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CLS HOLDINGS PLC
("CLS", the "Company" or the "Group")
ANNOUNCES ITS UNAUDITED ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2023

The return to the office

CLS is a leading office space specialist and a supportive, progressive and sustainably focused commercial landlord, with a c.£2.1 billion portfolio in the UK, Germany and France, offering geographical diversification with local presence and knowledge. For the year ended 31 December 2023, the Group has delivered the following results:

	31 December		Change
	2023	2022	
EPRA Net Tangible Assets ("NTA") per share (pence) ¹	253.0	329.6	(23.2)%
Statutory NAV per share (pence) ¹	233.8	307.3	(23.9)%
Contracted rents (£'million)	112.6	110.2	2.2%
Loss before tax (£'million)	(263.4)	(82.0)	(181.4)
EPRA Earnings per share ("EPS") (pence) ¹	10.3	11.6	(11.2)%
Statutory EPS from continuing operations (pence) ¹	(62.9)	(20.2)	(42.7)
Dividend per share (pence)	7.95	7.95	-

¹A reconciliation of statutory to alternative performance measures is set out in Note 5 to the financial statements

Fredrik Widlund, Chief Executive Officer of CLS, commented:

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

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

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

OPERATIONAL HIGHLIGHTS

- Net rental income increased by 4.8% to £113.0 million (2022: £107.8 million) as a result of indexation (55.2% of contracted rent is index-linked), excellent performance of our hotel and student operations and a full-year of income from prior year acquisitions
- Strong leasing momentum with 130 new lettings and renewals (2022: 106) generating annual rent of £15.5 million (2022: £8.2 million). Signed 89% more leases by value than in 2022 and these leases were 6.9% above 31 December 2022 estimated rental values
- Underlying vacancy rate steady at 7.6% but overall vacancy rate increased to 11.0% (2022: 7.4%) due to the completion of developments in the year which are currently being marketed to prospective tenants
- Rent collection has continued to be strong with 99% collected (2022: 99%)

- Sold five smaller properties (four completed and one unconditionally exchanged) for a total of £25.4 million, 10.0% above the latest valuations of the properties
- The buyer for Westminster Tower, Albert Embankment, which exchanged unconditionally in June 2023, failed to complete in 2023 and thus the deposit was called in 2024. The property is now being re-marketed for sale
- Since year-end we have received strong expressions of interest on two sales for over £70 million at a small discount to valuations.
- Progressing additional planned sales including our successful student accommodation operation at Spring Mews which we have now owned for ten years

FINANCIAL HIGHLIGHTS

- Portfolio valuation down 12.5% in local currency (UK -16.7%, Germany -9.1% and France -9.1%), in line with expectations, with estimated rental value growth of 1.6% more than offset by yield expansion of 62 basis points on a like-for-like basis
- EPRA NTA per share down 23.3% primarily as a result of property valuation falls. Total accounting return for the year of -20.8% (2022: -3.7%)
- EPRA EPS down 11.2% to 10.3 pence per share due to higher financing costs, partly offset by higher net rental income from indexation and the excellent performance of our hotel and student operations
- Loss before tax of £263.4 million (2022: £82.0 million loss) from valuation declines on investment properties of £302.7 million (2022: £136.5 million loss). Statutory EPS was a loss of 62.9p
- A proposed final dividend of 5.35 pence per share, reflecting the Board's confidence in our business and assets, resulting in an unchanged full-year dividend of 7.95 pence per share (2022: 7.95 pence per share). Dividend cover of 1.30 times, within the Group's stated policy

FINANCING HIGHLIGHTS

- Balance sheet remains strong with total liquidity of £120.6 million comprising cash of £70.6 million and two undrawn revolving credit facilities totalling £50 million. Post year-end a new £10.0 million overdraft was agreed
- Loan-to-value at 48.5% (2022: 42.2%) reflecting valuation declines with net debt of £1,000.0 million broadly unchanged (2022: £992.0 million). Weighted average debt maturity of 3.5 years (2022: 3.8 years) with 76% at fixed rates and 4% subject to interest rate caps (31 December 2022: 72% fixed and 4% caps)
- Weighted average cost of debt at 31 December 2023 up 92 basis points to 3.61% (2022: 2.69%) resulting from central bank interest rate increases and new refinancings at these higher rates
- Refinanced or extended £330.6 million of debt in 2023 at an average of 5.27%, including £196.7 million fixed at 4.76%
- Well advanced with 2024 refinancing activity with £251.7 million out of £350 million executed, leaving £98.3 million across 6 loans in Germany and France with an LTV of 45%, which we are confident will be refinanced successfully

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

- Our sustainability progress was recognised with an increase to a Gold award in the EPRA Sustainability Best Practices Recommendations, up from Silver in 2022. We have also maintained our GRESB award of 4 green stars
- We maintained over 99% Group electricity being carbon-free, and completed our UK rooftop solar PV energy and electric vehicle charging rollout by installing a further 111kWp of new solar arrays and 20 EV charging points at five of our buildings in the UK
- Progress continues with implementing our ambitious, but achievable, long-term sustainability targets including our 2030 Net Zero Carbon Pathway. In 2023, we spent a further £4.8 million towards our estimated total programme cost of £65 million such that we have now invested over £15 million since launching our Net Zero Carbon Pathway
- We are fully compliant with 2024 minimum EPC regulations in the UK and have reduced our EPC D rated buildings by nearly 20% through a combination of refurbishments and disposals

DIVIDEND TIMETABLE

The Board has recommended a final dividend of 5.35 pence per ordinary share with the following dividend timetable:

Announcement date	6 March 2024
Ex-Dividend date	21 March 2024
Record date	22 March 2024
Payment date	2 May 2024

– ends –

Results presentation

A presentation for analysts and investors will be held in-person at the London Stock Exchange, by webcast and by conference call on Wednesday 6 March 2024 at 8:30am followed by Q&A. Questions can be submitted either online via the webcast or to the operator on the conference call.

- The London Stock Exchange: 10 Paternoster Square, London EC4M 7LS
- Webcast: The live webcast will be available to access here: <https://protect-eu.mimecast.com/s/t9fjCNOYMUKqYWFmA8Aw?domain=lseqissuerservices.com>
- Conference call: In order to dial in to the presentation via phone, please register at the following link and the event access details will be sent to your email: <https://registrations.events/direct/LON502550>

For further information, please contact:

CLS Holdings plc

(LEI: 213800A357TKB2TD9U78)

www.clsholdings.com

Fredrik Widlund, Chief Executive Officer

Andrew Kirkman, Chief Financial Officer

+44 (0)20 7582 7766

Liberum

Richard Crawley

Jamie Richards

+44 (0)20 3100 2222

Panmure Gordon

Hugh Rich

+44 (0)20 7886 2733

Berenberg

Matthew Armitt

Richard Bootle

+44 (0)20 3207 7800

Edelman Smithfield (Financial PR)

Alex Simmons

Hastings Tarrant

+44 (0)20 3047 2546

Forward-looking statements

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

Chairman's review

Dear Shareholder,

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

Performance and our property portfolio

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

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

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

Strategic outlook

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

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

Dividends

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

Our staff and our culture

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

Lennart Sten

Non-Executive Chairman

6 March 2024

Chief Executive's review

The return to the office

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

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

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

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

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

Delivering on our strategy

In response to these trends, CLS has focused on improving the quality of its properties and driving operational performance. With an uncertain market in 2023, CLS did not make any acquisitions and instead focussed on investing in our properties. In 2023, we finished the enhanced capital expenditure programme that we commenced in 2022 to deliver the higher quality offices demanded by tenants with capital expenditure of £50.1 million (2022: £58.3 million). The three largest schemes in this programme: Artesian, Prescott St, London; The Coade, Vauxhall, London; and Park Avenue, Lyon, were completed in 2023 or early 2024 and accounted for c40% of the capex spent this year. These buildings now offer a total of over 200,000 sq. ft of the highest quality space with excellent amenities and market-leading sustainability credentials.

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

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

Asset and property management

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

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

Reflecting these refurbishments, the vacancy position was mixed across the Group with considerable differences between countries. In France, the vacancy rate has risen to 5.6% (2022: 2.6%) as a result of refurbished space at Park Avenue being available to let. Demand remains good for smaller units (below 1,000 sqm) which fits with CLS France's space offering, and we would expect vacancy to remain at this level in 2024. In Germany, the vacancy rate increased to 6.8% (2022: 6.1%) as the rate of lettings was slightly behind the rate of expiries. We have one big upcoming vacancy in Dortmund in 2024 which we are working

* KPMG global CEO and Deloitte UK CFO 2023 surveys

hard to fill and, subject to this, we would expect vacancy to fall in 2024. With the completion of Artesian in Q4 2023 and Q1 2024, and little time to let the space, vacancy in the UK understandably rose significantly to 15.8% from 10.0% in 2022. The letting market improved during the year, with far more lettings completed since September, and we are cautiously optimistic that UK vacancy will reduce, and rental income increase, in 2024.

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

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

Financial results

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

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

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

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

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

Sustainability

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

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

2024 and beyond

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

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

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

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

Fredrik Widlund
Chief Executive Officer

6 March 2024

Chief Financial Officer's review

Summary

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

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

Income statement

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

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

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

Due to the higher level of costs, CLS' administration cost ratio increased to 16.0% (2022: 14.4%) whereas our EPRA cost ratio reduced to 25.1% (2022: 25.8%) as certain vacancy costs are excluded from this measure. Given market weakness from higher interest rates and economic uncertainty, the valuation of CLS' properties fell, although the reduction was lower than wider market movements. The reduction in the value of investment properties, excluding lease incentive movements, was £302.7 million (2022: £136.5 million fall) with falls in the UK of 16.7%, Germany 9.1% and France 9.1% in local currencies.

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

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

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

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

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

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

EPRA net tangible assets and gearing

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

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

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

Cash flow and net debt

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

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

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

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

Financing strategy and covenants

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

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

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

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

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

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

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

Distributions to shareholders and Total Accounting Return

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

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

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

Andrew Kirkman
Chief Financial Officer

6 March 2024

United Kingdom

£919.9m

Value of property portfolio

45%

Percentage of Group's property interests

37

Number of properties

221

Number of tenants

15.8%

EPRA vacancy rate

1.9m sq. ft

Lettable space

72.1%

Government and large companies

3.5

Years weighted average lease length to end

32.7%

Leases subject to indexation

Market overview

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

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

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

Portfolio movement and valuation summary

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

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

Asset management

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

In 2023, we let or renewed leases on 417,494 sq. ft and lost 430,183 sq. ft of space from expiries. Excluding rent reviews, 60 lease extensions and new leases secured £7.4 million of rent at an average of 4.6% above ERV. The most significant transactions included a new 10-year lease with Hays Recruitment for 9,673 sq. ft of space at the newly refurbished Apex Tower in New Malden and the lease renewal with Honda Motor Europe for their European HQ (57,426 sq. ft) at Reflex in Bracknell for 10 years.

