has the potential to lead to windfall gains, 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 2023 LTIP awards will remain unchanged at 150% and 120% of salary respectively for the CEO and CFO. This will be kept under review for 2024 and the Committee intends to use the proposed Policy increase only when this is appropriate.
	Performance measures - Amend Policy wording to state that financial measures will account for no less than 50% of the LTIP opportunity. - Remove requirements for performance measures to be directly linked to the business KPIs.	- Aligns approach to market practice. - Increases flexibility for the Committee to choose appropriate measures, responding to business/strategic changes and include ESG based targets.
Shareholding Requirement	- No changes proposed other than to clarify that the Company has established nominee accounts to ensure that it can enforce shareholding requirements. - It is noted that the shareholding requirements of 250% and 200% of salary for the CEO and CFO remain at or above the market median.	
Non-Executive Directors (including Non-Executive Chairman and Non-Executive Vice Chair)		
Fees	Amend wording to allow fees to be paid for any potential new Committees.	Ensures fees any new Committee could be paid without the need to renew the Policy.

Remuneration Policy Table

This section of the report is the detailed Policy table that forms part of the Remuneration Policy for Executive and Non-Executive Directors which will be put to shareholders for approval and, if approved, be effective from the conclusion of the 2023 AGM for the following three years:

Element, purpose and link to strategy	Operation	Opportunity	Performance measures
Executive Directors			
Base Salary Provides a base level of remuneration to support recruitment and retention of Directors with the necessary experience and expertise to deliver the Group's strategy. Key element of core fixed remuneration.	Reviewed annually and usually fixed for 12 months. Factors taken into account include: • remuneration practices within the Group; • the general performance of the Group; • experience and individual performance; • changes in the scale, scope or responsibilities; • salaries within the ranges paid by the companies in the comparator groups used for remuneration benchmarking (when the Committee determines a benchmarking exercise is appropriate); and • the economic environment. Individuals who are recruited or promoted to the Board may, on occasion, have their salaries set below the targeted policy level until they become established in their role. In such cases, subsequent increases in salary may be higher than the general rise for employees until the target positioning is achieved.	Salaries will be set to be competitive in the range for the Company's comparator groups. The Committee intends to review the list of companies each year and may add or remove companies from the groups as it considers appropriate. Any changes to the comparator groups will be disclosed in the part of the report setting out the operation of the policy for the future year. In general, salary rises to Executive Directors will be in line with the rise to UK based employees. However, larger increases may be offered if there is a material change in the scope and responsibilities of the role, including significant changes in Group size and/or complexity or if it is necessary to remain competitive to retain a Director.	None, although individuals' performance and contribution are taken into account.

Remuneration

Remuneration Policy continued

Element, purpose and link to strategy	Operation	Opportunity	Performance measures
Benefits To provide a competitive level of benefits and encourage the wellbeing and engagement of employees.	The key benefits provided to the Executive Directors include private medical insurance, life insurance, income protection, gym contribution and staff lunch provision. The Committee recognises the need to maintain suitable flexibility in the determination of benefits that ensure it is able to support the objective of attracting and retaining personnel. Accordingly, the Committee would expect to be able to adopt benefits such as relocation expenses, tax equalisation and support in meeting specific costs incurred by Executive Directors to ensure the Company and the individuals comply with their obligations in the reporting of remuneration. Where the Company offers a flexible benefits approach (where the value of one benefit may be exchanged for another) to employees generally an Executive Director would have the option to participate. Other benefits (in line with those received by the general workforce) may be offered at the discretion of the Committee, such as long service awards or recognition of life events.	Market level in the range for the Company's comparator groups. The maximum will be set at the cost of providing the benefits described.	None.
Pensions Provide retirement planning and protection to employees and their family during their working life. Provides a standard UK market level of retirement funding to enable the Company to recruit and retain Directors with the experience and expertise to deliver the Group's strategy.	Employer retirement funding is determined as a percentage of gross basic salary, up to a maximum limit of 10%. Where this exceeds the maximum annual pension contribution that can benefit from tax relief or an Executive Director may be impacted by the lifetime allowance, any excess may be provided in the form of a salary supplement, which would not itself be pensionable or form part of salary for the purposes of determining the extent of participation in the Company's incentive arrangements.	The maximum Company contribution is 10% for Executive Directors, in line with the pension policy in force for the wider UK workforce.	None.
All employee share plan The Company's Share Incentive Plan ("SIP") allows all employees, including Executive Directors, to share in the potential value created by the Company. Increase share ownership throughout the organisation.	In line with the legislation for this type of plan.	The maximum opportunity will be in line with the limits set by HMRC.	None.

Element, purpose and link to strategy	Operation	Opportunity	Performance measures
Annual Bonus Plan ('Bonus') The Annual Bonus provides a significant incentive to the Executive Directors linked to achievement of delivering annual goals that are closely aligned with the Company's strategy and the creation of value for shareholders. In particular, the Annual Bonus supports the Company's objectives by: - allowing the setting of annual targets based on the business' strategic objectives at that time, meaning that performance metrics can be used that are relevant and suitably stretching whilst also providing sufficient incentive linked to potential to be achievable; - requiring deferral of bonus into shares. - amounts deferred are also forfeitable on an Executive Director's voluntary cessation of employment which provides an effective lock-in; and - enables the Company to recruit top executive talent in a highly competitive market.	Performance measures and appropriately stretching targets will be set at the start of the financial year. At the end of the year, the Remuneration Committee will assess the extent to which these have been met and determine the award level, taking into account the underlying Company performance and experience of shareholders. Annual bonus up to 100% of salary will be paid in cash. Amounts over this level will be deferred into shares for 3 years with vesting subject to continued employment. Malus and clawback provisions apply. The Committee has discretion to provide dividend equivalents on deferred shares. The Committee will have overriding discretion to change formulaic outcomes (both upwards and downwards) if the outcomes are out of line with the underlying performance of the Company.	The maximum bonus opportunity is 150% of salary for Executive Directors. At threshold 25% of the maximum is payable. At on-target, 50% of the maximum is payable.	The performance measures for the bonus are set individually by the Committee and can be based on a combination of financial and non-financial measures, aligned to the business strategy. Financial measures will not account for less than 50% of the bonus opportunity. The bonus is measured over a period of one financial year. The Committee retains discretion in exceptional circumstances to change performance measures and targets for each element and the weightings attached to performance measures part-way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate.

Remuneration

Remuneration Policy continued

Element, purpose and link to strategy	Operation	Opportunity	Performance measures
Long-term Incentive Plan ('LTIP') Incentivises long-term shareholder value creation. Drives and rewards achievement of key long-term Company objectives aligned with shareholder interests. Contributes towards building a meaningful shareholding aligning interests with wider shareholders.	LTIP Awards will be granted on an annual basis and may be granted as nil-cost options or conditional awards. Awards under the LTIP will vest after three years subject to a three-year performance period whereby specified performance conditions are satisfied, and the Participant must remain employed by the Company. A two-year post-vesting holding period will apply to all vested LTIP awards. Malus and clawback provisions will operate over the full 5-year lock in period. The Committee will have overriding discretion to change formulaic outcomes (both upwards and downwards) if the outcomes are out of line with the underlying performance of the Company. The Committee has discretion to provide dividend equivalents on vested shares.	The maximum LTIP opportunity is capped at 200% of salary each year. For threshold performance 25% of the maximum award will vest, with straight-line vesting between Threshold and Maximum performance.	The performance measures for the LTIP are set individually by the Committee and can be based on a combination of financial and non-financial measures, aligned to the business strategy. Financial measures will not account for less than 50% of the LTIP opportunity. The LTIP is measured over a period of three financial years. The Committee retains discretion in exceptional circumstances to change performance measures and targets for each element and the weightings attached to performance measures part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate.
Shareholding Requirement Encourages long-term commitment and alignment with shareholder interests.	Executive Directors are expected to build up and retain a significant shareholding. The CEO is required to hold and maintain a shareholding of 250% of salary and the CFO is required to hold and maintain a shareholding of 200% of salary. The Executive Directors will have five years from the approval of this policy, or their recruitment date if later, to meet the requirement. Any shares beneficially owned, the post-tax value of any vested but unexercised LTIP awards, the post-tax value of in-flight deferred bonus awards and SIP awards will count towards the requirement. Post-employment requirement: Post-employment, an Executive Director shall continue to hold shares equivalent to the minimum of their actual shareholding on cessation of employment and their in-employment shareholding requirement for a period of two years following termination of their employment. The Company will establish nominee accounts to ensure that it can enforce shareholding requirements.	None.	None.

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

Legacy PIP Element A awards

Subsisting PIP Element A awards operate in line with the Policy, approved by shareholders at the 2020 AGM as set out below:

- The annual contribution earned in 2022 (year 2 in the cycle 4) will be the last made into the executives' PIP element A account.
- Payments from the account will run off, to the end of the cycle in 2024 (50% of the account balance will pay out at the ends of 2022 and 2023, with the final 100% of the account paying out at the end of 2024).
- Forfeiture of the participant's account balance during this runoff period will continue to be subject to a holistic assessment by the Committee with malus and clawback unchanged.

Remuneration

Remuneration Policy continued

Performance Measures and Targets

The table below sets out the performance measures, their weightings and how the targets have been set for the annual bonus and LTIP awards for the year ended 31 December 2023:

Incentive	2023 Performance measures	2023 Performance targets
Annual Bonus	• EPRA EPS – 40% weighting • Total Accounting Return (based on EPRA NTA) – 20% weighting • EPRA vacancy rate – 20% weighting • Strategic objectives (including ESG) – 20% weighting	No award will be made if threshold performance, as determined by the Committee, is not achieved. At threshold performance 25% of the maximum is payable and at on-target performance, 50% of the maximum is payable. The performance ranges for the financial measures will be considered carefully to ensure that they appropriately represent stretching levels of performance and are set by reference to internal budgets and strategic plans, industry backdrop and external expectations. Strategic objectives will reflect CLS' strategic priorities for the year and align with our purpose. 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 2023. 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	• Relative TSR – 35% weighting • Relative EPRA NTA Growth – 65% weighting The Committee has 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 will now exclude certain companies that are deemed to be less relevant for comparison. The comparator group will still constitute around 20 companies.	No award will be made if median performance is not achieved. 25% of awards vest for median performance rising on a straight-line basis to 100% for upper quartile performance. On the basis both performance metrics are measured in relative terms the Committee is not required to set targets.

Differences between Executive Directors' and employees' remuneration

The following differences exist between the Company's Policy for the remuneration of Executive Directors as set out in the Policy table above and its approach to the payment of employees generally:

- All employees are eligible to receive a discretionary annual bonus, which is calculated against business targets and objectives. A lower level of maximum annual bonus opportunity applies to employees when compared to the Executive Directors.
- Executive Directors may opt to receive a cash supplement in lieu of pension.
- Executive Directors participate in the LTIP. Currently 13 employees within our senior management levels are invited to participate in the LTIP at the Remuneration Committee's discretion. For the wider workforce, the LTIP is replaced by a time-based, company growth related loyalty bonus.

In general, these differences arise from the development of remuneration arrangements that are market competitive for the various categories of individuals. They also reflect the greater emphasis placed on performance-related pay for Executive Directors.

Approach to recruitment remuneration

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

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

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

Remuneration element	Recruitment policy
Base salary and benefits	The salary level will be set taking into account the responsibilities of the individual, experience and the salaries paid to similar roles in comparable companies. The Committee will apply the Policy set out on salaries for the current Executive Directors in the Policy table. In particular individuals who are recruited or promoted to the Board may, on occasion, have their salaries set below the targeted policy level until they become established in their role. In such cases, subsequent increases in salary may be higher than the general rise for employees until the target positioning is achieved. The Executive Director shall be eligible to receive benefits in line with the Company's benefits policy as set out in the Policy table. Maximum value of benefits will be set at the cost of providing them.
Pension	The Executive Director will be entitled to receive contributions into a pension plan up to a maximum limit of 10%, or alternatively to receive a salary supplement in lieu of pension contributions, in line with Company's pension policy as set out in the Policy table.
Annual Bonus	The Executive Director will be eligible to participate in the Annual Bonus Plan as set out in the Policy table. The maximum potential opportunity under this Plan is 150% of salary (excluding any Buy Out incentive).
LTIP	The Executive Director will be eligible to participate in the LTIP as set out in the Policy table. The maximum potential opportunity under this Plan is 200% of salary (excluding any Buy Out incentive).
"Buy Out" of incentives forfeited on cessation of employment	The Company's policy is not to provide buy-outs as a matter of course. However, should the Committee determine that the individual circumstances of recruitment justify the provision of a buy-out, the equivalent value of any incentives to be forfeited on cessation of a previous employment will be calculated taking into account the following: • the proportion of the performance period completed on the date of the Executive Director's cessation of employment; • the performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied; and • any other terms and conditions having a material effect on their value ("lapsed value"). The Committee may then grant up to the equivalent value as the lapsed value, where possible, under the Annual Bonus and/or the LTIP. To the extent that it was not possible or practical to provide the buy-out within the terms of the Company's Annual Bonus Plan and LTIP, a bespoke arrangement would be used.
Relocation Policies	Where the new Executive Director is required to relocate from one work-base to another, the Company may provide one-off/ongoing compensation as part of the Director's relocation benefits to reflect the cost of relocation for the Executive Director in cases where they are expected to spend significant time away from their country of domicile. The level of the relocation package will be assessed on a case by case basis but will take into consideration any cost of living differences/ housing allowance and schooling. The maximum period for which an allowance will be provided is 2 years from the point of recruitment.

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

Remuneration

Remuneration Policy continued

Directors' service contracts and 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, with the exception of Christopher Jarvis, all Company Directors will face annual re-election at the Company's AGM. If a director fails to be re-elected the terms of their appointment will cease. It is the Company's policy not to offer notice periods of more than 12 months exercisable by either party. Details of the service contracts or letters of appointment of those who served as Directors during the year are as follows:

Name	Role	Contract Date	Notice Period
Fredrik Widlund	Executive Director	3 November 2014	12 Months
Andrew Kirkman	Executive Director	30 March 2019	12 Months
Lennart Sten	Non-Executive Chairman	1 August 2014	3 Months
Anna Seeley	Non-Executive Vice Chairman	11 May 2015	3 Months
Elizabeth Edwards	Senior Independent Director	13 May 2014	3 Months
Bill Holland	Non-Executive Director	20 November 2019	3 Months
Denise Jagger	Non-Executive Director	1 August 2019	3 Months
Chris Jarvis	Non-Executive Director	25 November 2018	3 Months
Bengt Mortstedt	Non-Executive Director	7 March 2017	3 Months

Illustration of application of Remuneration Policy

The chart above provides an illustration of some of the potential reward opportunities for executive directors in respect of the operation of the Directors' Remuneration Policy in 2023 showing the potential split between the different elements of remuneration under different performance scenarios: 'minimum', 'on-target', 'maximum' and 'maximum with 50% share price appreciation'.

Element	Minimum	On Target	Maximum	Maximum with 50% share price appreciation
Fixed	2023 Base Salary 10% of salary Pension Benefits in year ending 31 December 2022			
Annual Bonus	No Annual Bonus	50% of Maximum	100% of Maximum	100% of maximum pay-out
LTIP	No Vesting	50% of Maximum	100% of Maximum	100% of maximum pay-out + 50% assumed share price growth on LTIP awards three year LTIP performance period.

Assumptions used:

- The 'minimum' scenario reflects base salary, pension and benefits (i.e. fixed remuneration) which are the only elements of the executive directors' remuneration packages not linked to performance during the year under review.
- The 'on-target' scenario reflects fixed remuneration as above, plus an on target payout of 50% of the maximum annual bonus and 50% vesting for the LTIP.
- The 'maximum' scenario reflects fixed remuneration as above, plus full payout of both the annual bonus and LTIP.
- The 'minimum', 'on-target' and 'maximum' illustrations are based on initial award value and do not, therefore, reflect potential share price appreciation or any dividend equivalent received over the vesting/deferral periods.
- The 'maximum with 50% share price appreciation' shows the impact of a 50% increase in the value of the LTIP share award from grant; it does not reflect any potential dividends received over the vesting period.
- Annual bonus includes both the cash bonus and the amount of the bonus deferred.
- Matching SIP awards are not included.

Policy on malus and clawbacks

Malus provisions apply to the Annual Bonus and the LTIP. Malus is the adjustment of the Annual Bonus in the year it is earned, unvested deferred Annual Bonus shares or unvested LTIP awards because of the occurrence of one or more circumstances. The adjustment may result in the value being reduced to nil.

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

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

- discovery of a material misstatement resulting in an adjustment in the audited consolidated accounts of the Group or any Group company;
- the assessment of any performance target or condition in respect of a payment or award under the Annual Bonus or LTIP was based on error, or inaccurate or misleading information;
- the discovery that any information used to determine the Annual Bonus or the LTIP award was based on error, or inaccurate or misleading information;
- action or conduct of a participant which, in the reasonable opinion of the Committee, amounts to fraud or gross misconduct;
- events or the behaviour of a participant have led to the censure of a Group member by a regulatory authority or have had a significant detrimental impact on the reputation of any Group member provided that the Board is satisfied that the relevant participant was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to the participant;
- a material failure or risk management of the Company, a Group member or a business unit of the Group; and
- the Company or any Group Member or business of the Group becomes insolvent or otherwise suffers a corporate failure so that the value of the Plan Shares is materially reduced provided the Board determines following an appropriate review of accountability that the participant should be held responsible (in whole or in part) for that insolvency or corporate failure.

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

	Annual Bonus – Cash	Annual Bonus – Deferred shares	LTIP
Malus	Up to the date of a payment	Any time prior to vesting	Any time prior to vesting
Clawback	Three years post the date of any payment	Not applicable as malus operated until vesting date	Two years from the date of vesting

The run off of cycle 4 of PIP element A will also be subject to the clawback and malus measures.

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

Policy on payment for loss of office

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

It is the Company's policy not to offer notice periods of more than 12 months exercisable by either party.

Remuneration

Remuneration Policy continued

The following table sets out how the Committee will consider and apply the policy on payment for loss of office.

Remuneration element	Approach	Application of Committee discretion
Salary and Benefits	In the event of termination by the Company, there will be no compensation for loss of office due to misconduct or normal resignation. In other circumstances, Executive Directors may be entitled to receive compensation for loss of office which will be a maximum of twelve months salary and benefits. Such payments will be equivalent to the monthly salary and benefits that the Executive Director would have received if still in employment with the Company. These will be paid over the notice period. Executive Directors will be expected to mitigate their loss within a twelve-month period of their departure from the Company.	The Company has discretion to make a lump sum payment in lieu.
Pension	Pension contributions or payments in lieu of pension contribution will be made during the notice period.	The Company has discretion to make a lump sum payment in lieu.
Annual Bonus ("Bonus")/PIP Element A	Bonus For the Year of Cessation Good leavers: Performance conditions will be measured at the normal measurement date. Bonus will normally be pro-rated for the period worked during the financial year. Bonus up to 100% of salary will be paid in cash. Bonus in excess of 100% of salary will be deferred into shares for 3 years in line with Policy. Other leavers: No bonus payable for year of cessation. Deferred shares Good leavers: Deferred shares will normally vest on their usual vesting date. Other leavers: Deferred shares will be forfeited. PIP element A: Approach will be in line with the 2020 Policy.	Bonus For the Year of Cessation The Committee has the following elements of discretion: - to determine that an Executive is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; - to determine whether to pro-rate the bonus awards to time. The Committee's normal policy is that it will pro-rate for time. It is the Committee's intention to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders; and - to determine whether a bonus may be paid at the date of cessation. The Committee's normal policy is that a cash bonus will be paid on the normal payment date. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders. Deferred shares The Committee has the following elements of discretion: - to determine that an Executive is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; and - to determine whether deferred shares should vest at the date of cessation. The Committee's normal policy is that deferred shares will vest on their normal vesting date. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders. PIP element A: Approach will be in line with the 2020 Policy.

Remuneration element	Approach	Application of Committee discretion
LTIP	Good leavers: Unvested awards will vest on the normal vesting date subject to: - the extent any applicable performance targets have been satisfied at the end of the normal performance period; and - prorating to reflect the period of time between grant and cessation of employment as a proportion of the vesting period that has elapsed. Vested awards will remain subject to the holding period as stated in the Policy. Other leavers: Other leavers will forfeit all unvested awards and vested awards will remain subject to the holding period as stated in the Policy.	The Committee has the following elements of discretion: - to determine that an Executive is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; - to determine whether to pro-rate the award to time. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Committee's intention to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders; - to determine whether the LTIP award will vest on the date of cessation or the original vesting date. The Committee will make its determination based amongst other factors on the reason for the cessation of employment; and - to determine whether the Holding Period will apply in full or in part. The Committee will make its determination based amongst other factors on the reason for the cessation of employment.
Buy-out Award	Where cessation of employment occurs in relation to an Executive Director who has been granted a buy-out award, the treatment would be in line with the terms of the buy-out award.	
Other contractual obligations	There are no other contractual provisions other than those set out above that could impact the quantum of the payment.	None.

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

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

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

Remuneration

Remuneration Policy continued

Change of Control

Remuneration element	Approach	Application of Committee discretion
Annual Bonus/PIP Element A	Bonus – For the Year of the Change of Control Performance conditions will be measured at the date of the change of control. Bonus will normally be pro-rated to the date of the change of control. Bonus – deferred shares Deferred shares will vest on the change of control. PIP element A: Approach will be in line with the 2020 Policy	Bonus – For the Year of the Change of Control The Committee has the following element of discretion: - to determine whether to pro-rate the bonus for time served in the year of the change of control. The Committee's normal policy is that it will pro-rate for time. It is the Committee's intention to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders. Bonus – deferred shares The Committee has the following elements of discretion: - to determine whether to pro-rate unvested deferred shares based on proportion of the vesting period served. The Committee's normal policy is that it will not pro-rate. The Committee will determine whether to pro-rate based on the circumstances of change of control; and - to determine whether the satisfaction of deferred share awards should be in cash or shares or a combination of both; - in the event of an internal corporate reorganisation, the Committee may decide to replace unvested deferred share awards with equivalent new awards over shares in the acquiring company PIP element A: Approach will be in line with Award will be as per the 2020 Policy
LTIP	The awards will vest on the date of the change of control and the Holding Period will fall away. Performance conditions will be measured at the date of the change of control. The award will normally be pro-rated to the date of the change of control. The Committee will determine the level of vesting taking into account: - the extent that any applicable performance targets have been satisfied at that time; - the bid consideration received; and - the portion of the vesting period that has then elapsed.	The Committee has the following elements of discretion: - to determine whether the satisfaction of LTIP awards should be in cash or shares or a combination of both; - to determine whether to pro-rate the LTIP award to time. The Committee's normal policy is that it will pro-rate for time. It is the Committee's intention to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders; and - in the event of an internal corporate reorganisation, the Committee may decide to replace unvested awards with equivalent new awards over shares in the acquiring company.
Buy-out Award	Where change of control occurs in relation to an Executive Director who has been granted a buy-out award, the treatment would be in line with the terms of the buy-out award.	

Consideration of employment conditions elsewhere in the Company

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

In making decisions on executive pay, the Committee considers wider workforce remuneration and conditions recognising the central importance of all our teams in delivering success. In order for the Committee to review the wider workforce pay, policies and incentives, reports are regularly considered at the Remuneration Committee meetings, setting out key details of remuneration throughout the Company. The Committee is satisfied that the approach to remuneration across the Company is consistent with the Company's principles of remuneration. In the Committee's opinion the approach to executive remuneration aligns with wider Company pay policy and there are no anomalies specific to the Executive Directors.

Pay structures across the Group

We aim to provide a remuneration package for our employees which is aligned to our values and remuneration principles across the Group. 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 in a tax-efficient manner. Additionally, the Group's pension contributions to an employee's pension scheme are determined by their length of service from a minimum of 5% 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 11. 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 throughout the company.

Employee engagement

We regularly communicate with our employees on a range of issues, including executive pay. We have established a Workforce Advisory Panel, chaired by Elizabeth Edwards, our Senior Independent Director, aimed at discussing and providing feedback on workforce policies and practices. The Committee will continue to use the voice of employees as valuable insight when making wider remuneration decisions.

The outcomes of these discussions and key decisions made in respect of Executive and senior management pay are communicated to employees through one of several channels used by the Company, as described on pages 126-127.

Consideration of Shareholders Views

In 2022, the Committee consulted with its 12 largest shareholders, including The Sten and Karin Mortstedt Family & Charity Trust, (representing over 75% of the Company's issued share capital) and the main shareholder representative bodies (IA, ISS, Glass Lewis). A letter was shared with this group on 16 December 2022 outlining our remuneration proposals, including the proposed new Policy, and invited feedback from all recipients.

We received responses through emails and had a number of meetings to discuss the proposals. The Committee took time to review feedback in detail and address any questions that were raised.

One particular area of preference, highlighted by shareholders in their feedback, was in relation to the deferral treatment for bonus being based on a fixed proportion of the total bonus opportunity. The Committee concluded that in light of the potential quantum involved and that there was no consistent approach amongst its peer group, it did not adopt this feedback.

At the end of the consultation the majority of shareholders consulted indicated they were supportive of the proposals. The Committee is grateful for the time that shareholders have taken to consider proposals and provide feedback.

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2022.

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 182.
- The Group objectives, business model and strategy are set out on pages 28 and 29. KPIs are set out on pages 40 and 41.
- 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 96 to 103.
- The use of financial instruments are set out on page 47 and 49, and in note 23 to the Group financial statements.
- The risk management objectives are detailed in note 23 to the Group financial statements. See also pages 96 and 103.
- The Group's likely future developments are set out on pages 10 to 11.

Directors

Biographical details and experience of the current Directors of the Company are set out on pages 110 and 111.

All Directors will be subject to annual re-election at the 2023 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 2023 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 133 to 151.

Related party transactions are set out in note 33 to the Group financial statements.

Dividends

An interim dividend of 2.60 pence per share was paid on 3 October 2022. The Directors are proposing a final dividend of 5.35 pence per share making a total dividend for the year ended 31 December 2022 of 7.95 pence per share. The final dividend will be paid on 2 May 2023 to shareholders who are on the register of members on 24 March 2023.

Purchase of the Company's shares

Under the relevant authority granted at the 2022 Annual General Meeting, during the year the Company made a tender offer purchase totalling 10,184,894 shares at an aggregate price of £25.5 million. A resolution will be proposed at the 2023 Annual General Meeting to give the Company authority to make market purchases of up to 39,721,086 shares, being 10% of the current issued share capital.

Share capital

Changes in share capital are shown in note 25 to the Group financial statements. As at 31 December 2022, 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 397,210,866 held voting rights and 41,566,914 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	204,407,524	51.46%
Bengt Mortstedt	26,101,140	6.55%
Columbia Threadneedle Investments	15,357,812	3.87%
BlackRock	13,476,792	3.39%
Allianz Global Investor	12,373,115	3.11%
Janus Henderson Investors	10,402,755	2.62%
Amati Global Investors	8,990,406	2.26%
Vanguard Group	8,842,738	2.23%
Invesco	7,689,510	1.94%
AXA Framlington Investment Managers	6,374,951	1.60%

Details of the Directors' interests in shares are shown in the Remuneration Committee Report on page 146. 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 2022, Creative Value Investment Group Limited ('CVIG'), the investment vehicle for The Sten and Karin Mortstedt Family & Charity Trust, held through its wholly owned subsidiaries 51.46% of the Company's shares in issue and was therefore seen as a controlling shareholder under the Listing Rules.

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

Property portfolio

A valuation of all the investment properties, properties held for sale and hotel, and landholding in plant, property and equipment in the Group at 31 December 2022 was carried out by Cushman and Wakefield for the UK, Jones Lang LaSalle in Germany and France and a directors' valuation in Sweden, which produced an aggregate market value of £2,352.7 million (2021: £2,331.3 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 106 to 171 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 50 to 95. No political donations to any parties, organisations or candidates, or political expenditure were made during 2022. 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 £89,796 (2021: £77,372). 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 pages 76 to 81.

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 42 to 45 and 82 to 87 and our Prompt Payment Code is detailed in the environmental, social and governance review on page 80.

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 2022, the Group was not aware of any incident in which the organisation's activities have resulted in an abuse of human rights.

Insurance of directors and indemnities

The Company has arranged insurance cover in respect of legal action against its Directors and Officers. The Company has granted indemnities to each of the Directors and other senior management, uncapped in amount but subject to applicable law, in relation to certain losses and liabilities which they may incur in the course of acting as Directors or employees of the Company or one or more of its subsidiaries or associates.

Directors' report continued

Auditor

A resolution to re-appoint Ernst & Young LLP as Auditor to the Company will be proposed at the forthcoming Annual General Meeting.

2023 Annual General Meeting

The 2023 Annual General Meeting will be held on Thursday, 27 April 2023. The notice of meeting, including explanatory notes for the resolutions to be proposed, will be posted to shareholders.

Disclosure of information to the Auditor

Each Director has confirmed at the date of this report that:

- so far as they are aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and further details of this analysis are set out together with the Viability Statement on pages 105-107. 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.

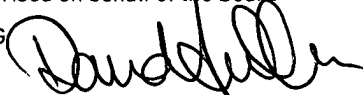
Listing Rule	Information required	Disclosure
9.8.4(1)	Interest capitalised by the Group	Not applicable
9.8.4(2)	Publication of unaudited financial information	Pages 227
9.8.4(4)	Long-term incentive schemes with directors	Pages 133-167
9.8.4(5)	Director's waiver of emoluments	None
9.8.4(6)	Director's 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 169

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 146
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 168
9.8.6(3)	The going concern statement	Page 104-105
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 107
9.8.6(6)(b)	Details of non-compliance with the UK Corporate Governance Code	Pages 107, 117 and 118
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 162
9.8.6R	Climate-related financial disclosures consistent with the TCFD recommendations and recommended disclosures	Pages 94-95

Approved and authorised on behalf of the Board

David Fuller BA FCG
Company Secretary



10 March 2023

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.

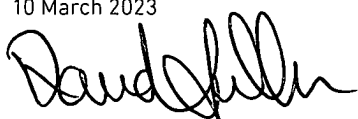
This statement of responsibilities was approved by the Board on 10 March 2023.

Approved and authorised on behalf of the Board

David Fuller BA FCG

Company Secretary

10 March 2023



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 2022 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 2022 which comprise:

Group	Parent Company
Group income statement for the year ended 31 December 2022	
Group statement of comprehensive income for the year ended 31 December 2022	
Group balance sheet at 31 December 2022	Company balance sheet at 31 December 2022
Group statement of changes in equity for the year ended 31 December 2022	Company statement of changes in equity for the year ended 31 December 2022
Group statement of cash flows for the year ended 31 December 2022	
Related notes 1 to 33 to the financial statements, including a summary of significant accounting policies	Related notes 1 to 14 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.

Independence

We are independent of the Group and Parent 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group 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 2024 ("the going concern period"), which takes into consideration the maturity date of loans totalling £474.4m that expire 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 (including the ongoing conflict in Ukraine) which may adversely affect future occupancy and income and cost levels and the impact of a 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 2022 meeting, updated for the actual results achieved for 2022, benchmarked

against 2023 to date. The Severe but plausible case starts from the Base case by flexing key assumptions further; it applies severe but plausible assumptions including lower rents; increased service charges, higher property and administration expenses; falling property values; and higher interest rates. Management also prepared a Reverse Stress Testing, in which the assumptions of the Severe but plausible case have been flexed to determine at which point the Group exhausts its liquidity. We challenged the appropriateness of each of the key assumptions in the three scenarios through agreeing them to supporting evidence and searching for contradictory evidence, using our understanding of the Group's business, evidence gained during the audit, real estate market knowledge and evidence, and discussing it with our Chartered Surveyors. 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 debt agreements with lenders 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 performed additional reverse stress testing to understand the fall in valuations and occupancy needed to exhaust the remaining liquidity through payments to cure the related LTV, ICR and DSCR covenant breaches. In assessing the likelihood of these scenarios, we considered the perspective of our Chartered Surveyors on the extent of a severe but plausible fall in the property portfolio valuation during the going concern period, assessed the impact of the timing of these events and understood the availability of mitigating actions to be taken.
- We challenged the mitigations used by Management in both the Base case and the Severe but plausible case, including refinancing and repayment of debt, property disposals, dividend distribution and capital expenditure, by comparing to actual cash flows in 2022, 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 re-financings 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 (£474.4m) is a critical assumption in Management's going concern assessment. Our audit procedures included considering Management's recent refinancing track record and evidence of the progress of ongoing refinancing, including obtaining confirmation of credit committee approval, considering the perspective of EY Debt Advisory Specialists in the UK and Germany on the probability of being able to refinance, and the extent and timing of the refinancing.
- We also challenged Management whether the Group would be able to complete the significant asset disposals included in their going concern assessment within the timescale required. Our audit procedures included considering evidence of recent offers received by Management, and considering the perspective of EY Real Estate Corporate Finance Specialists in the UK in relation to the reasonableness of the expected sale proceeds within the expected timeframe.
- We read the disclosures in the Annual Report and Accounts in relation to going concern with a view to assessing whether they appropriately disclose the risks, the impact on the Group's operations and results and the availability of mitigating actions to be taken.

Going concern has also been determined to be a key audit matter.

Given the nature of the Group's business model of capital recycling, significant judgement was exercised by Management over the likely timing and quantum of the refinancing or repayment of the maturing debt and the achievement of certain asset disposals, and how such uncertainties might impact the going concern basis and disclosures, and over the mitigations assumed in Management's going concern assessment. Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and Parent Company's ability to continue as a going concern for a period to 31 July 2024.

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.

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.

Independent Auditor's report to the members of CLS Holdings plc continued

Overview of our audit approach

Audit scope	• The Group operates in the United Kingdom, Germany and France. We determined that each of these three principal business units is a component of the Group audit. We performed an audit of the complete financial information of two components (United Kingdom and Germany) and audit procedures on specific balances for a further one component (France). • The components 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 • Revenue recognition • Going concern
Materiality	• Overall Group materiality of £22.5m which represents 0.9% of total assets at 31 December 2022. Overall materiality is applied to account balances related to properties and borrowings. • Specific materiality of £2.3m which represents 5% of EPRA earnings for testing of balances that impact the measure. Specific materiality is applied to account balances not related to properties and borrowings. • Parent Company materiality of £3.9m 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 determine our audit scope for each geographic area 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 size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment, the potential impact of climate change and other factors when assessing the level of work to be performed. All audit work was performed directly by a single integrated audit team.

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, of the reporting components of the Group, we selected three geographic areas: the United Kingdom, Germany and France, which represent the principal business units within the Group.

Of the three geographic areas, we performed an audit of the complete financial information of two of them ("Full scope components"), being the United Kingdom and Germany, which were selected based on their size or risk characteristics. For the remaining geographic area ("Specific scope component"), being France, we performed audit procedures on specific accounts within that geographic area that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The components where we performed audit procedures accounted for 100% of the Group's EPRA Earnings, 100% of the Group's Revenue and 100% of the Group's Total assets. Below is the contribution of the components:

	Full scope components	Specific scope component
EPRA Earnings	75% of the Group	25% of the Group
Revenue	88% of the Group	12% of the Group
Total assets	88% of the Group	12% of the Group

The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for 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 pathway. This is explained on pages 94-95 in the required Task Force for Climate related Financial Disclosures and on pages 99-103 in the principal risks and uncertainties. The Group also explained their climate commitments on pages 52-75. 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, 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. The Group 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.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate change related physical and transition risks and the Group's climate commitments and disclosures, supported by our climate change internal specialists. We also focussed on assessing whether the effects of material climate risks disclosed in the Accounting judgements and key sources of estimation uncertainty note to the financial statements 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 to operate as a going concern. Details of our procedures and findings on the valuation of property portfolio are included in our Key audit matters below.

Whilst the Group has stated its commitment to achieve Net Zero Carbon pathway by 2030, the Group is currently unable to determine the full future economic impact on their business model, operational plans and customers to achieve this and therefore the potential impacts are not fully incorporated in these financial statements.

Based on our work we have not identified the impact of climate change on the financial statements to be a key audit matter or to impact a key audit matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 Going Concern, the items in the table below were Key audit matters.

Independent Auditor's report to the members of CLS Holdings plc continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of the property portfolio (2022: £2,352.8m, 2021: £2,331.3m) <i>Refer to the Audit Committee Report (page 132); Significant accounting policies (pages 190-191); and Notes 13, 14 and 15 of the Consolidated Financial Statements (pages 203-207)</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 judgements (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. We selected a sample of properties based on a number of factors including size, risk, representation across asset classes and geographic areas which in total comprised over 60% of the market value of properties. For this sample of properties, we tested source documentation provided by the Group to the external valuers, such as underlying lease data. We met with the external valuers to discuss their valuation approach and the judgements they made in assessing the property valuation. Such judgements included the market rental income and yields applied. We included Chartered Surveyors on our audit team who reviewed and challenged the valuation approach and assumptions for the same sample 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. We obtained a confirmation from the external valuers that they had not been subject to undue influence from Management. We tested a sample of capital expenditures incurred in the year by agreeing to supporting third party evidence. We conducted analytical procedures on the properties not included in the sample reviewed in detail by our Chartered Surveyor by comparing assumptions and the value of each property in the portfolio by reference to our understanding of the UK, German and French real estate markets, external market data and asset specific considerations to evaluate the appropriateness of the valuations adopted by the Group. Where values or assumptions were not in line with our expectations, we investigated these instances further, for example by obtaining evidence, such as lease data, where relevant. We assessed any findings of our analytical procedures and work of the Chartered Surveyors described above for evidence of undue Management influence. We performed site visits accompanied by our Chartered Surveyors for a sample of properties, to confirm existence and state of repair of the properties. We assessed the adequacy of the disclosures of estimates and valuation assumptions in note 14 that were made in accordance with IFRS 13 – Fair Value Measurement. Scope of our Procedures: We performed full scope audit procedures over valuation of the property portfolio.	We have tested the inputs, assumptions and methodology used by external valuers. We have concluded that the methodology applied is reasonable and that the external valuations are an appropriate assessment of the market value of the property portfolio at 31 December 2022. We concluded that the value of the sample of properties reviewed by our Chartered surveyors was within the reasonable range of values as assessed by them. 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
Revenue recognition (2022: £139.7m, 2021: £139.8m) <i>Refer to the Audit Committee Report (page 132) and Significant accounting policies (page 192)</i> Market expectations and profit based targets may place pressure on Management to distort revenue recognition. This may result in overstatement of revenues to assist in meeting current or future targets or expectations.	Our audit procedures over revenue recognition included: We obtained an understanding of the Group's processes and controls around revenue recognition. We assessed whether the revenue recognition policies adopted complied with United Kingdom adopted International Financial Reporting Standards (IFRSs). We selected a sample of revenue rental income recognised in the general ledger, and agreed to the terms of the relevant lease agreements. We confirmed revenue was recorded appropriately, after considering the straight-lining of lease incentives over the lease period in accordance with IFRS 16 – Leases where applicable. Using the contractual rental income, we set an expectation of the annual rental income and compared with the revenue recognised in the general ledger. We set a tolerance threshold to assess whether rental income is recorded in line with our expectations. We selected a sample of service charge income balances in the year, agreeing it to supporting documentation and tracing through to the recovery of service charge income. For other property-related income, detailed analytical procedures were performed and we tested a sample of transactions by agreeing with underlying supporting evidence.	Based upon the audit procedures performed, we concluded that revenue has been recognised on an appropriate basis in the year.
Scope of our procedures We performed full scope audit procedures over revenue.		