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

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

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

Developments and refurbishments

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

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

Disposals

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

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

Outlook

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

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

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

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

Dan Howson
Head of UK

Germany

£885.5m

Value of property portfolio

43%

Percentage of Group's property interests

32

Number of properties

368

Number of tenants

6.8%

Epra vacancy rate

3.8m sq. ft

Lettable space

55.6%

Government and large companies

4.9

Years weighted average lease length to end

65.9%

Leases subject to indexation

Market overview

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

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

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

Portfolio movement and valuation summary

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

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

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

Asset management

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

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

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

Developments and refurbishments

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

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

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

Disposals

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

Outlook

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

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

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

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

Rolf Mensing

Head of Germany

France

£257.5m

Value of property portfolio

12%

Percentage of Group's property interests

17

Number of properties

155

Number of tenants

5.6%

Epra vacancy rate

0.8m sq. ft

Lettable space

49.0%

Government and large companies

5.2

Years weighted average lease length to end

100.0%

Leases subject to indexation

Market overview

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

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

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

Portfolio movement and valuation summary

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

Asset management

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

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

Developments and refurbishments

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

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

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

Disposals

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

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

Outlook

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

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

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

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

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

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

Philippe Alexis

Head of France

VALUATION DATA¹

	Valuation movement in the year			EPRA net initial yield	EPRA 'topped-up' net initial yield	Reversion	Over- rented	Equivalent yield
	Market value of property £m	Underlying £m	Foreign exchange £m					
United Kingdom	745.4	(190.4)	–	5.4%	6.1%	8.1%	7.0%	6.1%

Germany	883.8	(89.1)	(20.4)	4.7%	4.8%	6.0%	8.7%	5.2%
France	246.0	(28.2)	(5.7)	4.8%	5.2%	8.0%	4.0%	6.0%
Total office portfolio	1,875.2	(307.7)	(26.1)	5.0%	5.4%	7.2%	7.4%	5.7%

LEASE DATA¹

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

RENTAL DATA¹

	Rental income for the year £m	Net rental income for the year £m	Lettable space sqm	Contracted rent at year end £m	ERV at year end £m	Contracted rent subject to indexation %	EPRA vacancy rate at year end
United Kingdom	46.4	52.4	172,973	50.8	61.0	32.7	15.8%
Germany	43.2	41.5	345,641	47.5	49.5	65.9	6.8%
France	13.2	13.6	72,495	14.3	15.7	100.0	5.6%
Total office portfolio	102.8	107.5	591,109	112.6	126.3	55.2	11.0%

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

Key performance indicators

Measuring the performance of our strategy

EPRA EARNINGS PER SHARE (P)

Definition

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

Why this is important to CLS

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

Our target

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

Progress

EPRA earnings per share for 2023 was 10.3 pence.

TOTAL ACCOUNTING RETURN (%)

Definition

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

Why this is important to CLS

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

Our target

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

Progress

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

EPRA VACANCY RATE (%)

Definition

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

Why this is important to CLS

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

Our target

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

Progress

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

TOTAL SHAREHOLDER RETURN – RELATIVE (%)

Definition

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

Why this is important to CLS

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

Our target

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

Progress

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

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

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 in our annual report.

NET INITIAL YIELD VS COST OF DEBT (%)

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

GRESB (ESG) score/100

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

ADMINISTRATION COST RATIOS (%)

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

Investment case

1. A clear strategy

Key investment tenets

Diversified approach

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

Sole focus on multi-let offices

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

Selected development schemes

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

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

Interest rate management

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

3. Strong 30 year track record

Key investment tenets

Disciplined approach to investment

Acquisitions are assessed against strict return and strategic fit criteria but are pursued on an opportunistic and property by property basis with no set capital allocation across countries. Low yielding assets with limited potential are sold. Our TSR has outperformed the FTSE 350 index over a 30 year period.

Cash-backed progressive dividend

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

Financing headroom

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

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

Climate risk mitigation

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

Strategy in action

We acquire the right properties

Strategy

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

Strategy implementation

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

Our performance in 2023

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

Priorities for 2024

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

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

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

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

We secure the right finance

Strategy

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

Strategy implementation

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

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

Our performance in 2023

- Financed, refinanced or extended eleven loans for £330.6 million
- These loans were at a weighted average duration of 3.0 years and at a weighted all-in rate of 5.27%
- These loans encompassed all of 2023 and over 50% of 2024 expiring financings (now over 70%)

- In addition, we replaced £50 million of expiring RCFs and overdraft facilities with a 3+1+1 year €30 million RCF and a 2+1 year £20 million RCF

Priorities for 2024

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

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

Key 2023 refinancing Adlershofer Tor, Berlin, Germany

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

We deliver value through active management and cost control

Strategy

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

Strategy implementation

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

Our performance in 2023

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

Priorities for 2024

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

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

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

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

We continually assess whether to hold or sell properties

Strategy

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

Strategy implementation

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

Our performance in 2023

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

Priorities for 2024

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

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

Transaction with strategic buyer Quatuor, Paris, France

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

Risk management

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

What we did in 2023

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

Our Priorities for 2024

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

OUR RISK MANAGEMENT FRAMEWORK

Top down

Oversight, identification, assessment and mitigation of risk at a Group level. Continuous review of strategy and our environment ensures that we respond in a timely manner to any changes in our principal and emerging risks.

Bottom up

Identification, assessment and mitigation of risk at business unit and functional level.

The Board

- Overall responsibility for reviewing and monitoring risk management and internal controls framework.
- Annual review and determination of risk appetite.
- Annual assessment of principal and emerging risks.

- Receives regular updates from the Audit Committee on risk management, internal controls and the long-term viability of the Group.
- Sets business wide policies and delegated authority limits

Audit Committee

- Key oversight and assurance function for risk management, internal controls and viability.
- Receives updates on risks and the control environment including the results of any internal control review procedures and other assessments undertaken in the period at each Audit Committee meeting.
- Invites senior managers to attend to discuss specific risk areas. These discussions are sometimes supplemented by external advisors where relevant.
- Engages with, and reviews findings of, the external auditors.
- Reports to the Board on the effectiveness of risk management and internal controls.

Policies

- The Group has policies set by the Board that govern key risks across the business. These are regularly reviewed to ensure they are up to date and comply with laws and regulations.

Executive Committee

- Comprises the CEO and the CFO together with other senior leaders as required.
- Responsible for the day-to-day operational oversight of risk management.
- Major business-wide decisions such as property acquisitions, disposals, significant strategy changes and the wider changing geopolitical landscape are discussed. These decisions are assessed with reference to risk appetite.
- Proposed decisions are reviewed by the Board before implementation subject to authorisation limits.

Controls

- CoreStream utilised as the Group's risk management system for recording key processes, controls, risks and ownership and regularly testing effectiveness of material controls.

Senior Leadership Team

- Meets fortnightly and is comprised of the CEO, the CFO, the COO, regional business heads and the Group Financial Controller.
- Reviews and monitors the Group's principal and emerging risks taking into account the appetite for, and impact of, risk in all areas of the business. These are presented to the Audit Committee every six months for further discussion.
- Senior managers regularly attend Audit Committee meetings to provide further information in relation to specific risk areas, supported by external advisors if appropriate.

Business Units

- Risk management embedded in day-to-day operations including identifying, evaluating and reviewing within these units.
- Executes strategic actions in compliance with the Group's objectives and policies.
- Engages with the Executive Directors and senior management to identify risks and review risk processes and procedures relevant to these units.

Management of Risk throughout the Group

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

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

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

Risks are identified and assessed, and a risk owner is assigned. The risk owner is the person considered to be in the best position to prepare and implement mitigation plans. In addition, a control owner is assigned who can monitor and assess the effectiveness

of the controls to address each principal risk. As part of our risk management procedures, the Executive Committee and Audit Committee receive updates regarding risk management activities to ensure that procedures are consistently applied across the Group and that they remain sufficiently robust, and to identify any weaknesses or enhancements.

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

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

Risk appetite

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

Very low: Avoid risk and uncertainty

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

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

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

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

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

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

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

Risk assessment

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

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

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

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

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

Principal risks	2023 Risk Assessment	2022 Risk Assessment
Property	High	High
Sustainability	Medium	Medium
Business interruption	Low	Low
Financing	High	High

Political & economic	Medium	High
People	Medium	Medium

Risk assessment vs risk appetite

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

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

Principal risks

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

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

Principal risk	Risk description	Key risks	Mitigation in 2023	Mitigation in 2024
1 Property KPI/OPI TSR(R), TAR,	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.	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Maintained strong relationships with our occupiers, agents and direct investors active in the market and actively monitored trends in our sectors • Asset management committees meet once a month to discuss each property • Continued investment of £50.1 million in our properties with refurbishments taking place in over 30 properties to meet tenant demands • Rigorous and established governance approval processes for capital and leasing decisions • Engagement with tenants to understand their needs and space requirements • Targeted capital expenditure with a focus on sustainability • Disposal of 4 properties with low yield, limited asset management potential or risk/reward ratio unfavourably balanced • Continued monitoring of covenant strength and health of tenants • High quality provision of property and facilities management services with our in-house team • Health and safety committee that closely monitors activity and regulation and reports to every Board meeting 	<ul style="list-style-type: none"> • Continue with our current controls and mitigating actions
2 Sustainability KPI/OPI TSR(R), TAR, VR, ACR	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	<p>Transition risks: These include regulatory changes, economic shifts, obsolescence, and the changing availability and price of resources.</p> <p>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.</p>	<ul style="list-style-type: none"> • Continued monitoring and oversight by the Sustainability Committee over key ongoing projects • Detailed Sustainability risk registers maintained, reviewed and updated • Continued implementation and active monitoring of NZC Pathway projects • Completion of planned energy efficiency projects including all scheduled PV installations • Completion of all scheduled EV installations • Continued EPC upgrade programme • Recertification of relevant properties in the UK and France to BREEAM In-use V8 • Independent assurance on EPRA sBPR KPI data 	<ul style="list-style-type: none"> • Implementation of new sustainability data platform • Implementation of our climate resilience plan • Ongoing rollout of biodiversity net gain plan • Continue with our current controls and mitigating actions