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	£22.5m	£11.2m	£1.1m
Specific materiality – account balances not related to properties and borrowings	5% of EPRA earnings	£2.3m	£1.1m	£0.1m
Parent Company	0.9% of total assets	£3.9m	£1.9m	£0.2m

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 applied overall materiality to properties and borrowings and the related Income Statement balances.

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.

We determined that for other account balances not related to properties and borrowings and the related Income Statement balances, a misstatement of less than overall materiality for the financial statements as a whole could influence the economic decisions of users. We believe that it is most appropriate to use a profit-based measure as profit is also a focus of users of the financial statements.

Independent Auditor's report to the members of CLS Holdings plc continued

We determined that materiality for these areas should be based upon 5% of EPRA Earnings. EPRA Earnings is considered an important performance metric and aligned with industry earnings measures.

We determined materiality for the Parent Company to be £3.9 million, which is 0.9% of total assets.

We reassessed initial materiality at the year end date which has not resulted in a change from our planning materiality.

Performance materiality

The application of materiality 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 was 50% of our planning materiality, namely £11.2m and £1.1m respectively for overall and specific materiality levels. We have set performance materiality at this percentage due to this being our first year of auditing the Group.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.5m to £0.8m.

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 £1.1m, as well as uncorrected audit differences in excess of £0.1m that relate to our specific testing of the other account balances not related to properties and borrowings, which is set at 5% of planning materiality, as well as 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 1-171, 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.

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 one year, covering the year ended 31 December 2022.
- 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

10 March 2023

Ernst & Young LLP.

Group income statement

for the year ended 31 December 2022

	2022			2021		
	Notes	Recurring items £m	Non-recurring items £m	Total £m	Restated Recurring items £m Note 4	Non-recurring items £m Note 11 Restated Total £m Note 4
Revenue	5	139.7	–	139.7	139.8	–
Costs		(31.9)	–	(31.9)	(31.8)	–
Net rental income	5	107.8	–	107.8	108.0	–
Administration expenses		(15.7)	–	(15.7)	(15.0)	(1.2)
Other expenses		(16.2)	–	(16.2)	(14.4)	–
Operating profit before revaluation and disposals		75.9	–	75.9	78.6	(1.2)
Net revaluation movements on investment property	14	(136.5)	–	(136.5)	28.5	–
Net revaluation movements on equity investments		(3.8)	–	(3.8)	6.1	–
Profit/(loss) on sale of investment property		0.5	–	0.5	(0.1)	–
Operating (loss)/profit		(63.9)	–	(63.9)	113.1	(1.2)
Finance income	9	10.1	–	10.1	5.9	–
Finance costs	10	(26.8)	–	(26.8)	(25.4)	–
Foreign exchange loss		(0.3)	–	(0.3)	(2.3)	–
Impairment of goodwill		(1.1)	–	(1.1)	–	–
Share of profit of associates after tax		–	–	–	–	1.4
(Loss)/profit before tax		(82.0)	–	(82.0)	91.3	0.2
Taxation	12	0.1	–	0.1	(14.0)	42.0
(Loss)/profit for the year attributable to equity shareholders		(81.9)	–	(81.9)	77.3	42.2
Basic and diluted earnings per share	6			(20.2)p		29.3p

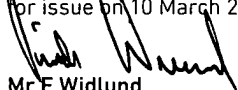
The notes on pages 187 to 221 are an integral part of these Group financial statements.

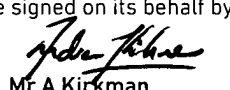
Group balance sheet

at 31 December 2022

	Notes	2022 £m	Restated 2021 £m Note 4
Non-current assets			
Investment properties	14	2,295.0	2,247.1
Property, plant and equipment	15	39.6	41.3
Goodwill and intangible assets		2.8	3.1
Equity investments		2.7	6.6
Deferred tax	20	2.8	2.6
Derivative financial instruments	22	8.5	0.4
Other receivables	17	–	7.7
		2,351.4	2,308.8
Current assets			
Trade and other receivables	17	15.8	18.1
Cash and cash equivalents	18	113.9	167.4
		129.7	185.5
Assets held for sale	16	20.3	44.2
Total assets		2,501.4	2,538.5
Current liabilities			
Trade and other payables	19	(58.6)	(57.6)
Current tax		(2.0)	(4.5)
Borrowings	21	(173.4)	(169.1)
Derivative financial instruments	22	–	(0.7)
		(234.0)	(231.9)
Non-current liabilities			
Deferred tax	20	(110.5)	(109.9)
Borrowings	21	(932.5)	(862.5)
Leasehold liabilities		(3.6)	(3.4)
Derivative financial instruments	22	–	(0.1)
		(1,046.6)	(975.9)
Total liabilities		(1,280.6)	(1,207.8)
Net assets		1,220.8	1,330.7
Equity			
Share capital	25	11.0	11.0
Share premium		83.1	83.1
Other reserves	27	115.4	88.7
Retained earnings		1,011.3	1,147.9
Total equity		1,220.8	1,330.7

The financial statements of CLS Holdings plc (registered number: 02714781) were approved by the Board of Directors and authorised for issue on 10 March 2023 and were signed on its behalf by:


Mr F Widlund
Chief Executive Officer


Mr A Kirkman
Chief Financial Officer

The notes on pages 187 to 221 are an integral part of these Group financial statements.

Group statement of changes in equity

for the year ended 31 December 2022

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
	Note 25		Note 27		
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

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
	Note 25		Note 27		
Arising in 2021:					
Total comprehensive income for the year	–	–	(28.3)	119.5	91.2
Share-based payments	–	–	(0.3)	–	(0.3)
Dividends to shareholders	–	–	–	(30.8)	(30.8)
Total changes arising in 2021	–	–	(28.6)	88.7	60.1
At 1 January 2021	11.0	83.1	117.3	1,059.2	1,270.6
At 31 December 2021	11.0	83.1	88.7	1,147.9	1,330.7

The notes on pages 187 to 221 are an integral part of these Group financial statements.

Group statement of cash flows

for the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Cash flows from operating activities			
Cash generated from operations	28	70.5	73.1
Interest received		1.3	0.5
Interest paid		(24.2)	(24.3)
Income tax paid on operating activities		(4.6)	(5.1)
Net cash inflow from operating activities		43.0	44.2
Cash flows from investing activities			
Purchase of investment properties		(83.4)	(164.6)
Capital expenditure on investment properties		(57.2)	(35.8)
Proceeds from sale of properties		56.2	37.0
Income tax paid on sale of properties		(3.2)	(1.3)
Purchases of property, plant and equipment		(0.4)	(0.6)
Purchase of intangibles		(0.8)	(0.9)
Repayment of vendor loan		7.7	–
Cost on foreign currency transactions		(0.2)	–
Distributions received from associate and investment undertakings		–	0.2
Disposal of associate undertakings		–	0.5
Net cash outflow from investing activities		(81.3)	(165.5)
Cash flows from financing activities			
Dividends paid	26	(32.4)	(30.8)
Purchase of own shares		(25.8)	–
New loans		144.1	196.7
Issue costs of new loans		(1.1)	(1.4)
Repayment of loans		(99.4)	(107.2)
Net cash (outflow)/inflow from financing activities		(14.6)	57.3
Cash flow element of net decrease in cash and cash equivalents		(52.9)	(64.0)
Foreign exchange loss		(0.6)	(4.3)
Net decrease in cash and cash equivalents		(53.5)	(68.3)
Cash and cash equivalents at the beginning of the year		167.4	235.7
Cash and cash equivalents at the end of the year	18	113.9	167.4

The notes on pages 187 to 221 are an integral part of these Group financial statements.

Notes to the Group financial statements

for the year ended 31 December 2022

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 2022 or the year ended 31 December 2021.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these Group financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared 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 high rent collection and low bad debts, and has a long-term track record in financing and refinancing debt including £229.9 million completed in 2022 and a further £237.3 million subsequent to year end, of which roughly half has been executed and half for which credit approval has been obtained by lenders or terms have been agreed.

Going concern period and basis

The Group's going concern assessment covers the period to 31 July 2024 ("the going concern period"). The period chosen takes into consideration the maturity date of loans totalling £474.4 million that expire by July 2024, of which £226.0 million expire in the last three months of the going concern period. The going concern assessment uses the forecast cash flows approved by the Board at its November 2022 meeting as the Base case, updated for the actual results achieved for 2022, benchmarked against 2023. The assessment also considers a Severe but plausible case and Reverse stress testing.

Forecast cash flows – Base case

The forecast cash flows prepared for the Base case take account of the Group's principal risks and uncertainties, and reflect the current greater uncertainty and more challenging economic backdrop. The forecast cash flows have been updated using assumptions regarding forecast forward interest curves, inflation and foreign exchange, updated for a worsening of these assumptions in 2023 and 2024. The Base case includes the impact of revenue growth, principally from contractual increases in rent, and increasing cost levels in line with forecast inflation. An assumed property valuation reduction of 5% over the going concern period has also been included.

The Base case is focused 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 £474.4 million expiring within the going concern period will be refinanced as expected (£335.0 million) or will be repaid (£139.4 million, of which £125.4 million is linked to forecast property disposals, with the balance being planned repayments). The Group acknowledges that these refinancings are not fully within its control; however, it is highly 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 2022 when £229.9 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 £237.3 million.

Both the Base case and the Severe but plausible case also include 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 2022. The Group acknowledges that property disposals are not fully within its control; however, it is highly confident these transactions will be completed within the going concern period, based on its history of achieving disposals, disposals post year end and the status of transactions. 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.

Notes to the Group financial statements continued

for the year ended 31 December 2022

2. Significant accounting policies continued

Going concern continued

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; and higher interest rates.

The 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 20% until July 2024, impacting forecast refinancings, sales and cash cures. This is in addition to the 5% in the Base case and the reduction experienced in 2022.

In the Severe but plausible case, CLS would need to take some 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 some of its existing £50 million of currently unutilised facilities of which £30 million is committed until 30 June 2023 and £20 million is available subject to certain criteria being met and until further notice. As with the Base case, it is assumed that loan facilities are refinanced as they become due. If needed, further disposals could be considered as there are no sale restrictions on CLS' £2.4 billion of properties.

Reverse Stress Testing

The use of a Severe but plausible case above allows for the simultaneous consideration of the impact of a number of the Group's principal risks at the same time. The Board has also considered Reverse stress testing of the individual assumptions which were flexed in the Severe but plausible case to determine at which point the Group runs out of liquidity. These included lower rents, increased service charges, higher property and administration expenses, falling property values and higher interest rates. The most sensitive of the impacts of the Reverse stress tests is on the Group's loan covenants, given that non-compliance would trigger cure payments that would further reduce available liquidity. On average across its 46 loans, CLS has comfortable headroom for the three main covenant ratios of LTV, ICR and DSCR. This headroom has reduced from the half-year 2022 position given the investment property valuation reductions.

The Board considers that the Reverse stress testing is a remote scenario, given the magnitude of the downside assumptions applied, in the context of the historic and forecast performance of the Group and the current economic environment. There is also a remote likelihood that all the changes modelled would occur at the same time, and to this extent, during the going concern period, due to the severity of the assumptions applied and their magnitude, and the length of the going concern period. In addition, the assumptions have been applied equally to all regions and thus there is no benefit given for CLS' geographic and tenant diversity.

Conclusion

Given our track-record, and the progress made on refinancing and disposals since 31 December 2022, the Directors are highly 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. After due consideration, and having taken into account the key judgements made in relation to the magnitude and timing of debt maturity and asset disposals during the going concern period, and the current progress on both these categories of transactions, the Directors can confirm that they have a reasonable expectation that the Group and the Company will be able to continue in operation and meet its liabilities as they fall due, with no material uncertainties that would cast significant doubt on the ability of the Group and the Company to continue as a going concern for the period to 31 July 2024. The Directors continue to adopt the going concern basis in preparing these Group and Company financial statements.

Historical cost and fair value

The financial statements have been prepared on the historical cost basis, except for the revaluation 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.

2. Significant accounting policies continued

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 2022. 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:

- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- Annual improvements to IFRS Standards 2018-2020 (May 2020)
 - IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
 - IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
 - IAS 41 Agriculture – Taxation in fair value measurements

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:

- IFRS 17 – Insurance contracts
- Amendments to IFRS 10 and IAS 28 – Sale or contribution of assets between an investor and its associate or joint venture
- Amendments to IAS 1 – Classification of liabilities as current or non current
- 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

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods.

Transition from LIBOR to SONIA

The transition from LIBOR to SONIA took place during 2022. There is no resulting financial impact on our results as a result of the transition.

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 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.

(II) Associates

Associates are those entities over which the Group has significant influence but which are not subsidiary undertakings or joint ventures. The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

(III) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of identifiable assets and liabilities of a subsidiary or associate at the date of acquisition. It is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually.

Notes to the Group financial statements continued

for the year ended 31 December 2022

2. Significant accounting policies continued

2.3 Assets held for sale

Assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell, except for investment properties held for sale which are measured at fair value.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available-for-sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after sale.

2.4 Foreign currency

(I) Foreign currency transactions

Transactions in foreign currencies are translated into Sterling using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Sterling at the exchange rate ruling at that date, and differences arising on translation are recognised in the income statement.

In relation to financial assets measured at fair value through other comprehensive income, exchange differences on the amortised cost of the financial assets are recognised in the income statement in the 'finance costs or finance income' line item. Other exchange differences are recognised in the fair value reserve via other comprehensive income. For financial assets measured at fair value through profit and loss, exchange differences are recognised in the income statement in the 'finance costs or finance income' line item.

(II) Consolidation of foreign entities

The results and financial position of all Group entities which have a functional currency different from Sterling are translated into Sterling as follows:

- (a) assets and liabilities are translated at the closing rate at the date of the balance sheet;
- (b) income and expenses for each income statement are translated at the average exchange rates; and
- (c) all resulting exchange differences are recognised directly in equity in the cumulative translation reserve.

On consolidation, exchange differences arising from the translation of a net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to the cumulative translation reserve via other comprehensive income. When a foreign operation is sold, such exchange differences are recognised as part of the gain or loss on sale in the income statement.

2.5 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 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 related transaction costs. Transaction costs include transfer taxes and professional fees for legal 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.

To comply with IAS 40 para 50, lease incentives are not held as separate assets or liabilities on the balance sheet but are instead included within the investment property balance.

2. Significant accounting policies continued

2.6 Property, plant and equipment

Property, plant and equipment is measured initially at cost, including related transaction costs. Property, plant and equipment is carried at fair value, based on market value as determined by professional external valuers at the balance sheet date, except for fixtures and fittings and head office fit-out which are stated at historical cost less accumulated depreciation and any impairment loss.

Any increase arising on the revaluation of land and buildings held as property, plant and equipment is credited to the fair value reserve via other comprehensive income, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase in value is credited to the income statement to the extent the decrease was previously expensed. 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 recorded at, and subsequently revalued to, fair value. Revaluation gains and losses are recognised in finance income or finance cost in the income statement.

(II) Financial assets classified as fair value through other comprehensive income (FVTOCI)

Financial assets classified as at FVTOCI are initially measured at cost, and are subsequently revalued to fair value. Revaluation gains and losses are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary assets which are recognised in the income statement. On disposal, the cumulative gain or loss previously recognised in other comprehensive income is recycled through the income statement.

(III) Financial assets at fair value through profit and loss (FVTPL)

Financial assets at FVTPL are revalued to fair value. Revaluation gains and losses are recognised in the income statement.

(IV) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(V) Trade and other receivables/Trade and other payables

Trade and other receivables are recognised initially at their transaction price as 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.

(VI) Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequently, borrowings are stated at amortised cost with any difference between the amount initially recognised and the redemption value being recognised in the income statement over the period of the borrowings, using the effective interest rate method.

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 refinancing 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 continued

for the year ended 31 December 2022

2. Significant accounting policies continued

2.8 Revenue

The Group's revenue from contracts with customers, as defined in IFRS 15, 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. Lease incentives are not held as separate assets or liabilities on the balance sheet but are instead included within the investment property balance.

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 accordance with IFRS 15, which prescribes the use of a five-step model for the recognition of revenue. Revenues are recognised in the period in which it is earned as tenants benefit from the services as soon as they are rendered by the Group. Service charge income is 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.

At the hotel, the Group has a performance obligation to provide hotel accommodation. As compensation, the Group is entitled to a fee for an agreed upon period as determined at the time the accommodation is booked by the customer. 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. Surrender premiums are payable when a lease is terminated prior to expiry. Dilapidations income and surrender premiums are recognised when the amounts become contractually due, usually at the time an agreement between parties is reached, or when the tenant is invoiced.

2.9 Taxation

Current tax is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the balance sheet liability method on temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the values used for tax purposes. Temporary differences are not provided for when they arise from initial recognition of goodwill or from the initial recognition of assets and liabilities in a transaction that does not affect accounting or taxable profit.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, and is calculated using rates that are expected to apply in the period when the liability is settled or the asset is realised, in the tax jurisdiction in which the temporary differences arise. Deferred tax is charged or credited in arriving at profit after tax, except when it relates to items recognised in other comprehensive income, in which case the deferred tax is also recognised in other comprehensive income.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be used. The deferred tax assets and liabilities are only offset if they relate to income taxes levied by the same taxation authority, there is a legally enforceable right of set-off and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in the income statement except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or equity respectively.

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. 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. IFRS 16 requires certain adjustments to be expensed, while others are added to the cost of the related right-of-use 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). Right-of-use assets that are not Investment Property are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. The right-of-use assets are also subject to impairment.

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 continued

for the year ended 31 December 2022

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. The following are ongoing areas of accounting judgement:

- Compliance with the Real Estate Investment Trust (REIT) taxation regime in the United Kingdom
- Classification of leases to tenants as operating leases
- Treatment of shareholdings as investments or associates

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 future rental income, anticipated maintenance costs, future development costs and an appropriate discount rate (see notes 14 and 15) for more detail). The valuers also make reference to market evidence of transaction prices for similar properties.

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 94 to 95). 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 73 for more detail).

4. Restatement of prior period

The restatements of the prior period noted below do not change profit, earnings per share or the net assets of the Group; they are presentational restatements that reclassify amounts to alternative financial statement lines.

£94.1 million reclassification from property plant and equipment to investment property

The student accommodation at Spring Mews was held as investment property until 31 December 2020 when it was reclassified to property, plant and equipment. The accounting judgement made at that time was reconsidered and it was determined that it was more appropriate and market sector comparable to classify the student accommodation as an investment property and so it has been reclassified back to investment property. There is no material impact on the income statement, other comprehensive income or basic and diluted earnings per share.

£4.9 million reclassification from investment in associate to equity investments

The Group has a 24.2% holding in 24 Media Network AB ("N24"). This holding was accounted for as an investment in associate (carried interest £4.9 million at 31 December 2021 and £nil at 1 January 2021). It was determined that significant influence did not exist and therefore this holding should be reclassified as an unlisted equity investment under IFRS 9. This has been corrected by restating each of the affected financial statement lines for the prior period.

In the income statement the £5.1 million presented as 'share of profit of associates after tax' at 31 December 2021 has therefore been reclassified to 'net revaluation movements on equity investments'.

5. Segment information

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

Investment properties: United Kingdom
Germany
France

Other investments

	2022						
	Investment properties			Other investments ¹	Central administration	Non-recurring items	Total
Year ended 31 December 2022	United Kingdom ¹ £m	Germany £m	France £m	£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)

	2021						
	Investment properties			Other investments ¹	Central administration	Non-recurring items	Total
Year ended 31 December 2021	United Kingdom ¹ £m	Germany £m	France £m	£m	£m	£m	£m
Rental income	53.3	33.8	14.1	–	–	–	101.2
Other property-related income	6.0	0.3	0.5	2.7	–	–	9.5
Service charge income	12.3	11.2	5.6	–	–	–	29.1
Revenue	71.6	45.3	20.2	2.7	–	–	139.8
Service charges and similar expenses	(13.8)	(12.0)	(6.0)	–	–	–	(31.8)
Net rental income	57.8	33.3	14.2	2.7	–	–	108.0
Administration expenses	(6.9)	(2.9)	(1.7)	0.2	(3.7)	(1.2)	(16.2)
Other expenses	(8.0)	(3.3)	(1.1)	(2.5)	0.5	–	(14.4)
Revenue less costs	42.9	27.1	11.4	0.4	(3.2)	(1.2)	77.4
Net revaluation movements on investment property	3.7	24.2	0.6	–	–	–	28.5
Net revaluation movements on equity investments	–	–	–	6.1	–	–	6.1
Profit/(loss) on sale of investment property	0.7	(1.1)	0.3	–	–	–	(0.1)
Segment operating profit/(loss)	47.3	50.2	12.3	1.4	(3.2)	(1.2)	111.9
Finance income	3.8	0.2	–	1.9	–	–	5.9
Finance costs	(15.7)	(5.4)	(2.7)	(1.3)	(0.3)	–	(25.4)
Foreign exchange loss	–	–	–	(2.3)	–	–	(2.3)
Share of profit of associate after tax	–	–	–	–	–	1.4	1.4
Segment profit/(loss) before tax	35.4	45.0	9.6	4.8	(3.5)	0.2	91.5

¹ Due to the prior year balance sheet restatement in respect of the student accommodation (see note 4), the associated income and expenses have been transferred from the 'Other investments' segment to the United Kingdom investment property segment.

Notes to the Group financial statements continued

for the year ended 31 December 2022

5. Segment information continued

Other segment information

	Assets		Liabilities		Capital expenditure	
	2022 £m	2021 £m ¹	2022 £m	2021 £m	2022 £m	2021 £m
Investment properties						
United Kingdom	1,083.6	1,159.7	551.7	555.0	36.6	20.6
Germany	1,011.6	900.2	536.4	462.4	9.8	9.4
France	294.3	293.8	185.7	183.8	11.7	6.0
Other investments	111.9	184.8	6.8	6.6	0.4	0.5
	2,501.4	2,538.5	1,280.6	1,207.8	58.5	36.5

¹ Due to the prior year balance sheet restatement in respect of the student accommodation (see note 4), the associated assets and liabilities have been transferred from the 'Other investments' segment to the United Kingdom investment property segment.

6. 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, and which are reconciled where possible to statutory measures on the following pages.

EPRA APMs and similar CLS APMs

CLS monitors the Group's financial performance using APMs which are European Public Real Estate Association ('EPRA') measures as these are a set of standard disclosures for the property industry and thus aid comparability for our stakeholder users. The latest edition of the EPRA guidelines were issued in February 2022. The October 2019 edition of the guidelines replaced EPRA NAV and EPRA NNNAV with three other balance sheet reporting measures, which are defined in the glossary:

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

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

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

The measures we disclose are:

- EPRA net initial yield;
- EPRA 'topped-up' net initial yield;
- EPRA vacancy;
- EPRA capital expenditure;
- EPRA cost ratio; and
- EPRA LTV.

6. Alternative Performance Measures continued

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.

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

1. EPRA APMs

	2022 Number	2021 Number
For use in earnings per share calculations		
Weighted average number of ordinary shares in circulation	404,410,051	407,395,760
For use in net asset per share calculations		
Number of ordinary shares in circulation at 31 December	397,210,866	407,395,760

i) Earnings – EPRA earnings

	Notes	2022 £m	2021 £m
(Loss)/profit for the year		(81.9)	119.5
Non-recurring items after tax	11	–	1.5
Recurring (loss)/profit for the year		(81.9)	121.0
Net revaluation movement on investment property	14	136.5	(28.5)
Deferred tax on revaluations		(4.8)	(38.6)
Net revaluation movement on equities		3.8	(1.0)
(Profit)/loss on sale of investment property		(0.5)	0.1
Current tax thereon		1.6	3.2
Movement in fair value of derivative financial instruments	9	(8.8)	(5.2)
Impairment of goodwill		1.1	–
Uplift in value of equity investments		–	(5.1)
EPRA earnings		47.0	45.9
Basic and diluted earnings per share		(20.2)p	29.3p
EPRA earnings per share		11.6p	11.3p

ii) Net asset value measures

	2022				2021			
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
Net assets	1,220.8	1,220.8	1,220.8	1,220.8	1,330.7	1,330.7	1,330.7	1,330.7
Goodwill as a result of deferred tax on acquisitions	–	–	–	–	–	(1.1)	(1.1)	(1.1)
Other intangibles	–	(2.8)	–	–	–	(2.0)	–	–
Fair value of fixed interest debt	–	–	–	87.2	–	–	–	(4.2)
Tax thereon	–	–	–	(6.4)	–	–	–	0.8
Deferred tax on revaluation surplus	–	108.6	108.6	–	–	107.8	107.8	–
Adjustment for short-term disposals	–	(8.6)	–	–	–	(7.8)	–	–
Fair value of financial instruments	–	(8.5)	(8.5)	–	–	0.4	0.4	–
Purchasers' costs ¹	–	–	149.3	–	–	–	149.3	–
	1,220.8	1,309.5	1,470.2	1,301.6	1,330.7	1,428.0	1,587.1	1,326.2
Per share	307.3p	329.6p	370.1p	327.7p	326.6p	350.5p	389.6p	325.5p

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

Notes to the Group financial statements continued

for the year ended 31 December 2022

6. Alternative Performance Measures continued

iii) Yield

EPRA net initial yield (NIY)

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

	2022				2021			
	United Kingdom £m	Germany £m	France £m	Total £m	United Kingdom £m	Germany £m	France £m	Total £m
Rent passing	46.0	42.6	12.8	101.5	52.8	34.9	11.7	99.4
Adjusted for properties in development	(0.9)	–	–	(0.9)	(2.6)	(0.5)	–	(3.1)
Forecast non-recoverable service charge	(1.5)	(2.1)	(0.3)	(3.9)	(2.0)	(0.6)	(0.3)	(2.9)
Annualised net rents (A)	43.6	40.5	12.5	96.7	48.2	33.8	11.4	93.4
Property portfolio ¹	946.8	990.1	284.2	2,221.1	1,034.5	883.0	280.1	2,197.6
Adjusted for properties in development	(118.7)	(4.9)	–	(123.6)	(103.7)	(46.2)	–	(149.9)
Purchasers' costs at 6.8%	56.3	67.0	19.3	142.6	63.3	56.9	19.0	139.2
Property portfolio valuation including purchasers' costs (B)	884.4	1,052.2	303.5	2,240.1	994.1	893.7	299.1	2,186.9
EPRA NIY (A/B)	4.9%	3.9%	4.1%	4.3%	4.8%	3.8%	3.8%	4.3%

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).

	2022				2021			
	United Kingdom £m	Germany £m	France £m	Total £m	United Kingdom £m	Germany £m	France £m	Total £m
Contracted rent	48.1	47.4	14.7	110.2	55.0	38.8	13.8	107.6
Adjusted for properties in development	(0.9)	–	–	(0.9)	(2.6)	(0.6)	–	(3.2)
Forecast non-recoverable service charge	(1.5)	(2.1)	(0.3)	(3.9)	(2.0)	(0.6)	(0.3)	(2.9)
'Topped-up' annualised net rents (A)	45.7	45.3	14.4	105.4	50.4	37.6	13.5	101.5
Property portfolio ¹	946.8	990.1	284.2	2,221.1	1,034.5	883.0	280.1	2,197.6
Adjusted for properties in development	(118.7)	(4.9)	–	(123.6)	(103.7)	(46.2)	–	(149.9)
Purchasers' costs (6.8%)	56.3	67.0	19.3	142.6	63.3	56.9	19.0	139.2
Property portfolio valuation including purchasers' costs (B)	884.4	1,052.2	303.5	2,240.1	994.1	893.7	299.1	2,186.9
EPRA 'topped-up' NIY (A/B)	5.2%	4.3%	4.8%	4.7%	5.1%	4.2%	4.5%	4.6%

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

iv) Vacancy

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

EPRA vacancy

	2022 £m	2021 £m
ERV of vacant space (A)	9.0	7.0
ERV of let space	112.4	113.0
ERV of total portfolio (B)	121.4	120.0
EPRA vacancy rate (A/B)	7.4%	5.8%

6. Alternative Performance Measures continued

v) Capital expenditure

EPRA capital expenditure

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

	Notes	2022 £m	2021 £m
Acquisitions	14	83.4	179.5
Amounts spent on the completed investment property portfolio	14		
Creation of incremental space		12.7	8.6
Creation of no incremental space		45.5	27.4
EPRA capital expenditure		141.6	215.5
Conversion from accrual to cash basis		(1.0)	(15.1)
EPRA capital expenditure on a cash basis	CF ¹	140.6	200.4

1 Group statement of cash flows.

vi) Cost ratios

EPRA cost ratio

	Notes	2022 £m	2021 £m
Recurring administration expenses		15.7	15.0
Other expenses	5	16.2	14.4
Less: Other investments segment and student accommodation operating costs	5	(5.7)	(4.4)
		26.2	25.0
Net service charge costs	5	4.9	2.7
Service charge costs recovered through rents but not separately invoiced		(0.3)	(0.3)
Dilapidations receipts		(1.2)	(1.2)
EPRA costs (including direct vacancy costs) (A)		29.6	26.2
Direct vacancy costs		(4.0)	(3.4)
EPRA costs (excluding direct vacancy costs) (B)		25.6	22.8
Gross rental income	5	99.4	101.2
Service charge components of gross rental income		(0.3)	(0.3)
EPRA gross rental income (C)		99.1	100.9
EPRA cost ratio (including direct vacancy costs) (A/C)		29.9%	26.0%
EPRA cost ratio (excluding direct vacancy costs) (B/C)		25.8%	22.6%

vii) EPRA LTV

	Notes	2022 £m	2021 £m
Borrowings from financial institutions	21	1,105.9	985.2
Bank loans (secured notes)	21	–	46.4
Foreign currency derivatives	22	–	0.7
Net payables		44.8	44.0
Cash and cash equivalents	18	(113.9)	(167.4)
Net debt (A)		1,036.8	908.9
Properties held as property, plant and equipment	15	37.5	39.2
Investment properties	14	2,295.0	2,247.1
Properties held for sale	16	20.3	44.2
Financial assets – equity investments		2.7	1.7
Total property value (B)		2,355.5	2,344.8
EPRA LTV (A/B)		44.0%	38.8%

Notes to the Group financial statements continued

for the year ended 31 December 2022

6. Alternative Performance Measures continued

2. Other APMs

i) Total Accounting Return per share

	Notes	2022 pence	2021 pence
EPRA NTA at 31 December	6	329.6	350.5
Distribution – prior year final ¹	26	5.4	5.2
Distribution – current year interim ²	26	2.6	2.4
Less: EPRA NTA at 1 January (A)	6	(350.5)	(345.2)
Return before dividends (B)		(12.9)	12.9
Total Accounting Return (NTA) (B/A)		(3.7)%	3.7%

1 The 2022 prior year final dividend was 5.35p but has been rounded to 5.4p for the purpose of this note.

2 The 2021 interim dividend was 2.35p but has been rounded to 2.4p for the purpose of this note.

ii) Net borrowings and gearing

	Notes	2022 £m	2021 £m
Borrowings short-term	21	173.4	169.1
Borrowings long-term	21	932.5	862.5
Add back: unamortised issue costs	21	5.3	5.9
Gross debt	21	1,111.2	1,037.5
Cash	18	(113.9)	(167.4)
Net borrowings (A)		997.3	870.1
Net assets (B)		1,220.8	1,330.7
Net gearing (A/B)		81.7%	65.4%

iii) Balance sheet loan-to-value

	Notes	2022 £m	2021 £m
Borrowings short-term	21	173.4	169.1
Borrowings long-term	21	932.5	862.5
Less: cash	18	(113.9)	(167.4)
Net debt (A)		992.0	864.2
Investment properties	14	2,295.0	2,247.1
Properties in plant, property and equipment	15	37.5	39.2
Properties and land held for sale	16	20.3	45.0
Total property portfolio (B)		2,352.8	2,331.3
Balance sheet loan-to-value (A/B)		42.2%	37.1%

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	2022 £m	2021 £m
Recurring administration expenses		15.7	15.0
Less: Other investment segment	5	(0.2)	0.2
Underlying administration expenses (A)		15.5	15.2
Net rental income (B)	5	107.8	108.0
Administration cost ratio (A/B)		14.4%	14.1%

6. Alternative Performance Measures continued

v) Dividend cover

	Notes	2022 £m	2021 £m
Interim dividend	26	10.6	9.6
Final dividend	26	21.3	21.8
Total dividend (A)		31.9	31.4
EPRA earnings (B)	6	47.0	45.9
Dividend cover (B/A)		1.47	1.46

vi) Interest cover

	Notes	2022 £m	2021 £m
Net rental income	5	107.8	108.0
Recurring administration expenses		(15.7)	(15.0)
Other expenses	5	(16.2)	(14.4)
Group revenue less costs (A)		75.9	78.6
Finance income (excluding derivatives and dividend income)	9	1.3	0.5
Finance costs (excluding derivatives)	10	(26.8)	(25.4)
Net interest (B)		(25.5)	(24.9)
Interest cover (-A/B)		2.98	3.16

7. Loss/profit for the year

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

	Notes	2022 £m	2021 £m
Auditor's remuneration: Fees payable to the Company's Auditor for:			
Audit of the Parent Company and Group accounts		0.4	0.5
Audit of the Company's subsidiaries pursuant to legislation		0.2	0.1
Depreciation of property, plant and equipment	15	0.6	1.0
Employee benefits expense	8	10.2	11.3
Foreign exchange loss		0.3	2.3
Provision against trade receivables	17	0.6	(0.3)

Other services provided to the Group by the Company's Auditor consisted of the 2022 interim review of £50k (2021: £40k) and the provision of access to a technical financial reporting database of £1k (2021: £nil).

8. Employee benefits expense

	2022 £m	2021 £m
Wages and salaries	7.3	8.6
Social security costs	0.8	1.1
Pension costs – defined contribution plans	0.3	0.4
Performance incentive plan	0.8	1.0
Other employee-related expenses	1.0	0.2
	10.2	11.3

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 133 to 151.

Notes to the Group financial statements continued

for the year ended 31 December 2022

8. Employee benefits expense continued

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

	2022			2021		
	Property Number	Hotel Number	Total Number	Property Number	Hotel Number	Total Number
Male	47	9	56	46	9	55
Female	46	7	53	48	9	57
	93	16	109	94	18	112

9. Finance income

	2022 £m	2021 £m
Interest income		
Financial instruments carried at amortised cost	1.3	0.5
Movement in fair value of derivative financial instruments	8.8	5.2
Dividend income	–	0.2
	10.1	5.9

10. Finance costs

	2022 £m	2021 £m
Interest expense		
Secured bank loans	23.3	21.4
Secured notes	1.7	2.1
Amortisation of loan issue costs	1.8	1.9
Total interest costs	26.8	25.4

11. Non-recurring items

	Notes	2022 £m	2021 £m
Administration costs – UK restructuring costs ¹	A	–	(1.2)
Share of associates – profit on sale of associate ¹	B	–	1.4
		–	0.2
Taxation – tax credit on UK restructuring costs ¹	A	12	0.2
Taxation – deferred tax liability release due to REIT conversion	C	12	43.7
Taxation – deferred tax asset release due to REIT conversion ¹	C	12	(1.9)
Non-recurring tax		–	42.0
Total non-recurring		–	42.2

¹ These items are included as non-recurring items in the ERPA earnings reconciliation presented in note 6.

A – UK restructuring costs

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

B – Profit on sale of associate

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

C – Deferred tax arising on conversion to REIT

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

12. Taxation

	2022 £m	2021 £m
Corporation tax		
Current year charge	5.8	11.7
Non-recurring tax on restructuring costs	–	(0.2)
Adjustments in respect of prior years	(0.5)	(0.7)
	5.3	10.8
Deferred tax (see note 20)		
Origination and reversal of temporary differences	(5.4)	3.0
Non-recurring deferred tax liability release due to REIT conversion	–	(43.7)
Non-recurring deferred tax asset release due to REIT conversion	–	1.9
	(5.4)	(38.8)
Tax credit for the year	(0.1)	(28.0)

A deferred tax charge of £0.4 million (2021: charge of £1.0 million) was recognised directly in equity (note 20). 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:

	2022 £m	2021 £m
(Loss)/profit before tax	(82.0)	91.5
Expected tax charge at applicable tax rate	(15.1)	17.0
Expenses not deductible for tax purposes	1.0	2.6
Non-taxable income	–	(3.8)
Non-deductible loss from REIT	13.4	
Deferred tax on losses not recognised	1.2	0.7
Adjustments in respect of prior years	(0.5)	(0.7)
Release of deferred tax on election into UK REIT regime	–	(43.7)
Other	(0.1)	(0.1)
Tax credit for the year	(0.1)	(28.0)

The weighted average applicable tax rate of 18.5% (2021: 18.6%) was derived by applying to their relevant profits and losses the rates in the jurisdictions in which the Group operated. The standard UK rate of corporation tax applied to profits is 19.0% (2021: 19.0%).