Principal risk	Risk description	Key risks	Mitigation in 2023	Mitigation in 2024
	confidence in the Group.		<ul style="list-style-type: none"> • Sustainable procurement policy published • Renewal of Sustainable refurbishment and fit-out guide • Achieved living wage accreditation • Continued engagement with occupiers including release of new occupier app 	
3 Business interruption KPI/OPI TSR(R), TAR,	Data loss; or disruption to corporate or building management systems; or catastrophic external attack; or disaster; may limit the ability of the business to operate resulting in negative reputational, financial and regulatory implications for long term shareholder value.	<ul style="list-style-type: none"> • Cyber threat • Large scale terrorist attack • Environmental disaster, power shortage or pandemic 	<ul style="list-style-type: none"> • Maintained a Centre of Internet Security 'A' rating • Maintained Cyber Essentials Plus certification • Conducted penetration testing on the Group's properties (e.g. simulate cyber-attacks on building management systems) • Continued implementation of shared property and finance system across the Group • Continued use of external partners for specialist cyber security activities and independent reviews • Transitioned to continuous and automated patching across all managed systems • Continued to test and train employees on cyber security 	<ul style="list-style-type: none"> • Continue with our current controls and mitigating actions
4 Financing risk KPI/OPI COST OF DEBT	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.	<ul style="list-style-type: none"> • Inability to refinance debt at maturity due to lack of funding sources, market liquidity, etc. • Unavailability of financing at acceptable debt terms • Risk of rising interest rates on floating rate debt • Risk of breach of loan covenants • Foreign currency risk • Financial counterparty risk • Risk of not having sufficient liquid resources to meet payment obligations when they fall due 	<ul style="list-style-type: none"> • Financed, refinanced or extended 11 loans to a value of £330.6 million • Weekly treasury meetings took place with the CEO and CFO including discussion of financing, rolling 12-month cash flow forecasts, FX requirements and hedging, amongst other items • Weekly cash flow forecasts prepared and distributed to Senior Leadership Team • 75.9% of the Group's borrowings are fixed rate plus a further 3.8% of interest rate caps • Regularly monitored loan covenants • CLS borrows in local markets and in local currencies via individual SPVs to provide a 'natural' hedge • Maintained a wide number of banking relationships with 25 lenders across the Group to diversify funding sources • Weighted average cost of debt remains low (3.61%) • Maintained average debt maturity of 3.5 years • Significant headroom across three main loan covenants of between 13% and 30% • All loans have equity cure mechanisms to repair breaches 	<ul style="list-style-type: none"> • Continue with our current controls and mitigating actions

Principal risk	Risk description	Key risks	Mitigation in 2023	Mitigation in 2024
5 Political and economic KPI/OPI VR, ACR	Significant events or changes in the Global and/or European political and/or economic landscape may increase the reluctance of investors and customers to make timely decisions and thereby impact the ability of the Group to plan and deliver its strategic priorities in accordance with its core business model.	<ul style="list-style-type: none"> Ongoing transition of the UK from the EU Global geopolitical and trade environments 	<ul style="list-style-type: none"> Monitored events and trends closely, making business responses if needed Maintained membership of key industry bodies for example the British Property Federation, British Council of Offices and Better Buildings Partnership Monitored tenants for sanction issues 	<ul style="list-style-type: none"> Continue with our current controls and mitigating actions
6 People KPI/OPI TSR(R), TAR, Dividend cover	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.	<ul style="list-style-type: none"> Failure to recruit senior management and key executives with the right skills Excessive staff turnover levels Lack of succession planning and development opportunities Poor employee engagement levels 	<ul style="list-style-type: none"> Undertook a Group wide Staff Engagement and Enablement Survey, completed by 88% of staff providing insight into the Group Engagement with workforce advisory panel Staff wellbeing week Monitored market to ensure competitive remuneration packages across the Group 	<ul style="list-style-type: none"> Continue with our current controls and mitigating actions Assess feedback provided in Staff Engagement and Enablement Survey and implement appropriate changes.

Emerging risks

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

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

Risk	Potential Impact	Mitigation	Time Horizon		
			Short < 2yrs	Medium 2-5 yrs	Long > 5 yrs
Adoption of technology	Failure to embrace technology could result in the Group falling behind its competitors in efficiency, thereby risking a loss of competitive edge. As buildings evolve to incorporate smart features, tenants may prefer such technologically advanced spaces over those lacking similar amenities. Neglecting occupant preferences for technology could diminish the attractiveness of the Group's office properties, potentially leading to vacancies and a decline in rental revenue.	We thoroughly examine emerging technologies to ensure that we extract the utmost value from any new system or service we opt to incorporate into our comprehensive digital and technological framework.	X	X	X
Artificial Intelligence	The automation of certain tasks through AI may lead to job displacement for those whose roles are automated but will also create jobs. This could have implications on	Active monitoring of the changing landscape through attendance at AI industry talks and regular	X	X	X

	our current tenant base which may impact office space requirements.	discussion/awareness at the executive committee level.			
Regulation/ compliance	Increased capital cost of maintaining our property portfolio. Increased administration costs to ensure resources sufficient to deliver corporate compliance.	Continued ongoing assessment of all properties against emerging regulatory changes and benchmarking of fit-out and refurbishment projects against third-party schemes.	X	X	X
Increasing energy and construction costs	Increased cost of operating properties will reduce attractiveness of tenancies to existing and potential customers. Increased costs of refurbishments and developments leading to reduced investment returns.	Ongoing consideration of, and investment in, energy efficient plant and building-mounted renewable energy systems. Continued monitoring of materials, investment in key skills for staff and viability assessments of buildings.	X	X	X
Changes in office occupation trends	Changes in social attitudes to agile and flexible working practices may reduce demand for space compared to historic trends.	In-house asset management model provides the means for the property team to: proactively manage customers; and gain real-time insight and transparency on changes in needs and trends allowing us to adapt our properties to meet these.	X	X	X
Climate change, natural resources and biodiversity risks	Increased risk of weather-related damage to property portfolio and reputational impact of not evolving sustainability goals in line with global benchmarks and/or public expectations. Inability to obtain sufficient carbon credits at suitable price to offset residual carbon emissions in order to achieve net zero carbon.	Our sustainability strategy continues to evolve and has been developed in alignment with Global Real Estate Sustainability Benchmarks (GRESB), consideration of the UN Sustainable Development Goals (SDGs) and climate risk modelling. We are investigating various solutions to achieve sufficient offsets by 2030.		X	X

Going concern and viability statement

Going concern

Background

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

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

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

Going concern period and basis

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

Forecast cash flows – Base case

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

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

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

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

The Group's financing arrangements contain Loan to Value ('LTV'), Interest Cover Ratio ('ICR') and Debt Service Coverage Ratio ('DSCR') covenants. In the Base case, minimal cure payments have been forecast given that the Group expects to maintain its compliance with the covenant requirements. The near-term impacts of climate change risks within the going concern period have been considered in both the Base and the Severe but plausible case and are expected to be immaterial.

Forecast cash flows – Severe but plausible case

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

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

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

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

Mitigating actions

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

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

Material uncertainty related to going concern

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

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

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

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

Viability statement

Viability

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

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

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

Viability assessment

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

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

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

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

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

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

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

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

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

Material uncertainty

The Directors highlighted in their going concern assessment (see note 3) that whilst they remain confident in the future prospects for the Group and its ability to continue as a going concern, the Group is reliant upon its ability to both refinance the debt maturing and to complete a number of property disposals in the going concern period in challenging market conditions. The same material uncertainty may also cast significant doubt over the future viability of the Group.

Directors' responsibility statement

Directors' responsibilities

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

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

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

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

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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

This statement of responsibilities was approved by the Board on 5 March 2024.

Approved and authorised on behalf of the Board

David Fuller BA FCG

Company Secretary

6 March 2024

Group income statement

for the year ended 31 December 2023

	Notes	2023 £m	2022 £m
Revenue	4	148.7	139.7
Costs		(35.7)	(31.9)
Net rental income	4	113.0	107.8
Administration expenses		(18.2)	(15.7)
Other property expenses		(15.6)	(16.2)
Operating profit before revaluation and disposals		79.2	75.9
Net revaluation movements on investment property	12/14	(302.7)	(136.5)
Net revaluation movements on equity investments		(1.3)	(3.8)
Profit on sale of investment property		1.4	0.5
Operating loss		(223.4)	(63.9)
Finance income	8	1.6	10.1
Finance costs	9	(41.3)	(26.8)
Foreign exchange loss		(0.3)	(0.3)
Impairment of goodwill		–	(1.1)
Loss before tax		(263.4)	(82.0)
Taxation	10	13.6	0.1
Loss for the year attributable to equity shareholders		(249.8)	(81.9)
Basic and diluted earnings per share	5/24	(62.9)p	(20.2)p

The notes are an integral part of these Group financial statements.

Group statement of comprehensive income

for the year ended 31 December 2023

	Notes	2023 £m	2022 £m
Loss for the year		(249.8)	(81.9)
Other comprehensive income:			
Items that may be reclassified to profit or loss			
Revaluation of property, plant and equipment	26	2.2	1.9
Foreign exchange differences	26	(12.3)	28.5
Deferred tax on revaluation of property, plant and equipment	18	(0.6)	(0.4)
Total items that may be reclassified to profit or loss		(10.7)	30.0
Total other comprehensive (expense)/income		(10.7)	30.0
Total comprehensive expense for the year attributable to equity shareholders		(260.5)	(51.9)

The notes are an integral part of these Group financial statements.

Group balance sheet

at 31 December 2023

	Notes	2023 £m	2022 £m
Non-current assets			
Investment properties	12	1,850.5	2,295.0
Property, plant and equipment	13	41.8	39.6
Intangible assets		2.9	2.8
Equity investments		1.4	2.7
Deferred tax	18	–	2.8
Derivative financial instruments	20	3.6	8.5
		1,900.2	2,351.4
Current assets			
Trade and other receivables	15	16.7	15.8
Derivative financial instruments	20	0.7	–
Cash and cash equivalents	18	70.6	113.9
		88.0	129.7
Assets held for sale	14	172.7	20.3
Total assets		2,160.9	2,501.4
Current liabilities			
Trade and other payables	17	(68.6)	(58.6)
Current tax		(0.3)	(2.0)
Borrowings	19	(193.9)	(173.4)
		(262.8)	(234.0)
Non-current liabilities			
Deferred tax	18	(88.7)	(110.5)
Borrowings	19	(876.7)	(932.5)
Leasehold liabilities		(3.5)	(3.6)
		(968.9)	(1,046.6)
Total liabilities		(1,231.7)	(1,280.6)
Net assets		929.2	1,220.8
Equity			
Share capital	23	11.0	11.0
Share premium		83.1	83.1
Other reserves	26	106.7	115.4
Retained earnings		728.4	1,011.3
Total equity		929.2	1,220.8

The unaudited financial statements of CLS Holdings plc (registered number: 02714781) were approved by the Board of Directors and authorised for issue on 06 March 2024.

The notes are an integral part of these Group financial statements.

Group statement of changes in equity

for the year ended 31 December 2023

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
	Note 23		Note 26		
Arising in 2023:					
Total comprehensive expense for the year	–	–	(10.7)	(249.8)	(260.5)
Share-based payments	–	–	0.5	–	0.5
Dividends to shareholders	–	–	–	(31.6)	(31.6)
Transfer of fair value on property, plant and equipment	–	–	1.5	(1.5)	–
Total changes arising in 2023	–	–	(8.7)	(282.9)	(291.6)
At 1 January 2023	11.0	83.1	115.4	1,011.3	1,220.8
At 31 December 2023	11.0	83.1	106.7	728.4	929.2

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total equity £m
	Note 23		Note 26		
Arising in 2022:					
Total comprehensive expense for the year	–	–	30.0	(81.9)	(51.9)
Share-based payments	–	–	0.2	–	0.2
Dividends to shareholders	–	–	–	(32.4)	(32.4)
Transfer of fair value on property, plant and equipment	–	–	(3.5)	3.5	–
Purchase of own shares	–	–	–	(25.8)	(25.8)
Total changes arising in 2022	–	–	26.7	(136.6)	(109.9)
At 1 January 2022	11.0	83.1	88.7	1,147.9	1,330.7
At 31 December 2022	11.0	83.1	115.4	1,011.3	1,220.8

The notes are an integral part of these Group financial statements.

Group statement of cash flows

for the year ended 31 December 2023

	Notes	2023 £m	2022 £m
Cash flows from operating activities			
Cash generated from operations	27	83.2	70.5
Interest received		1.6	1.3
Interest paid		(35.1)	(24.2)
Income tax paid on operating activities		(3.8)	(4.6)
Net cash inflow from operating activities		45.9	43.0
Cash flows from investing activities			
Purchase of investment properties		–	(83.4)
Capital expenditure on investment properties		(46.4)	(57.2)
Proceeds from sale of properties		17.0	56.2
Income tax paid on sale of properties		(1.8)	(3.2)
Purchases of property, plant and equipment		(0.8)	(0.4)
Purchase of intangibles		(0.3)	(0.8)
Repayment of vendor loan		–	7.7
Foreign currency loss on forward contracts		–	(0.2)
Net cash outflow from investing activities		(32.3)	(81.3)
Cash flows from financing activities			
Dividends paid	25	(31.6)	(32.4)
Purchase of own shares		–	(25.8)
New loans		129.1	144.1
Issue costs of new loans		(1.1)	(1.1)
Repayment of loans		(152.6)	(99.4)
Net cash outflow from financing activities		(56.2)	(14.6)
Cash flow element of net decrease in cash and cash equivalents		(42.6)	(52.9)
Foreign exchange loss		(0.7)	(0.6)
Net decrease in cash and cash equivalents		(43.3)	(53.5)
Cash and cash equivalents at the beginning of the year		113.9	167.4
Cash and cash equivalents at the end of the year	18	70.6	113.9

The notes are an integral part of these Group financial statements.

Notes to the Group financial statements

for the year ended 31 December 2023

1. General information

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

The Company is an incorporated public limited company and is registered and incorporated in the United Kingdom. Its registration number is 02714781, with its registered address at 16 Tinworth Street, London SE11 5AL. The Company is listed on the London Stock Exchange and domiciled in the United Kingdom. The Company did not change its name during the year ended 31 December 2023 or the year ended 31 December 2022.

2. Annual financial report

This financial information has been prepared in accordance with the Companies Act 2006 and United Kingdom adopted International Accounting Standards and International Financial Reporting Standards (IFRSs). The Company prepares its Parent Company financial statements in accordance with FRS 101.

The financial information set out in this announcement is unaudited and does not constitute the Group's financial statements for the year ended 31 December 2023 or 31 December 2022 as defined by Section 434 of the Companies Act 2006. Statutory accounts for 2022 have been delivered to the Registrar of Companies and those for 2023 will be delivered following the Company's Annual General Meeting.

The Group's full financial statements for the year ended 31 December 2023 are expected to be approved by the Board of Directors and reported on by the auditors, Ernst & Young LLP, on 8 March 2024. Accordingly, the financial information for 2023 is presented unaudited in this announcement. The independent auditor's report is expected to contain an emphasis of matter paragraph drawing attention to a Material uncertainty related to going concern.

The 2022 accounts were audited Ernst & Young LLP and their report was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 (2) or (3) of the Companies Act 2006.

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. 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.

The annual financial report (produced in accordance with the Disclosure and Transparency Rules) can be found on the Company's website www.clsholdings.com. The 2023 Annual Report and Accounts is expected to be posted to shareholders on 18 March 2024 and will also be available on the Company's website.

3. Going concern

Background

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

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

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

Going concern period and basis

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

Forecast cash flows – Base case

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

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

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

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

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

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

Forecast cash flows – Severe but plausible case

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

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

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

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

Mitigating actions

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

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

Material Uncertainty related to going concern

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

Whilst the Directors remain confident, due to the reasons highlighted above, that a combination of sufficient refinancings and property disposals will be achieved, the timing and value of both the planned refinancing of facilities falling due within the going

concern review period, and planned property disposals, is outside of management's control and consequently a material uncertainty exists that may cast significant doubt on the Group's and Company's ability to continue as a going concern.

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

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

4. Segment information

Each property represents an operating segment which the Group aggregates into two reporting segments with similar characteristics – investment properties and other investments. Other investments comprise the hotel at Spring Mews and other small corporate investments. Central administration relates to the operating costs of the Group's headquarters and are not allocated to any reporting segment. The Group manages the investment properties division on a geographical basis due to its size and geographical diversity. Consequently, the Group's principal reporting segments are:

Investment properties:

- United Kingdom
- Germany
- France

Other investments

2023							
Year ended 31 December 2023	Investment properties					Central administration £m	Total £m
	United Kingdom £m	Germany £m	France £m	Other investments £m	Other investments £m		
Rental income	46.4	43.2	13.2	–	–	–	102.8
Other property-related income	8.9	0.6	0.9	5.5	–	–	15.9
Service charge income	13.4	11.7	4.9	–	–	–	30.0
Revenue	68.7	55.5	19.0	5.5	–	–	148.7
Service charges and similar expenses	(16.3)	(14.0)	(5.4)	–	–	–	(35.7)
Net rental income	52.4	41.5	13.6	5.5	–	–	113.0
Administration expenses	(7.5)	(3.2)	(1.3)	(0.1)	(6.1)	–	(18.2)
Other property expenses	(8.6)	(4.2)	(0.4)	(2.4)	–	–	(15.6)
Revenue less costs	36.3	34.1	11.9	3.0	(6.1)	–	79.2
Net revaluation movements on investment property	(186.6)	(90.6)	(25.5)	–	–	–	(302.7)
Net revaluation movements on equity investments	–	–	–	(1.3)	–	–	(1.3)
Profit/(loss) on sale of investment property	0.4	(1.6)	(0.1)	2.7	–	–	1.4
Segment operating (loss)/profit	(149.9)	(58.1)	(13.7)	4.4	(6.1)	–	(223.4)
Finance income	0.1	–	–	1.5	–	–	1.6
Finance costs	(25.2)	(11.9)	(4.0)	–	(0.2)	–	(41.3)
Foreign exchange gain/(loss)	–	–	0.1	(0.4)	–	–	(0.3)
Segment (loss)/profit before tax	(175.0)	(70.0)	(17.6)	5.5	(6.3)	–	(263.4)

Year ended 31 December 2022	Investment properties					Total £m
	United Kingdom £m	Germany £m	France £m	Other investments £m	Central administration £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	(79.8)	(41.5)	(15.4)	–	–	(136.5)
Net revaluation movements on equity investments	–	–	–	(3.8)	–	(3.8)
(Loss)/profit on sale of investment property	(0.3)	–	0.8	–	–	0.5
Segment operating loss	(39.6)	(13.1)	(4.0)	(2.3)	(4.9)	(63.9)
Finance income	5.3	1.4	1.4	2.0	–	10.1
Finance costs	(16.4)	(6.8)	(2.4)	(0.8)	(0.4)	(26.8)
Foreign exchange loss	–	–	–	–	(0.3)	(0.3)
Impairment of goodwill	–	(0.3)	(0.8)	–	–	(1.1)
Segment loss before tax	(50.7)	(18.8)	(5.8)	(1.1)	(5.6)	(82.0)

Other segment information

	Assets		Liabilities		Capital expenditure	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Investment properties						
United Kingdom	930.0	1,083.6	548.2	551.7	37.2	36.6
Germany	908.1	1,011.6	510.8	536.4	9.3	9.8
France	265.0	294.3	164.3	185.7	3.1	11.7
Other investments	57.8	111.9	8.4	6.8	0.8	0.4
	2,160.9	2,501.4	1,231.7	1,280.6	50.4	58.5

5. Alternative Performance Measures

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

Introduction

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

Overview of our use of APMs

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

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

CLS monitors the Group's financial performance using APMs which are European Public Real Estate Association ('EPRA') measures as these are a set of standard disclosures for the property industry and thus aid comparability for our stakeholder users. CLS considers the two measures below to be the most relevant as we believe that these will continue to reflect the long-term nature of our property investments most accurately.

- EPRA earnings; and
- EPRA net tangible asset value (NTA).

There has been no change to the Group's APMs in the year with the same APMs utilised by the business being defined, calculated and used on a consistent basis, although all other measures are shown within the supplementary unaudited disclosures to the financial statements there has been no change to comparative amounts.