13. Property portfolio

	Notes	United Kingdom £m	Germany £m	France £m	Total £m
Investment property	14	1,030.0	990.5	274.5	2,295.0
Property held as property, plant and equipment	15	33.6	2.0	1.9	37.5
Properties held for sale	16	7.0	3.6	9.7	20.3
Property portfolio at 31 December 2022		1,070.6	996.1	286.1	2,352.8
	Notes	United Kingdom £m ²	Germany £m	France £m	Total £m
Investment property	14	1,090.5	883.0	273.6	2,247.1
Property held as property, plant and equipment	15	32.3	5.0	1.9	39.2
Properties held for sale ¹	16	38.1	–	6.5	44.6
Land held for sale ¹	16	–	–	0.4	0.4
Property portfolio at 31 December 2021		1,160.9	888.0	282.4	2,331.3

1 Total differs from the assets held for sale on the Group balance sheet due to £0.8m of associated liabilities.

2 Restated for reclassification of student accommodation, see note 4 for detail.

Notes to the Group financial statements continued

for the year ended 31 December 2022

14. Investment property

	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 debtor adjustments	0.9	6.9	–	7.8
Exchange rate variances	–	48.9	14.3	63.2
Transfer from/(to) plant, property and equipment	–	–	–	–
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

	United Kingdom ¹ £m	Germany £m	France £m	Total investment properties £m
At 1 January 2021	997.9	733.2	301.7	2,032.8
Reclassification from property, plant and equipment	94.1	–	–	94.1
At 1 January 2021 (restated)	1,092.0	733.2	301.7	2,126.9
Acquisitions	17.9	161.6	–	179.5
Capital expenditure	20.6	9.4	6.0	36.0
Disposals	(5.0)	–	(10.7)	(15.7)
Net revaluation movement	3.7	24.2	0.6	28.5
Lease incentive debtor adjustments	(0.6)	3.0	0.3	2.7
Exchange rate variances	–	(48.0)	(17.9)	(65.8)
Transfer to properties held for sale	(38.1)	–	(6.5)	(44.6)
At 31 December 2021 (restated)	1,090.5	883.0	273.6	2,247.1

1 The prior year balances for investment property have been restated as described in note 4 along with their respective totals.

Investment properties included leasehold properties with a carrying amount of £77.7 million (2021: £48.6 million).

Interest capitalised within capital expenditure in the year amounted to £0.5 million (2021: £nil).

The property portfolio which comprises investment properties, properties held for sale (note 16), and hotel and landholding, detailed in note 15, was revalued at 31 December 2022 to its fair value. Valuations were based on current prices in an active market for all properties. The property valuations were carried out by external independent valuers as follows:

	Investment property 2022 £m	Other property 2022 £m	Property portfolio 2022 £m	Investment property 2021 £m ¹	Other property 2021 £m ¹	Property portfolio 2021 £m
Cushman and Wakefield	1,030.0	33.6	1,063.6	1,364.1	79.2	1,443.3
Jones Lang LaSalle	1,265.0	13.5	1,278.5	883.0	1.8	884.8
Directors' valuation/L Fällström AB	–	3.6	3.6	–	3.2	3.2
	2,295.0	50.7	2,345.7	2,247.1	84.2	2,331.3

1 The prior year balances for investment property have been restated as described in note 4.

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

Valuation process

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

14. Investment property continued

Each Country Head, who report 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 International Valuation Standards:

United Kingdom an income capitalisation approach whereby contracted and market rental values are capitalised with a market capitalisation rate

Germany a 10 year discounted cash flow model with an assumed exit thereafter

France both the market capitalisation approach and a 10 year discounted cash flow approach

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

Ongoing developments are valued under the 'residual method' of valuation, which is the same 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 2022 or 2021. 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 £136.5 million (2021: a gain of £28.5 million) and are presented in the income statement in the line item 'Net movements on revaluation of investment properties'. The revaluation deficit for the property, plant and equipment of £1.9 million (2021: gain of £5.5 million) was included within the revaluation reserve via other comprehensive income.

All gains and losses recorded in profit or loss in 2022 and 2021 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 2022 and 31 December 2021, respectively.

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

	ERV				Equivalent yield			
	Average		Range		Average		Range	
	2022 £ per sq. ft	2021 £ per sq. ft	2022 £ per sq. ft	2021 £ per sq. ft	2022 %	2021 %	2022 %	2021 %
UK	34.01	37.12	10.00-58.09	10.00-66.19	5.61	5.36	2.94-9.61	2.54-10.30
Germany	14.10	13.21	10.14-25.27	8.88-24.05	4.75	4.39	3.30-5.90	3.00-5.40
France	21.69	19.49	13.26-41.38	11.96-37.36	5.13	5.04	4.05-6.75	4.38-6.00

Sensitivity of measurement to variations in the significant unobservable inputs

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

A decrease in the equivalent yield by 25 basis points would result in an increase in the fair value of the Group's investment property by £138.5 million (2021: £126.9 million) whilst a 25 basis point increase would reduce the fair value by £107.0 million (2021: £125.9 million). A decrease in the ERV by 5% would result in a decrease in the fair value of the Group's investment property by £86.8 million (2021: £92.2 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 £106.5 million (2021: £71.3 million).

Where the Group leases out its investment property under operating leases the duration is typically three years or more. No contingent rents have been recognised in the current or prior year.

Notes to the Group financial statements continued

for the year ended 31 December 2022

14. Investment property continued

Sustainability, climate change, Net Zero Carbon Pathway and EPC compliance

The Group published its sustainability strategy including a pathway to Net Zero Carbon ("NZC") in August 2021 and has set 2030 as its date to achieve this (see pages 58 to 61). During 2021 the Group employed technical experts to carry out individual property energy audits to identify energy and carbon saving opportunities. A total of 76 properties were visited from January to April 2021 across the UK, France and Germany, with new developments, properties under refurbishment and properties earmarked for sale all excluded from the programme. The investment needed to deliver the audit findings amounts to an estimated £65 million over 9 years for all properties. We have integrated these energy audits into each Asset Management Plan to enable strategic decisions about the refurbishment, sale or full redevelopment of assets to be made. The UK portfolio is already compliant with the 2023 Minimum Energy Efficiency Standard (MEES) requirements and the 2030 target of EPC B is factored in to the NZC Pathway model (see page 58 of the Annual Report for more detail).

15. 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 2021 – restated ¹	25.0	3.1	10.6	6.3	45.0
Additions	–	–	–	0.5	0.5
Disposals	–	–	–	(0.9)	(0.9)
Reclassification (to)/from investment property ²	–	–	0.4	–	0.4
Reclassification to accumulated depreciation	(1.2)	–	–	(2.7)	(3.9)
Revaluation	1.2	0.4	0.1	–	1.7
Exchange rate variances	–	(0.3)	(0.1)	–	(0.4)
At 31 December 2021	25.0	3.2	11.0	3.2	42.4
Additions	–	–	0.1	0.3	0.4
Disposals	–	–	–	(0.1)	(0.1)
Reclassification from investment property	–	–	–	–	–
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
Comprising:					
At cost	–	–	–	3.5	3.5
At valuation	26.7	–	10.8	–	37.5
	26.7	–	10.8	3.5	41.0
Accumulated depreciation and impairment					
At 1 January 2021	(1.2)	–	–	(4.1)	(5.3)
Depreciation charge	(0.1)	–	(0.1)	(0.5)	(0.7)
Reclassification from cost	1.2	–	–	2.7	3.9
Disposals	–	–	–	0.8	0.8
Revaluation	0.1	–	0.1	–	0.2
At 31 December 2021	–	–	–	(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)
Net book value					
At 31 December 2022	26.7	–	10.8	2.1	39.6
At 31 December 2021	25.0	3.2	11.0	2.1	41.3

1 The prior year balances for student accommodation have been restated as described in note 4 along with their respective totals. Student accommodation has not been presented as it has been reclassified in its entirety to investment property.

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

15. Property, plant and equipment continued

Valuation techniques

The fair value of the hotel 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 net operating profit in the 11th year is capitalised at a market yield before being brought back to present day values.

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 25 basis points would result in an increase in the fair value of the hotel by £1.1 million, whilst a 25 basis point increase would reduce the fair value by £1.1 million. A decrease in EBITDA by 5% would result in a decrease in the fair value of the hotel by £1.4 million whilst an increase in the EBITDA by 5% would result in an increase in the fair value of the hotel by £1.3 million.

16. Assets held for sale

	2022				2021			
	UK £m	Germany £m	France £m	Total £m	UK £m	Germany £m	France £m	Total £m
At 1 January	37.3	–	6.9	44.2	5.9	10.2	5.8	21.9
Disposals	(37.3)	–	(6.9)	(44.2)	(5.9)	(10.2)	(5.3)	(21.4)
Transfer from investment property	7.0	–	9.7	16.7	37.3	–	6.5	43.8
Transfer from property, plant and equipment	–	3.6	–	3.6	–	–	–	–
Revaluation	–	–	–	–	–	–	(0.1)	(0.1)
At 31 December	7.0	3.6	9.7	20.3	37.3	–	6.9	44.2

The balance above comprises 3 properties (2021: 5 properties). The facts and circumstance of the disposals or expected disposals are commercially sensitive and therefore are not disclosed. Management expect that properties transferred to held for sale during the year will be disposed of within 12 months, usually via an open market process.

17. Trade and other receivables

	2022 £m	2021 £m
Current		
Trade receivables	5.3	8.8
Other receivables	4.9	3.9
Prepayments	2.7	2.4
Accrued income	2.9	3.0
	15.8	18.1
Non-Current		
Other receivables ¹	–	7.7
	15.8	25.8

¹ This is the vendor loan granted on completion of the sale of First Camp Sverige Holdings AB in March 2019. The loan was repaid in full during 2022.

Trade receivables are shown after deducting a provision of £2.8 million (2021: £2.4 million) which is calculated as an expected credit loss on trade receivables in accordance with IFRS 9 (see note 2). The movements in this provision were as follows:

	2022 £m	2021 £m
At 1 January	2.4	2.8
Debt write-offs	(0.2)	(0.1)
Charge/(credit) to the income statement	0.6	(0.3)
At 31 December	2.8	2.4

Notes to the Group financial statements continued

for the year ended 31 December 2022

17. Trade and other receivables continued

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 23.

18. Cash and cash equivalents

	2022 £m	2021 £m
Cash at bank and in hand	113.9	167.4

At 31 December 2022, cash at bank and in hand included £15.8 million (2021: £13.2 million) which was restricted by a third-party charge. £10.3 million of the restricted cash related to tenant deposits (2021: £10.1 million) and £0.2 million from a recently terminated contract for the provision of property management services to a related party (2021: £nil) (see note 33).

19. Trade and other payables

	2022 £m	2021 £m
Current		
Trade payables	4.6	3.0
Social security and other taxes	2.1	1.9
Tenant deposits	10.3	10.1
Other payables	4.2	2.0
Deferred income	13.0	19.8
Accruals	24.4	20.8
	58.6	57.6

20. Deferred tax

	Liabilities				Assets				Total deferred tax £m
	UK capital allowances £m	Fair value adjustments to properties £m	Other £m	Total £m	UK capital allowances £m	Fair value adjustments to properties £m	Other £m	Total £m	
At 1 January 2021	12.3	145.3	1.9	159.5	(0.3)	(6.0)	(1.4)	(7.7)	151.8
Charged/(credited)									
to income statement	(12.0)	(32.0)	0.1	(43.9)	0.3	3.6	1.2	5.1	(38.8)
to OCI ¹	–	1.0	–	1.0	–	–	–	–	1.0
Exchange rate variances	–	(6.5)	(0.2)	(6.7)	–	–	–	–	(6.7)
At 31 December 2021	0.3	107.8	1.8	109.9	–	(2.4)	(0.2)	(2.6)	107.3
Charged/(credited)									
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

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 2022 the Group offset tax losses valued at the applicable local tax rate of £9.8 million (2021: £9.6 million) against the deferred tax liability arising on the fair value adjustments to properties.

At 31 December 2022 the Group did not recognise deferred tax assets of £8.0 million (2021: £7.5 million) in respect of losses amounting to £45.6 million (2021: £43.3 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.

21. Borrowings

	At 31 December 2022			At 31 December 2021		
	Current £m	Non-current £m	Total borrowings £m	Current £m	Non-current £m	Total borrowings £m
Secured bank loans	173.4	932.5	1,105.9	122.7	862.5	985.2
Secured notes	–	–	–	46.4	–	46.4
	173.4	932.5	1,105.9	169.1	862.5	1,031.6

Issue costs of £5.3 million (2021: £5.9 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 4.4% including margin (2021: 0.8% and 5.5%) and at floating rates of typically SONIA or EURIBOR plus a margin. Floating rate margins range between 1.1% and 2.2% (2021: 1.1% and 2.3%). The bank loans are secured by legal charges over £2,247.6 million (2021: £2,194.3 million) of the Group's properties, and in most cases a floating charge over the remainder of the assets held in the company which owns the property. In addition, the share capital of some of the subsidiaries within the Group has been charged.

Secured green loans

The Group's debt portfolio includes two sustainability linked loans;

- £151.9m maturing in 2032
- £60.1m in 2033

These loans have an interest rate 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 2022 targets (tested on 31 December 2021 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.

Secured notes

On 3 December 2013, the Group issued £80.0 million secured, partially-amortising notes. The notes attracted a fixed-rate coupon of 4.17% on the unamortised principal amount, the balance of which was repaid in November 2022. The notes were secured by legal charges over £137.1 million of the Group's properties. The prior year fair value was determined by the higher of the carrying principal amount and the discounted future cash flows (adjusted by excluding the margin component of the fixed interest rate¹) at a discount rate derived from the market interest rate yield curve at the date of the valuation.

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

Capitalised interest

Interest capitalised within investment property capital expenditure during the year was £0.5 million (2021: £0.1 million) at an average rate of 3.22% (2021: 3.01%).

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:

At 31 December 2022	Secured bank loans £m	Secured notes £m	Total £m
Maturing in:			
Within one year or on demand	175.1	–	175.1
One to two years	350.1	–	350.1
Two to five years	314.4	–	314.4
More than five years	271.6	–	271.6
	1,111.2	–	1,111.2
Unamortised issue costs	(5.3)	–	(5.3)
Borrowings	1,105.9	–	1,105.9
Due within one year	(173.4)	–	(173.4)
Due after one year	932.5	–	932.5

Notes to the Group financial statements continued

for the year ended 31 December 2022

21. Borrowings continued

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

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

	At 31 December 2022			At 31 December 2021		
	Sterling £m	Euro £m	Total £m	Sterling £m	Euro £m	Total £m
Fixed rate financial liabilities	241.3	445.8	687.1	290.0	450.8	740.8
Floating rate financial liabilities – hedged	117.4	–	117.4	140.9	–	140.9
Total fixed rate	358.7	445.8	804.5	430.9	450.8	881.7
Floating rate financial liabilities – capped	–	42.6	42.6	–	47.3	47.3
Floating rate financial liabilities – unhedged	162.2	101.9	264.1	94.3	14.2	108.5
Total floating rate	162.2	144.5	306.7	94.3	61.5	155.8
	520.9	590.3	1,111.2	525.2	512.3	1,037.5
Unamortised issue costs	(3.5)	(1.8)	(5.3)	(3.9)	(2.0)	(5.9)
Borrowings	517.4	588.5	1,105.9	521.3	510.3	1,031.6

Of the Group's total borrowings, 72% (2021: 85%) are considered fixed rate borrowings.

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

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

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

21. Borrowings continued

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

	Carrying amounts		Fair values	
	2022 £m	2021 £m	2022 £m	2021 £m
Current borrowings	173.4	169.1	173.4	169.1
Non-current borrowings	932.5	862.5	845.3	866.7
	1,105.9	1,031.6	1,018.7	1,035.8

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

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

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

	2022 £m	2021 £m
Floating rate:		
– expiring within one year	30.0	–
– expiring after one year	–	30.0
	30.0	30.0

In addition to the above committed facility, the Group has £20 million of uncommitted facilities available (2021: £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 2022							
Secured bank loans	175.1	350.1	121.6	54.9	137.9	271.6	1,111.2
Secured notes	–	–	–	–	–	–	–
Total on maturity	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
At 31 December 2021							
Secured bank loans	124.3	111.3	265.9	116.2	50.6	322.7	991.0
Secured notes	46.5	–	–	–	–	–	46.5
Total on maturity	170.8	111.3	265.9	116.2	50.6	322.7	1,037.5
Interest payments on borrowings ¹	21.1	18.4	14.6	9.7	7.6	30.0	101.4
Effect of interest rate swaps	1.1	–	0.1	–	–	–	1.2
Gross loan commitments	193.0	129.7	280.6	125.9	58.2	352.7	1,140.1

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

Notes to the Group financial statements continued

for the year ended 31 December 2022

22. Derivative financial instruments

	2022 Assets £m	2022 Liabilities £m	2021 Assets £m	2021 Liabilities £m
Non-current:				
Interest rate caps and swaps	8.5	–	0.4	(0.1)
Current:				
Forward foreign exchange contracts	–	–	–	(0.7)
	8.5	–	0.4	(0.8)

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 2022 was £nil (2021: £nil). The average period to maturity of these interest rate caps was 3.7 years (2021: 4.2 years).

Interest rate swaps

The aggregate notional principal of interest rate swap contracts at 31 December 2022 was £117.4 million (2021: £159.4 million). The average period to maturity of these interest rate swaps was 1.4 years (2021: 1.9 years).

Forward foreign exchange contracts

The Group uses forward foreign exchange contracts from time to time to add certainty to, and to minimise the impact of foreign exchange movements on, committed cash flows. At 31 December 2022 and 31 December 2021 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.

	2022 Assets £m	2022 Liabilities £m	2021 Assets £m	2021 Liabilities £m
Maturing in:				
Less than 1 year	4.3	–	–	(1.1)
1 to 2 years	3.5	–	–	(0.1)
2 to 3 years	0.8	–	0.1	(0.1)
3 to 4 years	0.6	–	–	–
4 to 5 years	0.1	–	–	–
Over 5 years	–	–	–	–
	9.3	–	0.1	(1.3)

23. 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;

23. Financial instruments continued

(d) In more illiquid conditions, non-derivative financial assets are valued using multiple quotes obtained from market makers and from pricing specialists. Where the spread of prices is tightly clustered the consensus price is deemed to be fair value.

Where prices become more dispersed or there is a lack of available quoted data, further procedures are undertaken such as evidence from the last non-forced trade; and

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

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

Capital risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity balances. The capital structure of the Group consists of debt, cash and cash equivalents, other investments and equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings. Management perform "stress tests" of the Group's business model to ensure that the Group's objectives can be met and these objectives were met during 2022 and 2021.