1. EPRA APMs

	2023 Number	2022 Number
For use in earnings per share calculations		
Weighted average number of ordinary shares in circulation	397,330,507	404,410,051
Diluted number of ordinary shares	400,942,040	406,473,292
For use in net asset per share calculations		
Number of ordinary shares in circulation at 31 December	397,410,268	397,210,866

i) Earnings – EPRA earnings

	Notes	2023 £m	2022 £m
Loss for the year		(249.8)	(81.9)
Net revaluation movement on investment property	12/14	302.7	136.5
Deferred tax on revaluations		(16.3)	(4.8)
Net revaluation movement on equity investments		1.3	3.8
Profit of investment property		(1.4)	(0.5)
Current tax thereon		–	1.6
Movement in fair value of derivative financial instruments	8/9	4.2	(8.8)
Impairment of goodwill		–	1.1
Amortisation of intangible assets		0.2	–
EPRA earnings		40.9	47.0
Basic and diluted earnings per share		(62.9)p	(20.2)p
EPRA earnings per share		10.3p	11.6p

ii) Net asset value measures

	2023				2022			
	IFRS NAV £m	EPRA NTA £m	EPRA NRV £m	EPRA NDV £m	IFRS NAV £m	EPRA NTA £m	EPRA NRV £m	EPRA NDV £m
2023								
Net assets	929.2	929.2	929.2	929.2	1,220.8	1,220.8	1,220.8	1,220.8
Other intangibles	–	(2.9)	–	–	–	(2.8)	–	–
Fair value of fixed interest debt	–	–	–	56.7	–	–	–	87.2
Tax thereon	–	–	–	(3.3)	–	–	–	(6.4)
Deferred tax on revaluation surplus	–	90.0	90.0	–	–	108.6	108.6	–
Adjustment for short-term disposals	–	(6.6)	–	–	–	(8.6)	–	–
Fair value of financial instruments	–	(4.3)	(4.3)	–	–	(8.5)	(8.5)	–
Purchasers' costs ¹	–	–	147.7	–	–	–	149.3	–
	929.2	1,005.4	1,162.6	982.6	1,220.8	1,309.5	1,470.2	1,301.6
Per share	233.8p	253.0p	292.5p	247.2p	307.3p	329.6p	370.1p	327.7p

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

6. Loss for the year

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

	Notes	2023 £m	2022 £m
Auditor's remuneration: Fees payable to the Company's Auditor for:			
Audit of the Parent Company and Group accounts		0.5	0.4
Audit of the Company's subsidiaries pursuant to legislation		0.2	0.2
Depreciation of property, plant and equipment	13	0.6	0.6
Amortisation of intangible assets		0.2	–
Employee benefits expense	7	12.1	10.2
Foreign exchange loss		0.3	0.3
Provision against trade receivables	15	–	0.6

Other services provided to the Group by the Company's Auditor consisted of the 2023 interim review of £76k (2022: £50k) and the provision of access to a technical financial reporting database of £1k (2022: £1k).

7. Employee benefits expense

	2023 £m	2022 £m
Wages and salaries	7.6	7.3
Social security costs	1.4	0.8
Pension costs – defined contribution plans	0.3	0.3
Performance incentive plan	1.2	0.8
Other employee-related expenses	1.6	1.0
	12.1	10.2

The Directors are considered to be the only key management of the Group. Information on Directors' emoluments, share options and interests in the Company's shares is given in the Remuneration Committee Report.

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

	2023			2022		
	Property Number	Hotel Number	Total Number	Property Number	Hotel Number	Total Number
Male	50	11	61	47	9	56
Female	48	9	57	46	7	53
	98	20	118	93	16	109

8. Finance income

	2023 £m	2022 £m
Interest income		
Financial instruments carried at amortised cost	1.6	1.3
Movement in fair value of derivative financial instruments	–	8.8
	1.6	10.1

9. Finance costs

	2023 £m	2022 £m
Interest expense		
Secured bank loans	35.5	23.3
Secured notes	–	1.7
Amortisation of loan issue costs	1.6	1.8
Total interest costs	37.1	26.8
Movement in fair value of derivative financial instruments	4.2	–
Total finance costs	41.3	26.8

10. Taxation

	2023 £m	2022 £m
Corporation tax		
Current year charge	5.6	5.8
Adjustments in respect of prior years	(1.9)	(0.5)
	3.7	5.3
Deferred tax (see note 18)		
Origination and reversal of temporary differences	(17.3)	(5.4)
	(17.3)	(5.4)
Tax credit for the year	(13.6)	(0.1)

A deferred tax charge of £0.6 million (2022: charge of £0.4 million) was recognised directly in equity (note 18). The charge for the year differs from the theoretical amount which would arise using the weighted average tax rate applicable to profits of Group companies as follows:

	2023 £m	2022 £m
Loss before tax	(263.4)	(82.0)
Expected tax credit at applicable tax rate	(56.3)	(15.1)
Expenses not deductible for tax purposes	0.3	1.0
Non-deductible loss from REIT	42.9	13.4
Deferred tax on losses not recognised	3.7	1.2
Adjustments in respect of prior years	(3.8)	(0.5)
Other	(0.4)	(0.1)
Tax credit for the year	(13.6)	(0.1)

The weighted average applicable tax rate of 21.4% (2022: 18.5%) was derived by applying to their relevant profits and losses the rates in the jurisdictions in which the Group operated. The standard UK rate of corporation tax applied to profits is 25% (2022: 19%).

11. Property portfolio

	Notes	United Kingdom £m	Germany £m	France £m	Total £m
Investment property	12	836.3	768.2	246.0	1,850.5
Property held as property, plant and equipment	13	36.3	1.7	1.7	39.7
Properties held for sale	14	47.3	115.6	9.8	172.7
Property portfolio at 31 December 2023		919.9	885.5	257.5	2,062.9

	Notes	United Kingdom £m	Germany £m	France £m	Total £m
Investment property	12	1,030.0	990.5	274.5	2,295.0
Property held as property, plant and equipment	13	33.6	2.0	1.9	37.5
Properties held for sale	14	7.0	3.6	9.7	20.3
Property portfolio at 31 December 2022		1,070.6	996.1	286.1	2,352.8

12. Investment property

	United Kingdom £m	Germany £m	France £m	Total Investment properties £m
At 1 January 2023	1,030.0	990.5	274.5	2,295.0
Acquisitions	–	–	–	–
Capital expenditure	37.2	9.3	3.1	49.6
Disposals	(3.7)	(6.6)	–	(10.3)
Net revaluation movement	(186.1)	(90.6)	(25.5)	(302.2)
Lease incentive adjustments	(0.3)	1.6	(0.2)	1.1
Exchange rate variances	–	(20.3)	(5.7)	(26.0)
Transfer to properties held for sale	(40.8)	(115.7)	(0.2)	(156.7)
At 31 December 2023	836.3	768.2	246.0	1,850.5

	United Kingdom £m	Germany £m	France £m	Total Investment properties £m
At 1 January 2022	1,090.5	883.0	273.6	2,247.1
Acquisitions	–	83.4	–	83.4
Capital expenditure	36.6	9.9	11.7	58.2
Disposals	(11.5)	–	–	(11.5)
Net revaluation movement	(79.5)	(41.6)	(15.4)	(136.5)
Lease incentive adjustments	0.9	6.9	–	7.8
Exchange rate variances	–	48.9	14.3	63.2
Transfer to properties held for sale	(7.0)	–	(9.7)	(16.7)
At 31 December 2022	1,030.0	990.5	274.5	2,295.0

Investment properties included leasehold properties with a carrying amount of £65.1 million (2022: £77.7 million).

Interest capitalised within capital expenditure in the year amounted to £1.0 million (2022: £0.5 million).

The property portfolio which comprises investment properties, properties held for sale (note 14), and hotel and other, detailed in note 13, was revalued at 31 December 2023 to its fair value. Valuations were based on current prices in an active market for all properties. The property valuations were carried out by independent external valuers as follows:

	Investment property 2023 £m	Other property 2023 £m	Property portfolio 2023 £m	Investment property 2022 £m	Other property 2022 £m	Property portfolio 2022 £m
Cushman and Wakefield	836.3	83.6	919.9	1,030.0	33.6	1,063.6
Jones Lang LaSalle	1,014.2	128.8	1,143.0	1,265.0	13.5	1,278.5
Directors' valuation	–	–	–	–	3.6	3.6
	1,850.5	212.4	2,062.9	2,295.0	50.7	2,345.7

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

Valuation process

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

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

Valuation techniques

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

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

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

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

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

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

There were no transfers between any of the Levels in the fair value hierarchy during either 2023 or 2022. The Group determines whether transfers have occurred between levels in the fair value hierarchy by re-assessing categorisation at the end of each reporting period.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to a loss of £302.7 million (2022: a loss of £136.5 million) and are presented in the income statement in the line item 'Net movements on revaluation of investment properties'. The revaluation gain for the property, plant and equipment of £2.2 million (2022: gain of £1.9 million) was included within the revaluation reserve via other comprehensive income.

All gains and losses recorded in profit or loss in 2023 and 2022 for recurring fair value measurements categorised within Level 3 of the fair value hierarchy are attributable to changes in unrealised gains or losses relating to investment property held at 31 December 2023 and 31 December 2022, respectively.

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

	ERV				Equivalent yield			
	Average		Range		Average		Range	
	2023 £ per sq. ft	2022 £ per sq. ft	2023 £ per sq. ft	2022 £ per sq. ft	2023 %	2022 %	2023 %	2022 %
UK	34.76	34.01	10.00-56.05	10.00-58.09	6.08	5.61	2.98-13.23	2.94-9.61
Germany	14.40	14.10	9.93-29.70	10.14-25.27	5.24	4.75	4.40-6.20	3.30-5.90
France	21.96	21.69	12.99-43.53	13.26-41.38	6.00	5.13	4.79-7.40	4.05-6.75

Sensitivity of measurement to variations in the significant unobservable inputs

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

A decrease in the equivalent yield by 25 basis points would result in an increase in the fair value of the Group's investment property by £84.8 million (2022: £138.5 million) whilst a 25 basis point increase would reduce the fair value by £85.4 million (2022: £107.0 million). A decrease in the ERV by 5% would result in a decrease in the fair value of the Group's investment property by £79.0 million (2022: £86.8 million) whilst an increase in the ERV by 5% would result in an increase in the fair value of the Group's investment property by £70.7 million (2022: £106.5 million).

Where the Group leases out its investment property under operating leases the duration is typically three years or more. No material variable contingent rents have been recognised in the current or prior year.

Sustainability, climate change, Net Zero Carbon Pathway and EPC compliance

In August 2021, the Group published its Sustainability Strategy which includes a pathway to achieve Net Zero Carbon ("NZC") emissions by 2030. Our NZC Pathway is underpinned by individual property energy audits, undertaken by technical experts, which identify energy and carbon saving opportunities. At today's costs, the investment required to upgrade all our assets to meet our SBTi-aligned NZC target amounts to an estimated £65 million over the 10-year period between 2021 and 2030, with over £15 million spent since 2021. We have integrated the energy audits into individual Asset Management Plans to enable strategic decisions about the refurbishment, sale or full redevelopment of our assets to be made. Additional audits are undertaken as and when required (e.g. when a property enters the portfolio) to ensure the robust delivery of the Pathway across the Group's portfolio. Progress against our NZC Pathway, including an update on, is detailed in our separate Sustainability Report. The UK portfolio is already compliant with the 2023 Minimum Energy Efficiency Standard (MEES) requirements, whilst further upgrades are scheduled to ensure our properties achieve the expected target of EPC B by 2030. In France, our Asset Management Plans will ensure we meet the Décret Tertiaire requirements and although there are currently no minimum targets for existing buildings in Germany, our NZC Pathway will see our alignment with the Carbon Risk Real Estate Monitor ("CRREM") energy and carbon intensity pathways, by 2030, across all three regions.

13. Property, plant and equipment

	Hotel £m	Land and buildings £m	Owner- occupied property £m	Fixtures and fittings £m	Total £m
Cost or valuation					
At 1 January 2022	25.0	3.2	11.0	3.2	42.4
Additions	–	–	0.1	0.3	0.4
Disposals	–	–	–	(0.1)	(0.1)
Reclassification to held for sale	–	(3.6)	–	–	(3.6)
Revaluation	1.7	0.4	(0.4)	–	1.7
Exchange rate variances	–	–	0.1	0.1	0.2
At 31 December 2022	26.7	–	10.8	3.5	41.0
Additions	0.5	–	–	0.3	0.8
Disposals	–	–	–	–	–
Reclassification to held for sale	–	–	–	–	–
Reclassification (to)/from fixtures and fittings	(0.2)	–	–	0.2	–
Revaluation	3.2	–	(1.2)	–	2.0

Exchange rate variances	–	–	(0.1)	(0.1)	(0.2)
At 31 December 2023	30.2	–	9.5	3.9	43.6
Comprising:					
At cost	–	–	–	3.9	3.9
At valuation	30.2	–	9.5	–	39.7
	30.2	–	9.5	3.9	43.6
Accumulated depreciation and impairment					
At 1 January 2022	–	–	–	(1.1)	(1.1)
Depreciation charge	(0.1)	–	(0.1)	(0.4)	(0.6)
Disposals	–	–	–	0.1	0.1
Revaluation	0.1	–	0.1	–	0.2
At 31 December 2022	–	–	–	(1.4)	(1.4)
Depreciation charge	(0.1)	–	(0.1)	(0.4)	(0.6)
Disposals	–	–	–	–	–
Revaluation	0.1	–	0.1	–	0.2
At 31 December 2023	–	–	–	(1.8)	(1.8)
Net book value					
At 31 December 2023	30.2	–	9.5	2.1	41.8
At 31 December 2022	26.7	–	10.8	2.1	39.6

Valuation techniques

The fair value of the hotel and owner-occupied property has been determined using the following approach in accordance with International Valuation Standards:

Hotel a 10 year discounted cash flow model with an assumed exit thereafter. The projected EBITDA in the 11th year is capitalised at a market yield before being brought back to present day values.

Owner occupied property –an income capitalisation approach whereby contracted and market rental values are capitalised with a market capitalisation rate

This technique is consistent with the principles in IFRS 13 Fair Value Measurement and uses significant unobservable inputs such that the fair value measurement of the hotel within the portfolio has been classified as Level 3 in the fair value hierarchy.

Sensitivity of measurement to variations in the significant unobservable inputs

All other factors remaining constant, an increase in EBITDA would increase the valuation, whilst an increase in exit capitalised yield would result in a fall in value, and vice versa. A decrease in the exit capitalisation yield by 100 basis points would result in an increase in the fair value of the hotel by £5.5 million, whilst a 100 basis point increase would reduce the fair value by £4.0 million. A decrease in EBITDA by 5% would result in a decrease in the fair value of the hotel by £1.5 million whilst an increase in the EBITDA by 5% would result in an increase in the fair value of the hotel by £1.5 million.

14. Assets held for sale

	2023				2022			
	UK £m	Germany £m	France £m	Total £m	UK £m	Germany £m	France £m	Total £m
At 1 January	7.0	3.6	9.7	20.3	37.3	–	6.9	44.2
Disposals	–	(3.6)	–	(3.6)	(37.3)	–	(6.9)	(44.2)
Transfer from investment property	40.8	115.6	0.3	156.7	7.0	–	9.7	16.7
Transfer from property, plant and equipment	–	–	–	–	–	3.6	–	3.6
Revaluation	(0.5)	–	–	(0.5)	–	–	–	–
Exchange rate variances	–	–	(0.2)	(0.2)	–	–	–	–
At 31 December	47.3	115.6	9.8	172.7	7.0	3.6	9.7	20.3

The balance above comprises 6 properties (2022: 3 properties) that at the year end were being marketed for sale and are expected to be disposed of within 12 months via an open market process. The properties are situated in the UK, Germany and France. The directors expect that the sale proceeds achieved to be similar to their carrying amounts.

15. Trade and other receivables

	2023 £m	2022 £m
Current		
Trade receivables	8.8	5.3
Other receivables	4.4	4.9
Prepayments	1.4	2.7
Accrued income	2.1	2.9
	16.7	15.8

Trade receivables are shown after deducting a provision of £1.9 million (2022: £2.8 million) which is calculated as an expected credit loss. The movements in this provision were as follows:

	2023 £m	2022 £m
At 1 January	2.8	2.4
Debt write-offs	(0.9)	(0.2)
Charge to the income statement	–	0.6
At 31 December	1.9	2.8

The Group uses a provision matrix to calculate the expected credit loss for trade receivables. The provision rates are based on the Group's historical observed aging of debt and the probability of default. At every reporting date, the provision rates are updated to incorporate the previous 12 months data and forward-looking information such as actual and potential impacts of political and economic uncertainty, if applicable. In addition, on a tenant-by-tenant basis, the Group takes into account any recent payment behaviours and future expectations of likely default events. Specific provisions are made in excess of the expected credit loss where information is available to suggest a higher provision is required, for example individual customer credit ratings, actual or expected insolvency filings or company voluntary arrangements, likely deferrals of payments due, agreed rent concessions and market expectations and trends in the wider macro-economic environment in which our customers operate. An additional review of tenant debtors was undertaken to assess recoverability in light of the political and economic uncertainty.

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

16. Cash and cash equivalents

	2023 £m	2022 £m
Cash at bank	70.6	113.9

At 31 December 2023, cash at bank included £26.1 million (2022: £15.8 million) which was restricted by a third-party charge. £10.7 million of the restricted cash related to tenant deposits (2022: £10.3 million).

17. Trade and other payables

	2023 £m	2022 £m
Current		
Trade payables	4.1	4.6
Social security and other taxes	2.2	2.1
Tenant deposits	10.7	10.3
Other payables	5.7	4.2
Deferred income	20.5	13.0
Accruals	25.4	24.4
	68.6	58.6

18. Deferred tax

	Liabilities				Assets				Total deferred tax £m
	UK capital allowances £m	Fair value adjustments to properties £m	Other £m	Total £m	UK capital allowances £m	Losses £m	Other £m	Total £m	
At 1 January 2022	0.3	107.8	1.8	109.9	–	(2.4)	(0.2)	(2.6)	107.3
(Credited)/charged									
to income statement	–	(4.9)	(0.2)	(5.1)	–	(0.3)	–	(0.3)	(5.4)
to OCI ¹	–	0.4	–	0.4	–	–	–	–	0.4
Exchange rate variances	–	5.3	–	5.3	–	0.1	–	0.1	5.4
At 31 December 2022	0.3	108.6	1.6	110.5	–	(2.6)	(0.2)	(2.8)	107.7
Charged/(credited)									
to income statement	0.4	(17.0)	(0.1)	(16.7)	–	(0.7)	0.1	(0.6)	(17.3)
to OCI ¹	–	0.6	–	0.6	–	–	–	–	0.6
Exchange rate variances	–	(2.3)	–	(2.3)	–	–	–	–	(2.3)
At 31 December 2023	0.7	89.9	1.5	92.1	–	(3.3)	(0.1)	(3.4)	88.7

¹ Other Comprehensive Income

Deferred tax has been calculated based on local rates applicable under local legislation substantively enacted at the balance sheet date.

Deferred tax assets are recognised in respect of tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 December 2023 the Group offset tax losses valued at the applicable local tax rate of £12.8 million (2022: £9.8 million) against the deferred tax liability arising on the fair value adjustments to properties. At 31 December 2023 the Group did not recognise deferred tax assets of £13.2 million (2022: £8.0 million) in respect of losses amounting to £76.1 million (2022: £45.6 million) which may be carried forward and utilised against future taxable income or gains. There is no expiry period for the carried forward tax losses.

19. Borrowings

	At 31 December 2023			At 31 December 2022		
	Current £m	Non-current £m	Total borrowings £m	Current £m	Non-current borrowings £m	Total £m
Secured bank loans	193.9	876.7	1,070.6	173.4	932.5	1,105.9

Issue costs of £5.0 million (2022: £5.3 million) have been offset in arriving at the balances in the above tables.

Secured bank loans

Interest on bank loans is charged at fixed rates ranging between 0.8% and 5.1% including margin (2022: 0.8% and 4.4%) and at floating rates of typically SONIA or EURIBOR plus a margin. Floating rate margins range between 1.1% and 2.8% (2022: 1.1% and 2.2%). The bank loans are secured by legal charges over £1,988.8 million (2022: £2,247.6 million) of the Group's properties, and in most cases a floating charge over the remainder of the assets held in the company which owns the property. In addition, the share capital of some of the subsidiaries within the Group has been charged.

Secured green loans

The Group's debt portfolio includes two sustainability linked loans;

- £150.7m maturing in 2032
- £59.4m maturing in 2033

These loans have a basis point margin incentive for meeting annual sustainability targets which align with our Net Zero Carbon Pathway for the properties which are securing them. The targets have been independently verified to be aligned with the Loan Market Association (LMA) Sustainability-Linked loan principles. The targets set for any given year are based on actual ESG data/milestones achieved in the prior year. Each of the 2023 targets (tested on 31 December 2022 actual results) have been met resulting in lower interest rates being applied to these loans. The reduction in interest rate margin is not considered to be a substantial modification of the loan terms.

Capitalised interest

Interest capitalised within investment property capital expenditure during the year was £1.0 million (2022: £0.5 million) at an average rate of 4.26% (2022: 3.22%).

The Group has complied with all externally imposed capital requirements to which it was subject.