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	2022 £m	2021 £m
Debt	21	1,111.2	1,037.5
Liquid resources	18	(113.9)	(167.4)
Net debt (A)		997.3	870.1
Equity (B)		1,220.8	1,330.7
Net debt to equity ratio (A/B)		81.7%	65.4%

Debt is defined as long-term and short-term borrowings before unamortised issue costs as detailed in note 21. Liquid resources are cash and short-term deposits. Equity includes all capital and reserves of the Group attributable to the owners of the Company.

Externally imposed capital requirement

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

Risk management objectives

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

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

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

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

(a) Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates, and to a lesser extent other price risk 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.

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23. Financial instruments continued

(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	2022 Income statement £m	2021 Income statement £m
Cash +50 basis points	0.6	0.8
Variable borrowings (including swaps and caps) +50 basis points	(0.9)	(1.0)
Cash -50 basis points	(0.6)	(0.8)
Variable borrowings (including swaps and caps) -50 basis points	1.5	0.5

(II) Foreign exchange risk

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

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

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

Scenario	2022 Net assets £m	2022 Profit before tax £m	2021 Net assets £m	2021 Profit before tax £m
1% increase in value of Sterling against the Euro	(6.0)	0.3	(6.2)	(0.4)
1% fall in value of Sterling against the Euro	6.1	(0.3)	6.3	0.4

(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 2022, the Group held £10.3 million in rent deposits (2021: £10.1 million) against £5.3 million of trade receivables (2021: £8.8 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 2022 the Group held £8.5 million (2021: £0.4 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.

23. Financial instruments continued

(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 contain 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 2022 was 42.2% (2021: 37.1%).

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 25 banks and financial institutions so as to minimise any potential concentration of risk.

24. Financial assets and liabilities

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

1 Other assets included all amounts shown as trade and other receivables in note 17 except prepayments of £2.7 million (2021: £2.4 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 19 except deferred income and sales and social security taxes of £15.1 million (2021: £21.7 million). All amounts are non-interest bearing and are due within one year.

Notes to the Group financial statements continued

for the year ended 31 December 2022

24. Financial assets and liabilities continued

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

	2022 £m	2021 £m
Net financial assets and liabilities:	1,013.8	877.4
Other assets – non-current	–	7.7
Other assets – current	13.0	15.7
Other liabilities – current	(43.3)	(35.9)
Cash and cash equivalents	113.9	167.4
Borrowings and derivative financial instruments	1,097.4	1,032.3

25. Share capital

	Number of shares authorised, issued and fully paid			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
At 1 January 2021, 31 December 2021 and 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 £3,310,090 representing one-third of the issued share capital of the Company excluding treasury shares.

26. Dividend

	Payment date	Dividend per share p	2022 £m	2021 £m
Current year				
2022 final dividend ¹	02 May 2023	5.35	–	–
2022 interim dividend	03 October 2022	2.60	10.6	–
Distribution of current year profit		7.95	10.6	–
Prior year				
2021 final dividend	29 April 2022	5.35	21.8	–
2021 interim dividend	24 September 2021	2.35	–	9.6
Distribution of prior year profit		7.70	21.8	9.6
2020 final dividend	29 April 2021	5.20	–	21.2
Dividends as reported in the Group statement of changes in equity			32.4	30.8

¹ Subject to shareholder approval at the AGM on 27 April 2023. Total cost of proposed final dividend is £21.3 million.

27. 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 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	15	–	–	1.9	–	–	1.9
– deferred tax thereon	20	–	–	(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

27. Other reserves continued

Notes	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Share-based payment reserve £m	Other reserves £m	Total £m
At 1 January 2021	22.7	64.0	0.5	2.0	28.1	117.3
Exchange rate variances	–	(32.8)	–	–	–	(32.8)
Property, plant and equipment:						
– net fair value deficits in the year	15	–	5.5	–	–	5.5
– deferred tax thereon	20	–	(1.0)	–	–	(1.0)
Share-based payment charge	–	–	–	(0.3)	–	(0.3)
At 31 December 2021	22.7	31.2	5.0	1.7	28.1	88.7

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.

28. Notes to the cash flow

	2022 £m	2021 £m
Cash generated from operations		
Operating (loss)/profit	(63.9)	111.9
Adjustments for:		
Net movements on revaluation of investment properties	136.5	(28.5)
Net movements on revaluation of equity investments	3.8	(6.1)
Depreciation and amortisation	0.6	1.1
(Loss)/profit on sale of investment property	(0.5)	0.1
Lease incentive debtor adjustments	(7.8)	(2.7)
Share-based payment charge	0.2	(0.3)
Changes in working capital:		
Decrease/(increase) in receivables	2.3	(3.7)
(Decrease)/increase in payables	(0.7)	1.3
Cash generated from operations	70.5	73.1

				Non-cash movements 2022				
		1 January 2022 £m	Financing cash flows £m	Amortisation of loan issue costs £m	Fair value adjustments £m	New leases £m	Foreign exchange £m	31 December 2022 £m
Changes in liabilities arising from financing activities	Notes							
Borrowings	21	1,031.6	43.6	1.8	–	–	28.9	1,105.9
Interest rate swaps	22	0.4	–	–	(6.0)	–	–	(5.6)
Interest rate caps	22	–	–	–	(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

		Non-cash movements 2021						
		1 January 2021 £m	Financing cash flows £m	Amortisation of loan issue costs £m	Fair value adjustments £m	New leases £m	Foreign exchange £m	31 December 2021 £m
Changes in liabilities arising from financing activities	Notes	£m	£m	£m	£m	£m	£m	£m
Borrowings	21	970.7	88.1	2.0	–	–	(29.2)	1,031.6
Interest rate swaps	22	5.6	–	–	(5.2)	–	–	0.4
Interest rate caps	22	–	–	–	–	–	–	–
Lease liabilities		–	–	–	–	3.4	–	3.4
		976.3	88.1	2.0	(5.2)	3.4	(29.2)	1,035.4

Notes to the Group financial statements continued

for the year ended 31 December 2022

29. Contingencies

At 31 December 2022 and 31 December 2021 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 £29.9 million at 31 December 2022 are also covered by guarantees provided by CLS Holdings plc (£30.2 million at 31 December 2021).

30. 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	2022 £m	2021 £m
Within one year	100.4	99.9
Between one and two years	85.7	88.7
Between two and three years	71.4	73.3
Between three and four years	50.3	59.2
Between four and five years	38.8	38.9
More than five years	135.0	133.4
	481.6	493.4

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

Other commitments

At 31 December 2022 the Group had contracted capital expenditure of £16.7 million (2021: £25.1 million). At the balance sheet date, the Group had not exchanged contracts to acquire any investment properties (2021: £nil). There were no authorised financial commitments which were yet to be contracted with third parties (2021: £nil).

31. Post-balance sheet events

On 2 February 2023, the Group exchanged on the disposal of a property in France for £9.8m. Completion is scheduled for 14 April 2023 and the sale will be paid in 2 instalments, 50% on completion and 50% on 20 December 2023.

32. Subsidiaries

The Group financial statements include the financial statements of CLS Holdings plc and all of its subsidiaries, which are listed below. All are 100% owned unless otherwise stated. Those marked with a * were dissolved during 2022.

United Kingdom

Registered Office: 16 Tinworth Street, London SE11 5AL

16 Tinworth Street (Residential) Limited	CLS Gateway House Limited	CLS UK Property Finance 2 Limited	NYK Investments Limited
401 King Street Limited	CLS Germany Limited	CLS Watford Limited	One Elmfield Park Limited
Apex Tower Limited	CLS Gresham Limited	CLSH Management Limited	Prescot Street Leasco Limited
Base Offices Limited	CLS Harrow Limited	Columbia Bracknell Limited	Quayside Lodge Limited
Brent House Limited	CLS Holdings UK Limited	Coventry House Limited	Rayman Finance Limited
Cassini Pascal Limited	CLS Lloyds Avenue Limited	Dukes Road Limited	Reflex Bracknell Limited
Centenary Court Limited	CLS London Limited	Elmfield Road Limited	Sentinel House Limited
Central London Securities Limited	CLS London Properties Limited	Fetter Lane Apartments Limited	Shard of Glass Limited
Citadel Finance Limited	CLS Northern Properties Limited	Fetter Lane Leasehold Limited	Sidlaw House Limited
Citadel Holdings plc	CLS One Limited	Harman House Limited	Southern House Limited
CI Tower Investments Limited	CLS Pacific House Limited	Hygeia Harrow Limited	Spring Gardens III Limited
CLS Aberdeen Limited	CLS Prescot Limited	Ingrove Limited	Spring Mews (Block D) Limited
CLS Capital Partners Limited	CLS Priory Place Limited	Instant Office Limited	Spring Mews (Hotel) Limited
CLS Chancery House Limited	CLS Residential Investments Limited	Kennington Road Limited	Spring Mews Limited
CLS Church Road Limited	CLS Scotland Limited	Ladywell House Limited	Spring Mews (Student) Limited
CLS Cliffords Inn Limited	CLS South London Limited	Larkhall Lane Limited	Three Albert Embankment Limited
CLS Clockwork Limited	CLS Spring Gardens Limited	Maidenhead Cloud Gate Limited	Vauxhall Square Limited
CLS Crawley Limited	CLS Staines Limited	Mirenwest Limited	Vauxhall Square One Limited
CLS England and Wales Limited	CLS UK Properties plc	New Printing House Square Limited	Vauxhall Square (Student) Limited
	CLS UK Property Finance Limited		Wandsworth Road Limited

Notes to the Group financial statements continued

for the year ended 31 December 2022

32. Subsidiaries continued

France

Registered Office: 36 Rue Jules Verne, 92300 Levallois-Perret, Paris

120 Jean Jaures Sàrl	Foch SCI	Le D'Aubigny SCI	Rhone Alpes Sàrl
Avenue du Park SCI	Forum France SCI	Le Quatuor SCI	Rue Stephenson Sàrl
BV France Sàrl	Georges Clemenceau Sàrl	Le Sigma Sàrl	Scala Sàrl
Capitaine Guynemer Sàrl	Immobilière V SA	Leclerc SCI	SCI Frères Peugeot
Chorus Sàrl*	Immobilière 6 Sàrl	Mission Marchand Sàrl	SCI Pierre Valette
CLS France Sàrl	Immobilière 8 Sàrl	Parc SCI	Sego Sàrl
CLS Management Sàrl	Immobilière 10 Sàrl	Petits Champs Sàrl*	Solferino SCI
Debussy SCI	Immobilière 12 Sàrl*	Petits Hotels Sàrl	
De Musset Sàrl	Jean Walters Sàrl		

Germany

Registered Office: Nagelsweg 37, 20097 Hamburg

CLS Germany GmbH
CLS Green Energy GmbH
Jarrestrasse Immobilien GmbH

Luxembourg

Registered Office: 33 Avenue de la Liberte, 1931 Luxembourg

Adlershofer Sàrl	CLS Luxembourg Sàrl	Gotic Haus Sàrl	Prater Sàrl
Albertina Sàrl	CLS Metropolis Sàrl	Grossglockner Sàrl	Salisbury Hill Sàrl
Cavernet Sàrl	CLS Palisade Sàrl	Hermalux Sàrl	Satimood Sàrl
Chronotron Sàrl	CLS Storkower Strasse Sàrl	Kapellen Sàrl	Schönbrunn Sàrl
CLS Dortmund Hiltropwall Sàrl	CLS Tangentis Sàrl	Landstrasse Sàrl	Zillertal Sàrl
CLS Hansaallee Sàrl	CLS Wendenstrasse Sàrl	Naropere Sàrl	
CLS Immobilien Stuttgart Sàrl	Freepost Sàrl	Network Perlach Sàrl	
CLS Investments Sàrl	Garivet Sàrl		
CLS Investments 2 Sàrl			

Netherlands

Registered Office: Burgemeester van Reenensingel 101, 2803 DA Gouda

Chorus BV*	Malmros Property BV*	Portapert Properties UK BV
CLS Management BV	Petits Champs BV*	Rasstaf BV*
Hammersley International BV*	Portapert Properties III BV	

Sweden

Registered Office: Skönabäck 122, 274 91 Skurup

Rasstaf Sweden AB	With Young Attitude Media Group AB (98.87%)*
Museion Förvaltning AB	Cood Investments AB (58.02%)
Xtraworks AB	

33. Related party transactions

Transactions with Directors

Distributions totalling £2,160,231 (2021: £2,061,273) were made through dividend payments in the year in respect of ordinary shares held by the Directors and £16,530,803 (2021: £15,828,480) 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 £81 (2021: £23,980). At the balance sheet date £nil was outstanding (2021: £nil). In addition at 31 December 2022 the Group held cash of £0.2 million relating to this contract.
- The Group recharged salary costs in relation to providing administration services. CLS Holdings plc, invoiced costs totalling £63,384 (2021: £62,705). At the balance sheet date £63,384 was outstanding (2021: £62,705).
- The Group paid fees in relation to the provision of company administration and bookkeeping services in Sweden totalling £23,601 (2021: £18,552). At the balance sheet date £3,570 was outstanding (2021: £2,451).

During the year, or previous year, the following transactions associated with the Directors occurred:

- During the year, the Group invoiced rental related charges of £169,944 (2021: £143,469) to IKEA Limited, a company in a group of companies with a common Director. At the balance sheet date £nil was outstanding (2021: £nil).
- During 2021, an internship was awarded to a person related to Denise Jagger, a director of the Company. The internship was for a period of three months and they received a salary equivalent to £25,000 per annum (£6,346 for the period).

Directors' remuneration

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Information about the remuneration of individual Directors is provided in the audited part of the Remuneration Committee Report on pages 133 to 151.

	2022 £000	2021 £000
Short-term employee benefits	960	995
Post-employment benefits	4	4
Other long-term benefits	56	372
	1,020	1,371

Company balance sheet

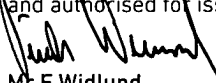
at 31 December 2022

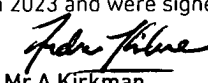
	Notes	2022 £m	2021 £m
Non-current assets			
Investment in subsidiary undertakings	7	422.5	451.4
Intangible assets		2.8	2.0
Current assets			
Trade and other receivables	8	3.6	3.0
Total assets		428.9	456.4
Current liabilities			
Other payables	9	(33.1)	(43.9)
Total liabilities		(33.1)	(43.9)
Net assets		395.8	412.5
Equity			
Share capital	10	11.0	11.0
Share premium	11	83.1	83.1
Other reserves	11	28.3	28.1
Retained earnings	11	273.4	290.3
Shareholders' funds	12	395.8	412.5

The Company reported a profit for the financial year ended 31 December 2022 of £41.3 million (2021: £43.2 million).

The notes on pages 224 to 226 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 10 March 2023 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 2022

	Notes	Share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total £m
Arising in 2022:						
Profit for the year	11	–	–	–	41.3	41.3
Share-based payment charge	11	–	–	0.2	–	0.2
Dividends to shareholders	6	–	–	–	(32.4)	(32.4)
Purchase of own shares	11	–	–	–	(25.8)	(25.8)
Total changes arising in 2022		–	–	0.2	(16.9)	(16.7)
At 1 January 2022		11.0	83.1	28.1	290.3	412.5
At 31 December 2022		11.0	83.1	28.3	273.4	395.8

	Notes	Share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total £m
Arising in 2021:						
Profit for the year	11	–	–	–	43.2	43.2
Share-based payment charge	11	–	–	(0.1)	–	(0.1)
Dividends to shareholders	6	–	–	–	(30.8)	(30.8)
Total changes arising in 2021		–	–	(0.1)	12.4	12.3
At 1 January 2021		11.0	83.1	28.2	277.9	400.2
At 31 December 2021		11.0	83.1	28.1	290.3	412.5

The notes on pages 224 to 226 are an integral part of these Company financial statements.

Strategic report

Corporate governance

Financial statements

Additional information

Notes to the Company financial statements

for the year ended 31 December 2022

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 Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts as detailed in the Directors' Report on page 170.

3. Significant 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 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.

3.3 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.

3.4 Foreign currencies

The financial statements are presented in Sterling, which is the currency of the primary economic environment in which the Company operates, known as its functional currency. Transactions in currencies other than the Company's functional currency are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in other currencies are translated into Sterling at the rates prevailing at that date.

4. 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 amounts recognised in the financial statements.

In the opinion of the Directors, for the years ended 31 December 2022 and 31 December 2021 there are no accounting judgements that are material to the financial statements however they consider the following to be ongoing judgements.

- Impairments to investment in subsidiaries

Key sources of estimation uncertainty

There are no key sources of estimation uncertainty in these Company financial statements for the years ended 31 December 2022 and 31 December 2021.

5. Profit for financial year

As permitted by s408 Companies Act 2006, the Company's profit and loss account has not been presented in these financial statements. The Company's profit for the financial year was £41.3 million (2021: £43.2 million).

Audit fees for the Company were £0.1 million (2021: £0.1 million).

Details of the Directors employed during the year and of their remuneration is included in the Remuneration Committee Report on pages 133 to 151.

6. Dividend

	Payment date	Dividend per share p	2022 £m	2021 £m
Current year				
2022 final dividend ¹	02 May 2023	5.35	–	–
2022 interim dividend	03 October 2022	2.60	10.6	–
Distribution of current year profit			10.6	–
Prior year				
2021 final dividend	29 April 2022	5.35	21.8	–
2021 interim dividend	24 September 2021	2.35	–	9.6
Distribution of prior year profit		7.70	21.8	9.6
2020 final dividend	29 April 2021	5.20	–	21.2
Dividends as reported in the Group statement of changes in equity			32.4	30.8

¹ Subject to shareholder approval at the AGM on 27 April 2023. Total cost of proposed final dividend is £21.3 million.

7. Investment in subsidiary undertakings

	2022 £m	2021 £m
At 1 January	451.4	432.9
Additions	–	49.6
Disposals	(23.9)	(21.7)
Provision for impairment	(5.0)	(9.4)
At 31 December	422.5	451.4

8. Trade and other receivables

	2022 £m	2021 £m
Amounts owed by subsidiary undertakings	2.2	1.6
Other receivables	1.1	1.2
Prepayments and accrued income	0.2	0.2
Social security and other taxes	0.1	–
	3.6	3.0

9. Other payables

	2022 £m	2021 £m
Trade payables	–	0.1
Amounts owed to subsidiary undertakings	30.9	42.0
Social security and other taxes	–	0.2
Accruals	2.2	1.6
	33.1	43.9

Notes to the Company financial statements continued

for the year ended 31 December 2022

10. Share capital

	Number of shares authorised, issued and fully paid			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
At 1 January 2021	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 £3,310,090 representing one-third of the issued share capital of the Company excluding treasury shares.