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

	Secured bank loans £m
At 31 December 2023	
Maturing in:	
Within one year or on demand	195.4
One to two years	327.0
Two to five years	331.0
More than five years	222.2
	1,075.6
Unamortised issue costs	(5.0)
Borrowings	1,070.6
Due within one year	(193.9)
Due after one year	876.7

At the year ended 31 December 2022 £175.1 million of borrowings were due for repayment within one year and £350.1, was due within one to two years including unamortised issue costs. During 2023, CLS refinanced £330.6 million of which £129.1 million was classified as new loans.

	Secured bank loans £m
At 31 December 2022	
Maturing in:	
Within one year or on demand	175.1
One to two years	350.1
Two to five years	314.4
More than five years	271.6
	1,111.2
Unamortised issue costs	(5.3)
Borrowings	1,105.9
Due within one year	(173.4)
Due after one year	932.5

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

	At 31 December 2023			At 31 December 2022		
	Sterling £m	Euro £m	Total £m	Sterling £m	Euro £m	Total £m
Fixed rate financial liabilities	238.9	462.4	701.3	241.3	445.8	687.1
Floating rate financial liabilities – swaps	115.3	–	115.3	117.4	–	117.4
Total fixed rate	354.2	462.4	816.6	358.7	445.8	804.5
Floating rate financial liabilities – capped	–	40.6	40.6	–	42.6	42.6
Floating rate financial liabilities	159.9	58.5	218.4	162.2	101.9	264.1
Total floating rate	159.9	99.1	259.0	162.2	144.5	306.7
	514.1	561.5	1,075.6	520.9	590.3	1,111.2
Unamortised issue costs	(3.3)	(1.7)	(5.0)	(3.5)	(1.8)	(5.3)
Borrowings	510.8	559.8	1,070.6	517.4	588.5	1,105.9

Of the Group's total borrowings, 76% (2022: 72%) are considered fixed rate borrowings.

At 31 December 2023, the Group had interest rate swap agreements in place with an aggregate notional amount of £115.3 million (2022: £117.4 million) whereby the Group pays an average fixed rate of interest of 1.89% and receives interest at a daily variable rate. The swap is being used to hedge the exposure to changes in the variable rate of sterling denominated loans.

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

	Weighted average interest rate ¹			Weighted average life		
	Sterling %	Euro %	Total %	Sterling Years	Euro Years	Total Years
At 31 December 2023						
Fixed rate financial liabilities	2.7	2.5	2.5	7.4	2.8	4.4
Floating rate financial liabilities – swaps	4.7	–	4.7	4.7	–	1.0
	3.3	2.5	2.8	5.3	2.8	3.9
Floating rate financial liabilities – capped	–	2.6	2.6	–	3.8	3.8
Floating rate financial liabilities	7.1	5.2	6.6	1.6	2.9	1.9
	7.1	4.2	6.0	1.6	3.3	2.2
Gross borrowings	4.5	2.8	3.6	4.1	2.9	3.5

	Weighted average interest rate ¹			Weighted average life		
	Sterling %	Euro %	Total %	Sterling Years	Euro Years	Total Years
At 31 December 2022						
Fixed rate financial liabilities	2.7	1.6	2.0	8.4	3.0	4.9
Floating rate financial liabilities – swaps	3.2	–	3.2	1.4	–	1.4
	2.9	1.6	2.2	6.1	3.0	4.4
Floating rate financial liabilities – capped	–	2.5	2.5	–	4.8	4.8
Floating rate financial liabilities	4.8	3.5	4.3	1.4	2.5	1.8
	4.8	3.2	4.1	1.4	3.1	2.2
Gross borrowings	3.5	2.0	2.7	4.6	3.0	3.8

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

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

	Carrying amounts		Fair values	
	2023 £m	2022 £m	2023 £m	2022 £m
Current borrowings	193.9	173.4	193.9	173.4
Non-current borrowings	876.7	932.5	820.0	845.3
	1,070.6	1,105.9	1,013.9	1,018.7

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

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

	2023 £m	2022 £m
Floating rate:		
– expiring within one year	–	30.0
– expiring after one year ¹	50.0	–
	50.0	30.0

¹ £30 million of this facility is secured on selected UK properties.

In addition to the above committed facility, the Group has £nil of uncommitted facilities available (2022: £20 million).

Contractual undiscounted cash outflows

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

At 31 December 2023	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	Over 5 years £m	Total £m
Secured bank loans	195.3	327.0	75.5	135.7	119.8	222.2	1,075.5
Interest payments on borrowings ¹	39.4	32.8	14.9	12.3	8.2	17.6	125.2
Effect of interest rate swaps	(2.8)	(0.6)	–	–	–	–	(3.4)
Effect of interest rate caps	(0.8)	(0.4)	(0.3)	(0.1)	–	–	(1.6)
Gross loan commitments	231.1	358.8	90.1	147.9	128.0	239.8	1,195.8

At 31 December 2022	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	Over 5 years £m	Total £m
Secured bank loans	175.1	350.1	121.6	54.9	137.9	271.6	1,111.2
Interest payments on borrowings ¹	35.3	26.5	14.3	11.3	9.4	25.2	122.1
Effect of interest rate swaps	(3.9)	(2.6)	–	–	–	–	(6.5)
Gross loan commitments	206.5	374.0	135.9	66.2	147.3	296.8	1,226.7

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

20. Derivative financial instruments

	2023 Assets £m	2023 Liabilities £m	2022 Assets £m	2022 Liabilities £m
Non-current:				
Interest rate caps and swaps	3.6	–	8.5	–
Current:				
Forward foreign exchange contracts	0.7	–	–	–
	4.3	–	8.5	–

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

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

Interest rate caps

The aggregate notional principal of interest rate caps at 31 December 2023 was £40.8 million (2022: £42.7 million). The average period to maturity of these interest rate caps was 2.7 years (2022: 3.7 years).

Interest rate swaps

The aggregate notional principal of interest rate swap contracts at 31 December 2023 was £115.3 million (2022: £117.4 million). The average period to maturity of these interest rate swaps was 0.9 years (2022: 1.4 years).

Forward foreign exchange contracts

The Group uses forward foreign exchange contracts from time to time to add certainty to, and to minimise the impact of foreign exchange movements on, committed cash flows. At 31 December 2023 and 31 December 2022 the Group had no outstanding foreign exchange contracts.

Derivative financial instruments cash flows

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

	2023 Assets £m	2023 Liabilities £m	2022 Assets £m	2022 Liabilities £m
Maturing in:				
Less than 1 year	3.8	–	4.3	–
1 to 2 years	1.0	–	3.5	–

2 to 3 years	0.3	–	0.8	–
3 to 4 years	0.1	–	0.6	–
4 to 5 years	–	–	0.1	–
Over 5 years	–	–	–	–
	5.2	–	9.3	–

21. Financial instruments

Categories of financial instruments

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

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

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

- Interest rate swaps and caps are measured at the present value of future cash flows based on applicable yield curves derived from quoted interest rates;
- Foreign currency options and forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts;
- The fair values of non-derivative financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. Financial assets in this category include financial assets at fair value through other comprehensive income or fair value through profit and loss such as equity investments;
- In more illiquid conditions, non-derivative financial assets are valued using multiple quotes obtained from market makers and from pricing specialists. Where the spread of prices is tightly clustered the consensus price is deemed to be fair value. Where prices become more dispersed or there is a lack of available quoted data, further procedures are undertaken such as evidence from the last non-forced trade; and
- The fair values of other non-derivative financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices from observable current market transactions and dealer quotes for similar instruments.

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

Capital risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity balances. The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings. Management perform "stress tests" of the Group's business model to ensure that the Group's objectives can be met and these objectives were met during 2023 and 2022.

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

The gearing ratio at the year end was as follows:

	Notes	2023 £m	2022 £m
Debt	19	1,075.6	1,111.2
Liquid resources	16	(70.6)	(113.9)
Net debt (A)		1,005.0	997.3
Equity (B)		929.2	1,220.8
Net debt to equity ratio (A/B)		108.2%	81.7%

Debt is defined as long-term and short-term borrowings before unamortised issue costs as detailed in note 19. Liquid resources are cash and short-term deposits. Equity includes all capital and reserves of the Group attributable to the owners of the Company.

Externally imposed capital requirement

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

Risk management objectives

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

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

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

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

(a) Market risk

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

(I) Interest rate risk

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

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

Scenario	2023 Income statement & equity £m	2022 Income statement & equity £m
Cash +50 basis points	0.4	0.6
Variable borrowings (including swaps and caps) +50 basis points	(2.6)	(0.9)
Cash -50 basis points	(0.4)	(0.6)
Variable borrowings (including swaps and caps) -50 basis points	1.3	1.5

An increase or decrease of 100 basis points on the cash balance would result in a gain/(loss) of £0.7 million/(£0.7 million) from cash and cash equivalents. An increase of 100 basis points on variable borrowings would result in a loss of £1.3 million and a decrease of 100 basis points on variable borrowings would result in a gain of £2.6 million.

(II) Foreign exchange risk

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

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

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

Scenario	2023 Net assets £m	2023 Profit before tax £m	2022 Net assets £m	2022 Profit before tax £m
1% increase in value of Sterling against the Euro	(5.1)	0.9	(6.0)	0.3
1% fall in value of Sterling against the Euro	5.2	(0.9)	6.1	(0.3)

A 10% increase in the value of the Sterling against the Euro would result in a decrease in net assets of £47.1 million and reduction of profit before tax of £8.1 million. A 10% decrease in the value of the Sterling against the Euro would result in an increase in net assets of £57.5 million and an increase of profit before tax of £9.9 million. The sensitivity disclosed related to the foreign operations, as the sensitivity related to financial instruments is not considered significant.

(b) Credit risk

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

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

The Group has policies in place to ensure that rental contracts are made with customers with an appropriate credit history. Credit risk to customers is assessed by a process of internal and external credit review, and is reduced by obtaining bank guarantees from the customer or its parent, and cash rental deposits. At 31 December 2023, the Group held £10.7 million in rent deposits (2022: £10.3 million) against £8.8 million of trade receivables (2022: £5.3 million). The overall credit risk in relation to customers is monitored on an ongoing basis. Moreover, a significant proportion of the Group portfolio is let to Government occupiers which can be considered financially secure.

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

At 31 December 2023 the Group held £4.3 million (2022: £8.5 million) of financial assets at fair value through profit and loss. Management considers the credit risk associated with individual transactions and monitors the risk on a continuing basis. Information is gathered from external credit rating agencies and other market sources to allow management to react to any perceived change in the underlying credit risk of the instruments in which the Group invests. This allows the Group to minimise its credit exposure to such items and at the same time to maximise returns for shareholders.