11. Reserves

	Other reserves					Profit and loss account £m
	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Other £m	Total £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	–	–	–	–	–	41.3
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	273.4

	Other reserves					Profit and loss account £m
	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Other £m	Total £m	
At 1 January 2021	83.1	22.7	0.9	4.6	28.2	277.9
Share-based payment charge	–	–	(0.1)	–	(0.1)	–
Profit for the year	–	–	–	–	–	43.2
Dividends to shareholders	–	–	–	–	–	(30.8)
At 31 December 2021	83.1	22.7	0.8	4.6	28.1	290.3

12. Reconciliation of movements in shareholders' funds

	2022 £m	2021 £m
At 1 January	412.5	400.2
Profit for the year	41.3	43.2
Dividends to shareholders	(32.4)	(30.8)
Purchase of own shares	(25.8)	–
Share-based payment charge	0.2	(0.1)
At 31 December	395.8	412.5

13. Contingencies

At 31 December 2022 and 31 December 2021 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 £29.9 million at 31 December 2022 are also covered by guarantees provided by CLS Holdings plc (£30.2 million at 31 December 2021). Since the possibility of payment by the Company under any of these guarantees and warranties is considered remote, no provisions in relation to these have been made in the Company's financial statements and no reportable contingent liability exists.

14. Commitments

At 31 December 2022, the Company had no contracted capital expenditure (2021: £nil) and no authorised financial commitments which were yet to be contracted with third parties (2021: £nil).

Five-year financial summary (unaudited)

	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Continuing operations					
Revenue	139.7	139.8	139.4	138.3	133.0
Net rental income	107.8	108.0	109.8	110.6	107.3
Administration expenses	(15.7)	(16.2)	(18.5)	(19.9)	(17.8)
Other expenses	(16.2)	(14.4)	(15.1)	(13.7)	(13.2)
Revenue less costs	75.9	77.4	76.2	77.0	76.3
Net movements on revaluation of investment property	(136.5)	28.5	31.5	57.4	62.8
(Loss)/profit/(Loss) on sale of investment property	0.5	(0.1)	11.6	8.6	2.3
Gain on sale of other financial investments	–	–	–	40.4	1.7
Net movement on revaluation of equity investments	(3.8)	7.5	–	–	22.2
Operating profit	(63.9)	113.3	119.3	183.4	165.3
Finance income	10.1	5.9	3.2	5.0	6.1
Finance costs	(27.1)	(27.7)	(26.0)	(29.4)	(26.5)
Impairment of goodwill	(1.1)	–	–	–	–
Profit before tax	(82.0)	91.5	96.5	159.0	144.9
Taxation	0.1	28.0	(19.1)	(23.8)	(12.1)
Profit for the year from continuing operations	(81.9)	119.5	77.4	135.2	132.8
Discontinued operations					
(Loss)/profit for the year from discontinued operations	–	–	–	(0.5)	(14.9)
(Loss)/profit for the year	(81.9)	119.5	77.4	134.7	117.9
Dividends paid	32.4	30.8	30.1	28.7	26.5
Distribution of current year's profit	31.9	31.4	30.8	30.1	28.1
Net assets employed					
Non-current assets	2,351.4	2,301.1	2,181.4	2,010.2	2,034.5
Current assets	150.0	237.4	279.6	295.4	173.0
	2,501.4	2,538.5	2,461.0	2,305.6	2,207.5
Current liabilities	(234.0)	(229.8)	(158.2)	(198.9)	(170.0)
Non-current liabilities	(1,046.6)	(978.0)	(1,032.2)	(904.3)	(914.5)
Net assets	1,220.8	1,330.7	1,270.6	1,202.4	1,123.0
Ratios	2022	2021	2020	2019	2018
Net assets per share (pence)	307.3	326.6	311.9	295.1	275.5
EPRA NTA per share (pence)	329.6	350.5	345.2	326.3	304.6
Earnings per share (pence)	(20.2)	29.3	19.0	33.3	30.5
EPRA earnings per share (pence)	11.6	11.3	12.2	12.0	13.1
Total Accounting Return – basic (%)	(3.5)	7.1	8.2	10.7	11.9
Total Accounting Return – EPRA NTA (%)	(3.7)	3.7	8.1	9.4	n/a
Net gearing (%)	81.6	65.4	58.3	53.0	63.4
Balance sheet loan-to-value (%)	42.2	37.1	33.7	31.4	36.7
Interest cover (times)	2.98	3.16	3.26	3.42	3.80

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Extended Sustainability Metrics

Figures subject to assurance are indicated in footnotes

Table 1: EPRA sBPR Absolute Energy Consumption

Indicator	Measure	Unit	2021	2022	YoY%	2022 UK	2022 France	2022 Germany
Elec- Abs	Total energy consumption – electricity							
	Total landlord purchased grid electricity from renewable sources	kWh	27,383,172	28,237,967	3%	19,939,596	2,926,633	5,371,738
	Total landlord purchased grid electricity from non-renewable sources	kWh	2,348,868	18,615	(99)%	18,615	–	–
	Total electricity generated through on-site PV or CHP	kWh	960,614	1,209,087	26%	907,648	72,382	229,057
	Proportion of electricity from renewable sources	%	92%	99.9%	9%	99.9%	100%	100%
	Total grid purchased electricity consumed in landlord areas	kWh	20,676,838	20,277,919	(2)%	11,979,549	2,926,633	5,371,738
	Total grid purchased electricity sub-metered to occupiers	kWh	9,020,202	7,978,663	(12)%	7,978,663	–	–
	Grid electricity consumed within head offices	kWh	193,097	190,675	(1)%	147,472	4,042	39,161
DH&C- Abs	Total energy consumption – district heating and cooling							
	Total district heating and cooling from renewable sources	kWh	694,510 ⁵	1,629,070	135%	–	–	1,629,070
	Total district heating and cooling from non-renewable sources	kWh	10,955,094 ⁵	9,892,819	(10)%	–	639,982	9,252,837
	Percentage of district heating and cooling consumed from renewable sources	%	6%	16%	160%	–	–	18%
Fuels- Abs	Total energy consumption – fuels							
	Total direct fuel consumption for landlord spaces	kWh	25,907,388 ³	22,966,497	(11)%	13,550,493	108,612	9,307,392 ³
	Total direct fuel purchased sub-metered to occupiers	kWh	2,498	11,306	353%	11,306	–	–
	Percentage of total fuel consumption from renewable sources	%	–	–	–	–	–	–
Total Energy- Abs	Total energy consumption							
	Total building energy (electricity and fuel) consumption	kWh	68,252,145	63,965,360	(6)%	34,427,658	3,747,609	25,790,093
	Total building energy used in landlord spaces	kWh	59,194,444	55,975,391¹	(5)%	26,437,689	3,747,609	25,790,093
	Total building energy sub-metered to occupiers	kWh	9,022,700	7,989,969	(11)%	7,989,969	–	–
Energy- Int	Building Energy Intensity							
	Net Lettable Floor Area (m ²)	m ²	506,071	544,690	8%	134,323	58,450	351,917
	Building Energy Intensity (kWh/m ² /year)	kWh/m ² /year	135	117	(13)%	256	64	73

1 Assured 2022 Figure.

3 Figure restated due to availability of new data.

5 Figure restated due to replacement of estimated data.

Table 2: EPRA sBPR Like-for-Like Energy Consumption

Indicator	Measure	Unit	2021	2022	YoY%	2022 UK	2022 France	2022 Germany
Elec- LfL	Total energy consumption – electricity							
	Total landlord purchased grid electricity from renewable sources	kWh	24,532,312	25,531,784	4%	18,845,271	2,906,526	3,779,987
	Total landlord purchased grid electricity from non-renewable sources	kWh	2,030,955	1,510	(100)%	1,510	–	–
	Total electricity generated through on-site PV or CHP	kWh	895,236	1,168,470	31%	890,850	72,382	205,238
	Proportion of electricity from renewable sources	%	93%	100%	8%	100%	100%	100%
	Total grid purchased electricity consumed in landlord areas	kWh	18,670,192	17,998,506	(4)%	11,313,502	2,906,526	3,779,987
	Total grid purchased electricity sub-metered to occupiers	kWh	7,893,075	7,534,789	(5)%	7,534,789	–	–
	Grid electricity consumed within head offices	kWh	193,097	190,675	(1)%	147,472	4,042	39,161
DH&C- LfL	Total energy consumption – district heating and cooling							
	Total district heating and cooling from renewable sources	kWh	694,510	1,629,070	135%	–	–	1,629,070
	Total district heating and cooling from non-renewable sources	kWh	9,439,083	6,860,820	(27)%	–	639,982	6,220,838
	Percentage of district heating and cooling consumed from renewable sources	%	7%	24%	223%	–	–	26%
Fuels- LfL	Total energy consumption – fuels							
	Total direct fuel consumption for landlord spaces	kWh	21,895,914	20,122,572	(8)%	12,283,704	–	7,838,869
	Total direct fuel purchased sub-metered to occupiers	kWh	2,498	11,306	353%	11,306	–	–
	Percentage of total fuel consumption from renewable sources	%	–	–	–	–	–	–
Total Energy- LfL	Total energy consumption							
	Total building energy (electricity and fuel) consumption	kWh	59,490,508	55,325,532	(7)%	32,032,640	3,618,890	19,674,003
	Total building energy used in landlord spaces	kWh	51,594,935	47,779,438	(7)%	24,488,056	3,618,890	19,674,003
	Total building energy sub-metered to occupiers	kWh	7,895,573	7,546,094	(4)%	7,546,094	–	–

Extended Sustainability Metrics continued

Figures subject to assurance are indicated in footnotes

Table 3: EPRA sBPR Absolute Greenhouse Gas Emissions

Indicator	Measure	Unit	2021	2022	YoY %	2022 UK	2022 France	2022 Germany
GHG-Dir-Abs	Scope 1							
	GHG emissions from purchased fuels combusted on-site	tCO ₂ e	4,760 ³	4,198	(12)%	2,479	20	1,700
	GHG emissions from refrigerant gases	tCO ₂ e	679	660	(3)%	349	167	143
GHG-Indir-Abs	Scope 2							
	GHG emissions from purchased electricity consumed in landlord areas (location-based)	tCO ₂ e	4,821 ⁴	4,080	(15)%	2,317	160	1,603
	GHG emissions from purchased district heating and cooling (location-based)	tCO ₂ e	3,666 ⁵	3,274	(11)%	–	37	3,237
	GHG emissions from purchased electricity consumed in head offices (location-based)	tCO ₂ e	46 ⁴	40	(11)%	29	0	12
	GHG emissions from purchased electricity consumed in landlord areas (market-based)	tCO ₂ e	121	2	(99)%	2	–	–
	GHG emissions from purchased district heating and cooling (market-based)	tCO ₂ e	1,622	1,102	(32)%	–	100	1,002
	GHG emissions from purchased electricity consumed in head offices (market-based)	tCO ₂ e	0	–	(100)%	–	–	–
GHG-Indir-Abs	Scope 3							
	GHG emissions from new construction and other capital goods	tCO ₂ e	34,349	49,927¹	45%	31,429	10,056	8,442
	GHG emissions from purchased goods and services	tCO ₂ e	8,531	9,976¹	17%	4,446	437	5,093
	GHG emissions from T&D and WTT losses	tCO ₂ e	1,247	1,261¹	1%	777	19	465
	GHG emissions from water and waste treatment	tCO ₂ e	66	80¹	21%	36	11	33
	GHG emissions from business travel	tCO ₂ e	122	180¹	47%	54	16	110
	GHG emissions from employee commuting, including homeworking	tCO ₂ e	8	64¹	702%	43	5	16
	GHG emissions from sub-metered utilities, and occupier-controlled utilities	tCO ₂ e	20,274	25,296¹	25%	2,294	217	22,786
GHG-Int	Greenhouse Gas Intensity							
	Net Lettable Area	m ²	506,071	544,690	8%	134,323	58,450	351,917
	Scopes 1 and 2 only	kgCO ₂ e/m ² /year	28	22¹	(19)%	38	7	19
	Scopes 1, 2 and 3	kgCO ₂ e/m ² /year	155	182	17%	329	191	124

1 Assured 2022 figure.

3 Figure restated due to availability of new data.

4 Figure restated due to exclusion of Transmission and Distribution losses from the electricity factors please see page 234 for more details.

5 Figure restated due to replacement of estimated data.

Table 4: EPRA sBPR Like-for-Like Greenhouse Gas Emissions

Indicator	Measure	Unit	2021	2022	YoY %	2022 UK	2022 France	2022 Germany
GHG- Dir-LfL	Scope 1							
	GHG emissions from purchased fuels combusted on-site	tCO ₂ e	4,024	3,679	(9)%	2,247	–	1,431
	GHG emissions from refrigerant gases	tCO ₂ e	601	581	(3)%	328	167	86
GHG- Indir-LfL ²	Scope 2							
	GHG emissions from purchased electricity consumed in landlord areas (location-based)	tCO ₂ e	4,300	3,474	(19)%	2,188	158	1,128
	GHG emissions from purchased district heating and cooling (location-based)	tCO ₂ e	3,169	2,372	(25)%	–	37	2,335
	GHG emissions from purchased electricity consumed in head offices (location-based)	tCO ₂ e	46	40	(11)%	29	0	12
	GHG emissions from purchased electricity consumed in landlord areas (market-based)	tCO ₂ e	109	0	(100)%	0	–	–
	GHG emissions from purchased district heating and cooling (market-based)	tCO ₂ e	1,459	816	(44)%	–	100	716
	GHG emissions from purchased electricity consumed in head offices (market-based)	tCO ₂ e	0	–	(100)%	–	–	–

Table 5: EPRA sBPR Absolute Water Consumption

Indicator	Measure	Unit	2021	2022	YoY %	2022 UK	2022 France	2022 Germany
Water- Abs	Total water consumption							
	Total landlord obtained water	m ³	167,343	181,752¹	9%	97,372	18,493	65,887
	Total water sub-metered to occupiers	m ³	–	–	–	–	–	–
Water- Int	Building water intensity							
	Net Lettable Floor Area	m ²	506,071	544,690	8%	134,323	58,450	351,917
	Building water intensity	m ³ /m ²	0.33	0.33	1%	0.72	0.32	0.19

1 Assured 2022 Figure.

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

Extended Sustainability Metrics continued

Figures subject to assurance are indicated in footnotes

Table 6: EPRA sBPR Like-for-Like Water Consumption

Indicator	Measure	Unit	2021	2022	YoY %	2022 UK	2022 France	2022 Germany
Water-LfL	Total water consumption							
	Total landlord obtained water	m ³	144,714	164,218	13%	91,292	18,028	54,898
	Total water sub-metered to occupiers	m ³	–	–	–	–	–	–

Table 7: EPRA sBPR Absolute Waste⁶

Indicator	Measure	Unit	2021	2022	% by disposal route	YoY %	2022 UK	2022 France	2022 Germany
Waste-Abs	Total waste								
	Total waste collected	t	1,073	1,422¹	100%	32%	433	297	692
	Total non-hazardous waste	t	1,064	1,422¹	100%	34%	433	297	692
	Total hazardous waste	t	10	0.1¹	0%	(99)%	0.1	–	–
	Total waste recycled	t	631	755¹	53% ¹	22%	295	97	363
	Total waste incinerated with energy recovery	t	443	667¹	47% ¹	51%	137	200	330
	Total waste sent to landfill	t	–	–	0%	–	–	–	–

Table 8: EPRA sBPR Like-for-Like Waste⁶

Indicator	Measure	Unit	2021	2022	% by disposal route	YoY %	2022 UK	2022 France	2022 Germany
Waste-LfL	Total waste								
	Total waste collected	t	955	1,242	100%	30%	396	289	558
	Total non-hazardous waste	t	946	1,242	100%	31%	395	289	558
	Total hazardous waste	t	9	0.1	0%	(99)%	0.1	–	–
	Total waste recycled	t	560	659	53%	18%	271	94	294
	Total waste incinerated with energy recovery	t	394	583	47%	48%	124	195	264
	Total waste sent to landfill	t	–	–	0%	–	–	–	–

¹ Assured 2022 figure.

⁶ All waste figures for 2021 have been restated due to a change in our methodology please see page 236 for more details.

Table 9: EPRA sBPR Building Certifications

Indicator	Measure	Level of Certification	% of portfolio NLA 2021	% of portfolio NLA 2022	% change YoY
Cert-Tot	Energy Performance Certification (EPCs)	A	3%	3%	(4)%
		B	4%	5%	25%
		C	10%	7%	(31)%
		D	16%	13%	(20)%
		E	0%	0%	0%
		F	0%	0%	0%
		G	0%	0%	0%
		Uncertified (Managed)	0%	0%	0%
		Uncertified (FRI)	0%	0%	0%
	Energieeinsparverordnung (EnEV)	Green	8%	8%	(3)%
		Yellow	23%	27%	20%
		Amber	22%	22%	0%
		Red	0%	0%	0%
	Diagnostic de Performance Énergétique (DPE)	A	0%	0%	(16)%
		B	1%	0%	(60)%
		C	3%	3%	(7)%
		D	4%	4%	(3)%
		E	1%	1%	(4)%
		F	1%	1%	(6)%
		G	1%	1%	(26)%
		I	2%	2%	(4)%
	BREEAM	Excellent	1%	1%	16%
		Very Good	22%	22%	(3)%
		Good	53%	52%	(0)%
		Pass	1%	1%	(6)%
		Uncertified (Managed)	11%	15%	38%
		Uncertified (FRI)	12%	9%	(26)%
	SKA	Gold	2%	2%	22%
		Silver	0%	0%	0%
		Bronze	0%	0%	0%

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Extended Sustainability Metrics continued

Figures subject to assurance are indicated in footnotes

Table 10: SASB Energy Management

Reference	Accounting Metric	Response
IF-RE-130a.1	Energy consumption data coverage as a percentage of total floor area, by property subsector.	100% Base Building data coverage
IF-RE-130a.2	Total energy consumed by portfolio area with data coverage	63,965,360 kWh total consumption for Base Building and UK submetered tenants. Excludes any energy purchased directly by tenants.
	Percentage of grid electricity	42%
	Percentage renewable by property subsector	99.9%
IF-RE-130a.3	Like-for-like percentage change in energy consumption for the portfolio area with data coverage, by property subsector	-6%
IF-RE-130a.4	Percentage of eligible portfolio that has an energy rating	100% of the managed portfolio
	Percentage of eligible portfolio that is certified to ENERGY STAR by property subsector	Not applicable.
IF-RE-130a.5	Description of how building energy management considerations are integrated into property investment analysis and operational strategy	Please refer to 'Climate-related Transition Risks and Opportunities' section on pages 65-73

Table 11: SASB Water Management

Reference	Accounting Metric	Response
IF-RE-140a.1	Water withdrawal data coverage as a percentage of total floor area by property subsector	100%
	Water withdrawal data coverage as a percentage of floor area in regions with High or Extremely High Baseline Water Stress by property subsector	100%
IF-RE-140a.2	Total water withdrawn by portfolio area with data coverage by property subsector	181,752 m ³
	Percentage of total water withdrawn in regions with High or Extremely High Baseline Water Stress by property subsector	16%
IF-RE-140a.3	Like-for-Like percentage change in water withdrawn for portfolio area with data coverage by property subsector	9% increase
IF-RE-140a.4	Description of water management risks and discussion of strategies and practices to mitigate those risks	Please refer to the 'Sustainability Risks' section on page 91-92, the 'Water' section on page 74 and 'Climate-related Physical Risks' section on pages 68-73

Table 12: SASB Management of Tenant Sustainability Impacts

Reference	Accounting Metric	Response
IF-RE-410a.1	Percentage of new leases that contain a cost recovery clause for resource efficiency-related capital improvements	Not currently measured.
	Associated floor area by property subsector	Not currently measured.
IF-RE-410a.2	Percentage of tenants that are separately metered or submetered for grid electricity by property subsector	100% of the managed portfolio.
	Percentage of tenants that are separately metered or submetered for water withdrawals by property subsector	0% of the managed portfolio.
IF-RE-410a.3	Discussion of approach to measuring, incentivising, and improving sustainability impacts of tenants	Please refer to 'Scope 3 GHG Emissions' section on page 59-60, 'Environmental Impacts' section on page 74-75 and the 'Stakeholder Engagement' section on page 42.

Table 13: SASB Climate Change Adaptation

Reference	Accounting Metric	Response
IF-RE-450a.1	Area of properties located in 100-year flood zones, by property subsector.	2,354,665 sq ft
IF-RE-450a.2	Description of climate change risk exposure analysis, degree of systematic portfolio exposure, and strategies for mitigating risks.	Please see 'Climate-related Physical Risks' section on pages 68-73

Table 14: SASB Activity Metrics

Reference	Accounting Metric	Response
IF-RE-000.A	Number of assets by property subsector	89
IF-RE-000.B	Leasable floor area by property subsector	6,405,732 sq ft
IF-RE-000.C	Percentage of individually managed assets, by property subsector	86%
IF-RE-000.D	Average occupancy rate, by property subsector	6.94%

Sustainability Metrics: Scope, Boundaries & Methodology

Methodology

Introduction

This document summarises the scope, boundaries and methodology adopted by CLS Holdings plc ("CLS") for its sustainability performance reporting, including SECR reporting, EPRA Sustainability Best Practices Recommendations ("sBPR") reporting, and any other sustainability metrics disclosed by CLS.

Reporting Boundaries

CLS' reporting period runs in alignment with its financial year, from 1st January to 31st December, annually.

CLS uses the 'operational control' approach for all its sustainability reporting, based on the guidance by The Greenhouse Gas ("GHG") Protocol.

CLS Holdings plc is the highest parent entity of the CLS Group of companies. All subsidiary entities within the CLS Group are appraised consistently against the scope and boundaries defined in this document.

For all Internal Repair and Insurance "IRI" leases CLS assumes all control over consumption in common areas of the property, i.e. anything not directly in occupiers' demises. Any consumption within direct occupier demise will be included as Scope 3, Downstream Emissions.

Following our operational control approach, all consumption within properties under a Full Repair and Insurance ("FRI") leases is categorised as Scope 3, Downstream Emissions.

Any properties co-owned by CLS will be reported if CLS own the majority of the net lettable area ("NLA") of the building and has operational control over the management of the space, otherwise the property will be excluded from Scope 1, 2, and 3 calculations. CLS will report the % of emissions that equals its ownership %, unless CLS owned space is separately metered.

Where properties move from an FRI lease to an IRI lease, CLS assumes all consumption as per above from the date of move and vice-versa.

For acquisitions and disposals, CLS aims to always include all consumption from the date of acquisition or up to date of completion of the sale. If data for new acquisitions is not available, CLS will exclude the property from that reporting period until the following reporting period. This will be clearly noted in this document. In 2022, no new acquisitions have been excluded from the reporting.

CLS has a limited development portfolio and does not have operational control over construction or refurbishment activities. Therefore, all consumption associated with this is classed under Scope 3.

The energy, including electricity and fuels consumption, which we purchase as landlords refers to common areas, shared services, and occupier areas where this consumption is not sub-metered but recharged via the service charge.

Where energy is obtained by the landlord, but consumed in occupier areas and is sub-metered, such consumption has been allocated to occupiers in our Scope 3 emissions. Utilities procured directly by occupiers are excluded from Scope 1 and 2 as they fall outside our operational control. These emissions are captured in Scope 3.

Water consumption occurs at a whole building level and therefore includes occupier use and is not separated. Waste data covers occupier and landlord waste combined as we are generally responsible for waste contracts.

Materiality

Every effort is made to ensure the accuracy of our data for reporting purposes each year. However, if revised data is obtained this will be considered material and would trigger a subsequent restatement if it meets the following criteria:

- Any one revision that impacts the Group reported figure by 3% or more or,
- Any series of revisions that collectively impact the Group reported figure by 5% or more.

Carbon Conversion Factors

CLS follows The GHG Protocol guidance for calculating its GHG emissions. For its Scope 2, electricity, and district heating emissions, CLS follows a dual approach, reporting both location-based factors, as well as market-based factors obtained from its suppliers. To ensure consistency in market-based Scope 2 reporting, where exact tariff factor is not known, CLS will use the worst factor published by the supplier. If the supplier does not publish any factors, CLS will instead use the location factors for that supply.

This approach allows CLS to show the impact of its renewable energy procurement across the portfolio.

CLS sources its energy and carbon conversion factors primarily from the UK Government GHG Conversion Factors document provided by the Department for Environment Food and Rural Affairs ("DEFRA") for Company Reporting. Additionally, CLS sources electricity and district heating conversion factors from IEA to cover its French and German portfolio.

All electricity factors exclude transmission and distribution ("T&D") losses, as those are captured in our Scope 3 reporting.

For its Scope 3 reporting, CLS uses a mixture of DEFRA and IEA factors as well as the factors used by the Quantis tool developed with GHG Protocol. More detail can be found in our Scope 3 section.

Data Collection

Utility data is collected from automated meter readings (AMR), manual meter readings, invoices, or maintenance records. To limit the risk of human error, CLS heavily invests in its smart metering infrastructure across the portfolio. For external reporting, AMR data is used wherever possible, followed then by invoices, then manual meter readings (only if necessary).

Calculation Methodology

Scope 1

Natural Gas

Natural Gas is recorded in cubic meters and cubic feet.

This consumption is then converted into kWh using appropriate energy conversion factors from DEFRA. Where there are direct natural gas supplies into occupier demises that are sub-metered off the main building supply, and over which the occupier exerts operational control, this gas use is classed as Scope 3 for reporting purposes.

Liquid Fuels

Liquid Fuels (gas oil and diesel) are recorded in litres from our supplier invoices or statements, these are then converted to kWh using the appropriate energy conversion factors. For diesel generators, where we only have a record of the number of hours run in the reporting year, fuel consumption chart has been used to calculate the approximate fuel consumption in litres. In these instances, we assume generators are run at half load.

Diesel generator fuel consumption chart in litres.

Fluorinated Gases

Fluorinated Gases (F-Gases): are recorded in kilograms. The Screening Method is adopted to estimate the annual GHG emissions from refrigerants across the CLS portfolio. To do this we utilise the inventory within our F-Gas register which contains information on the plant type, F-Gas charge, and F-Gas type, and apply the appropriate annual leak rate as per the Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance (March 2019) document.

CLS determines the size of an air conditioning system using a two-step approach:

1. where the cooling capacity of the system in kW has been recorded, CLS uses the CIBSE TM44 Inspection of Air Conditioning Systems guidance to classify the size of the system:
 - a. Small: cooling capacity < 12kW
 - b. Medium: cooling capacity 12kW < 250kW
 - c. Large: cooling capacity >= 250kW
2. Where the cooling capacity has not been recorded, but the F-Gas charge in kilograms has been recorded, CLS uses the following classifications, as per the "Typical Charge Capacity for Equipment" section of the Environmental Reporting Guidelines document mentioned previously:
 - a. Small: F-Gas charge < 10kg
 - b. Medium: F-Gas charge 10kg < 100kg
 - c. Large: >= 100kg

Additionally, F-Gas emissions are normalised by time. i.e. if a property was owned for less than the full reporting period, its emissions are adjusted to cover only the number of days owned during the reporting period.

Any equipment over which CLS does not have operational control is excluded from this calculation.

Scope 2

Electricity

Purchased Electricity is obtained from automated meter readings or invoices as per our Data Collection section and is measured in kWh. Where there is sub-metered electricity that is consumed by our occupiers for use within their demise, this is categorised as Scope 3.

District heating

Heat purchased from a district heating network (district heating) data is obtained via the sources given above and is measured in kWh. Where buildings obtain their primary heat supply from a district heating network from a 3rd Party energy supplier under contract to CLS, the heat consumption data is obtained either from supplier invoices or meter data.

Scope 3

CLS reports the following Scope 3 categories in accordance with the GHG Protocol:

Category 1: Purchased Goods and Services and Category 2: Capital Goods

To report on these categories, CLS collects financial data from each region. This data is then classified into spend categories as outlined in the Quantis tool. The spend categories have been assigned by the sustainability team with advice from the finance team to ensure most appropriate categorisation. For category 2: Capital Goods, CLS uses its published CAPEX figures available in our financial statements.

In this category CLS reports all its operational spend and capital expenditure over which it has full operational control. Spend relating to electricity, water, waste, and other utilities has been excluded as it falls within our Scope 1 & 2. Likewise, any spend associated with travel has been excluded from these categories, as it falls either within the Business Travel or Employee Commuting categories.

This financial data is converted to US Dollars using yearly average rates and is then converted into carbon using the Quantis tool.

The only spend in the Capital Goods category is our capital expenditure relating to construction and refurbishment.

Category 3: Fuel and Energy

CLS uses its Scope 1 and 2 energy data to calculate T&D and WTT losses using DEFRA and IEA factors.

For T&D losses associated with district heating, CLS uses published DEFRA factors across all regions.

Category 4: Upstream Transportation and Distribution

CLS assumes that any emissions associated with this category would be captured under our Category 1: Purchased Goods and Services.

Category 5: Water and Waste

CLS uses its published water and waste consumption to calculate emissions using DEFRA factors.

Sustainability Metrics: Scope, Boundaries & Methodology continued

Category 6: Business Travel

CLS uses a mix of financial data and trip data from its corporate travel agent. CLS cross checks the financial data with the travel agent data to make sure any spend relating to the travel agent is excluded to avoid double counting.

Data from the travel agent is recorded in km travelled and converted using DEFRA factors. Financial data is converted to US Dollars as per Categories 1 & 2 and calculated using the Quantis tool.

Category 7: Employee commuting and homeworking

CLS carries out a commuter staff survey once per year. This data is then used to calculate commuting emissions per each commuting day.

CLS assumes 222 working days in the year, after subtracting weekends, bank holidays, and employee holiday entitlement. The same assumption has been made for all regions. CLS also assumes each employee travels to the office 3 days a week as per our flexible work policy in 2022. The remaining two days are assumed as working from home and are used to calculate homeworking emissions using DEFRA factors.

Any missing employee responses are extrapolated from the data of other employees in the same region.

Category 8: Upstream Leased Assets

This category is not applicable to CLS, as it does not operate leased assets. All emissions associated with CLS' occupiers is reported under Category 13: Downstream Leased Assets.

Category 9: Downstream Transportation and Distribution

This category is not applicable to CLS, as it does not produce any goods which require transportation and distribution.

Category 10: Processing of Sold Products

This category is not applicable to CLS, as it does not sell products.

Category 11: Use of Sold Products

This category is not applicable to CLS, as it does not sell products.

Category 12: End-of-life Treatment of Sold Products

This category is not applicable to CLS, as it does not sell products.

Category 13: Downstream Leased Assets

This category includes all occupier submeter energy data. Some occupiers across our portfolio have their own energy supplies. In those instances, if CLS has no visibility of that consumption, CIBSE TM 46 benchmarks are used to estimate the occupier energy use. CLS uses the "office: air conditioned standard, typical practice" benchmark.

Category 14: Franchises

This category is not applicable to CLS, as it does not operate any franchises.

Category 15: Investments

This category is not applicable to CLS, as it is an asset based business. All emissions associated with investments would be captured either in Scope 1, and 2 or Scope 3 category 2: Capital Goods.

Other Data

Water Data

CLS reports water data on a whole building level since we are wholly responsible for the water supply contracts.

Waste Data

CLS receives detailed waste reports from Contractors across our UK portfolio. Waste data across our German and French portfolio are recorded in the number of bins collected during the reporting period for different waste streams. CLS uses the UK portfolio waste data to calculate a 'kg/l' value for each waste type. This is weight per litre of volume of the bin. Since bin sizes in litres are known across our German and French portfolio, CLS will apply these 'kg/l' values to the total number of bins calculated for Germany and France. Since CLS has a similar type of property across regions, we consider this a good proxy for calculating the weight of waste produced, until we improve data collection across our German and French properties.

Net Lettable Area (NLA) data

All NLA data is obtained from CLS' finance team at year end. To ensure accurate calculation of intensity metrics, CLS has decided to normalise its NLA data by time, i.e.:

- For assets owned for 3 months out of the year (reporting period), the reported NLA for that asset will be 25% of the total NLA.
- For assets where the NLA varies throughout the reporting period, an average NLA is taken.

Social Metrics

CLS obtains employee data from our HR systems. All employee numbers are taken at the end of the reporting period.

CLS calculates its social metrics in accordance with EPRA guidelines. Our social value metrics have been calculated in accordance with the UK National Themes, Outcomes and Measures (TOMs) Framework. This is currently applied to all countries as a proxy. The following assumptions have been made to adapt the CLS framework to our operations in other countries:

- French, German & Luxembourg minimum wage has been assumed as an equivalent to the UK Living Wage foundation recommendation.
- Value multipliers are assumed to be the same as UK TOMs.

Net Zero Carbon

CLS uses its Scope 1 and 2 emissions as calculated per the methodology in this document, to show its progress against our Net Zero Carbon Pathway.

Projected trajectory is calculated using our 2020 baseline emissions, adjusted using CRREM energy carbon conversion factors, and projected carbon savings from planned energy efficiency projects as currently allocated for future years.

Energy Certificates

CLS categorises German EnEV certificates based on the certified energy intensity as follows:

- Below or equal to 75 kWh/(m²a) is classified as 'Green'.
- Above 75 kWh/(m²a) and below or equal to 160 kWh/(m²a) is classified as 'Yellow'.
- Above 160 kWh/(m²a) is classified as 'Amber'.

Energy Certificates continued

In the UK, some of our properties have multiple EPC ratings – this is due to properties having a separate rating for each floor or unit. In our EPC graphs we assume an average EPC rating for the property based on these, if a whole building EPC is not available.

Data Coverage

Please refer to EPRA performance tables for the number of assets within the organisational boundary which are included in data disclosed for each asset-level Performance Measure.

We seek to report on all properties within the organisational boundary defined above and where utility data is available.

Indicator	Coverage 2022	Coverage 2021
Elec-Abs	100%	100%
Elec-LfL	100%	100%
DH&C-Abs	100%	100%
DH&C-LfL	100%	100%
Fuels-Abs	100%	100%
Fuels-LfL	100%	86%
Energy-Int	100%	100%
Water-Abs	100%	96%
Water-LfL	100%	93%
Water-Int	100%	96%
Waste-Abs	100%	80%
Waste-LfL	100%	40%
GHG-Int	100%	100%

Estimation methodology

Every effort is made to collect actual metered or invoiced data. Nonetheless, there are instances where these data inputs were not available.

For gaps in the smart meter data, CLS extrapolates the missing percentage using existing data.

Where a whole month's data is missing, CLS will estimate the missing consumption by averaging the consumption of months either side of the missing month.

For any larger data gaps, or where consumption has to be wholly estimated, CLS will either use previous years data, adjusted by the average increase or decrease in consumption across other properties in the same region.

If actual data for the previous year is not available, CLS will use the average energy intensity of properties in the same region and

The proportion of data estimated for each of the environmental performance measures can be found in table below.

Estimated portfolio data	2022	2021
Elec-Abs	2.3%	1.6%
Elec-LfL	2.3%	1.7%
DH&C-Abs	37.2%	26.3%
DH&C-LfL	50.0%	30.1%
Fuels-Abs	7.1%	3.0%
Fuels-LfL	5.8%	1.6%
Energy-Int	6.4%	2.5%
Water-Abs	20.4%	15.1%
Water-LfL	22.0%	13.9%
Water-Int	20.4%	15.1%
Waste-Abs	52.5%	42.2%

Waste-LfL	48.8%	42.7%
Estimated portfolio data continued	2022	2021
GHG-Int	6.4%	2.5%

Normalisation

Intensities (Elec-Int, GHG-Int and Water-Int) are calculated using the net lettable floor area (m²) (excluding car parks and basements) as the denominator and absolute consumption as a numerator. Due to the boundaries of operational control and limitations on collecting occupier-controlled consumption, we are aware of the potential mismatch between the consumption numerator and floor area denominator. In some cases, occupier and landlord energy data cannot be separated and, therefore, is included wholly.

The health and safety performance measures are normalised according to guidance of GRI Standard 403-9.

For NLA and fluorinated gases normalisation please refer to the NLA data section and the Fluorinated Gases section.

Segmental Analysis and Disclosure on Own Offices

Segmental analysis has been conducted on a geographical basis. The office portfolio includes properties across the UK, Germany and France. Please refer to Tables 1 through 8 for our segmental analysis tables.

Our disclosure on own offices can similarly be found in Tables 1 through 8.

Segmental analysis with year on year differences can be found in our downloadable csv metrics file. Please refer to page 53 for details.

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 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.

Passive infrared sensor (PIR)

A PIR sensor will turn the lights on automatically when someone walks into a room or space and off when it becomes empty resulting in significant energy savings.

Property loan-to-value

Property borrowings expressed as a percentage of the market value of the property portfolio.

Real Estate Investment Trust (REIT)

A Real Estate Investment Trust (REIT) is a vehicle that allows an investor to obtain broadly similar returns from their investment, as they would have, had they invested directly in property. In the UK a REIT is exempt from UK tax on the income and gains of its property rental business. A REIT in the UK is required to invest mainly in property (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.

SKA rating

SKA rating is an environmental assessment method, benchmark and standard for non-domestic fit-outs, led and owned by RICS. Performance is measured across the ratings; Bronze, Silver and Gold.

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

Set up by the Financial Stability Board (FSB) in response to the G20 Finance Ministers and Central Bank Governors request for greater levels of decision-useful, climate-related information; the TCFD was asked to develop climate-related disclosures that could promote more informed investment, credit (or lending), and insurance underwriting decisions. In turn, this would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

Total Accounting Return – basic

The change in IFRS net assets before the payment of dividends.

Total Accounting Return

The change in EPRA NTA before the payment of dividends.

Total Shareholder Return (TSR)

The growth in capital from purchasing a share, assuming that dividends are reinvested every time they are received.

True equivalent yield

The capitalisation rate applied to future cash flows to calculate the gross property value, as determined by the Group's external valuers.

UN Sustainable Development Goals (SDGs)

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries – developed and developing – in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

Variable refrigerant flow (VRF)

The modular design of VRF results in energy savings by giving occupants the choice to air condition or heat only the zones in use.

Directors, officers and advisors

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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)
Denise Jagger*†	(Non-Executive Director)
Christopher Jarvis	(Non-Executive Director)
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Notes

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Both the paper manufacturer and printer are registered to the Environmental Management System_ISO14001 and are Forest Stewardship Council® (FSC)® chain-of-custody certified

Design and production

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