(c) Liquidity risk

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

The majority of the Group's debt is arranged on an asset-specific, non-recourse basis (mortgage type loans in SPVs). This allows the Group a higher degree of flexibility in dealing with potential covenant defaults than if the debt was arranged under a Group-wide borrowing facility. Portfolio loans secured by multiple properties are also used when circumstances require it or to obtain better conditions.

Banking covenants vary according to each loan agreement, but typically include loan-to-value and income related covenants. In addition, the Group has two "green" loans, each of which have a 10-basis point incentive for achieving certain sustainability targets. The Group targets a loan-to-value in the range of 35% to 45%. Balance sheet loan-to-value at 31 December 2023 was 48.5% (2022: 42.2%).

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

The Group's loan facilities and other borrowings are spread across a range of 24 banks and financial institutions so as to minimise any potential concentration of risk.

22. Financial assets and liabilities

	Fair value through profit and loss £m	Amortised cost £m	Total carrying value £m
Financial assets:			
Cash and cash equivalents	–	70.6	70.6
Derivative financial assets	4.3	–	4.3
Other assets – current ¹	–	15.3	15.3
	4.3	85.9	90.2
Financial liabilities:			
Secured bank loans	–	(1,070.6)	(1,070.6)
Other liabilities – current ²	–	(45.9)	(45.9)
	–	(1,116.5)	(1,116.5)
At 31 December 2023	4.3	(1,030.6)	(1,026.3)

	Fair value through profit and loss £m	Amortised cost £m	Total carrying value £m
Financial assets:			
Cash and cash equivalents	–	113.9	113.9
Derivative financial assets	8.5	–	8.5
Other assets – current ¹	–	13.0	13.0
	8.5	126.9	135.4
Financial liabilities:			
Secured bank loans	–	(1,105.9)	(1,105.9)
Other liabilities – current ²	–	(43.3)	(43.3)
	–	(1,149.2)	(1,149.2)
At 31 December 2022	8.5	(1,022.3)	(1,013.8)

1 Other assets included all amounts shown as trade and other receivables in note 15 except prepayments of £1.4 million (2022: £2.7 million). All current amounts are non-interest bearing and receivable within one year.

2 Other liabilities included all amounts shown as trade and other payables in note 17 except deferred income and sales and social security taxes of £22.7 million (2022: £15.1 million). All amounts are non-interest bearing and are due within one year.

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

	2023 £m	2022 £m
Net financial assets and liabilities:	1,026.3	1,013.8
Other assets – current	15.3	13.0
Other liabilities – current	(45.9)	(43.3)
Cash and cash equivalents	70.6	113.9
Borrowings and derivative financial instruments	1,066.3	1,097.4

23. Share capital

	Number of shares authorised, issued and fully paid			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
At 1 January 2023	397,210,866	41,566,914	438,777,780	9.9	1.1	11.0
Issue of shares	199,402	(199,402)	–	–	–	–
At 31 December 2023	397,410,268	41,367,512	438,777,780	9.9	1.1	11.0

	Number of shares authorised, issued and fully paid			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
At 1 January 2022	407,395,760	31,382,020	438,777,780	10.2	0.8	11.0
Purchase of own shares (market purchase)	(10,184,894)	10,184,894	–	(0.3)	0.3	–
At 31 December 2022	397,210,866	41,566,914	438,777,780	9.9	1.1	11.0

The Board is authorised, by shareholder resolution, to allot shares or grant such subscription rights (as are contemplated by sections 551(1) (a) and (b) respectively of the Companies Act 2006) up to a maximum aggregate nominal value of £3,311,752 representing one-third of the issued share capital of the Company excluding treasury shares.

24. Earnings per share

The calculation of earnings per ordinary share is based on earnings after tax and the weighted average number of ordinary shares in issue during the year.

	2023 Number	2022 Number
Weighted average number of ordinary shares in circulation	397,330,507	404,410,051
Number of ordinary shares in circulation	397,410,268	397,210,866

For diluted earnings per share, the weighted average number of ordinary shares in issues is adjusted to assume conversion of all dilutive potential ordinary shares. The diluted earnings per share does not assume conversion of potential ordinary shares that would have an antidilutive effect on earnings per share. The diluted loss per share for the period to 31 December 2023 was restricted to a loss of £62.9p per share, as the loss per share cannot be reduced by dilution in accordance with IAS 33, Earnings Per Share.

The Group has three types of dilutive potential ordinary shares, being: unvested shares granted under the Long Term Incentive Plan for executive directors and senior management; unvested shares granted under the Element B plan for executive directors and senior management; and unvested shares granted under the Special Share Award plan to key management. The issue of all these unvested shares is contingent upon satisfying specified conditions such as length of service and company performance.

Employee share plan	2023 Number	2022 Number
Element B/Special Award	820,246	520,901
LTIP	2,880,054	1,674,113
Total potential dilutive shares	3,700,300	2,195,014

25. Dividend

	Payment date	Dividend per share p	2023 £m	2022 £m
Current year				
2023 final dividend ¹	2 May 2024	5.35	–	–
2023 interim dividend	3 October 2023	2.60	10.3	–
Distribution of current year profit		7.95	10.3	–
Prior year				

2022 final dividend	2 May 2023	5.35	21.3	–
2022 interim dividend	3 October 2022	2.60	–	10.6
Distribution of prior year profit		7.95	21.3	10.6
2021 final dividend	29 April 2022	5.35	–	21.8
Dividends as reported in the Group statement of changes in equity			31.6	32.4

1 Subject to shareholder approval at the AGM on 25 April 2024. Total cost of proposed dividend is £21.3m.

26. Other reserves

	Notes	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Share-based payment reserve £m	Other reserves £m	Total £m
At 1 January 2023		22.7	59.7	3.0	1.9	28.1	115.4
Exchange rate variances		–	(12.3)	–	–	–	(12.3)
Property, plant and equipment:							
– net fair value gains in the year	13	–	–	2.2	–	–	2.2
– deferred tax thereon	18	–	–	(0.6)	–	–	(0.6)
– reserve transfer on disposal of PPE		–	–	1.5	–	–	1.5
Share-based payment credit		–	–	–	0.5	–	0.5
At 31 December 2023		22.7	47.4	6.1	2.4	28.1	106.7

	Notes	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Share-based payment reserve £m	Other reserves £m	Total £m
At 1 January 2022		22.7	31.2	5.0	1.7	28.1	88.7
Exchange rate variances		–	28.5	–	–	–	28.5
Property, plant and equipment:							
– net fair value gains in the year	13	–	–	1.9	–	–	1.9
– deferred tax thereon	18	–	–	(0.4)	–	–	(0.4)
– reclassification of student accommodation		–	–	(3.5)	–	–	(3.5)
Share-based payment credit		–	–	–	0.2	–	0.2
At 31 December 2022		22.7	59.7	3.0	1.9	28.1	115.4

The capital redemption reserve comprises of the nominal value of the Company's own shares acquired as a result of share buyback programmes.

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

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

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

Share options exercised in each respective year have been settled using the treasury shares of the Group. The reduction in the treasury share equity component is equal to the cost incurred to acquire the shares, on a weighted average basis. Any excess of the cash received from employees over the reduction in treasury shares is recorded in share premium. In 2023 there were 199,402 treasury shares transferred to the EBT (2022: 10,184,894) to satisfy future awards under employee share plans. At 31 December 2023, the Group held 41,367,512 ordinary shares (2022: 41,566,914) with a market value of £1.1 million (2022: £1.1 million) in treasury. The Company's voting rights and dividends in respect of the treasury shares, including those own shares which the EBT holds, continue to be waived.

27. Notes to the cash flow

	2023 £m	2022 £m
Cash generated from operations		
Operating loss	(223.4)	(63.9)
Adjustments for:		
Net movements on revaluation of investment properties	302.7	136.5
Net movements on revaluation of equity investments	1.3	3.8
Depreciation and amortisation	0.8	0.6
Profit on sale of investment property	(1.4)	(0.5)
Lease incentive debtor adjustments	(1.1)	(7.8)
Share-based payment charge	0.5	0.2
Changes in working capital:		
(Increase)/decrease in receivables	(0.9)	2.3
Increase/(decrease) in payables	4.7	(0.7)
Cash generated from operations	83.2	70.5

Non-cash movements 2023

Changes in liabilities arising from financing activities	Notes	1 January 2023 £m	Financing cash flows £m	Amortisation of loan issue costs £m	Fair value adjustments £m	New leases £m	Foreign exchange £m	31 December 2023 £m
Borrowings	19	1,105.9	(24.6)	1.6	–	–	(12.3)	1,070.6
Interest rate swaps	20	(5.6)	–	–	3.1	–	–	(2.5)
Interest rate caps	20	(2.9)	–	–	1.1	–	–	(1.8)
Lease liabilities		3.6	–	–	–	–	(0.1)	3.5
		1,101.0	(24.6)	1.6	4.2	–	(12.4)	1,069.8

Non-cash movements 2022

Changes in liabilities arising from financing activities	Notes	1 January 2022 £m	Financing cash flows £m	Amortisation of loan issue costs £m	Fair value adjustments £m	New leases £m	Foreign exchange £m	31 December 2022 £m
Borrowings	19	1,031.6	43.6	1.8	–	–	28.9	1,105.9
Interest rate swaps	20	0.4	–	–	(6.0)	–	–	(5.6)
Interest rate caps	20	–	–	–	(2.8)	–	(0.1)	(2.9)
Lease liabilities		3.4	–	–	–	–	0.2	3.6
		1,035.4	43.6	1.8	(8.8)	–	29.0	1,101.0

28. Contingencies

At 31 December 2023 and 31 December 2022 CLS Holdings plc had guaranteed certain liabilities of Group companies. These were primarily in relation to Group borrowings and covered interest and amortisation payments. Principal amounts of loans secured from external lenders by two Group companies totalling £39.5 million at 31 December 2023 are also covered by guarantees provided by CLS Holdings plc (£29.9 million at 31 December 2022).

In April 2023, CLS Holdings plc dissolved 8 subsidiaries (the 'Companies'). Before the Companies were dissolved, capital reductions and distributions of the net assets of the subsidiaries, primarily represented by inter-company receivables of £17.1m, to the Parent should have been executed. However, they were not. As a consequence of this, as a matter of Law, on dissolution of these Companies the technical titles to the inter-company receivables were transferred from the Group to the Crown.

The Directors have taken legal advice and started the process to restore these Companies. Thereafter, the Directors can execute the capital reductions and make appropriate distributions to the Parent of these Companies assets.

Also, based on that legal advice, the Directors consider that it is improbable that the Crown will pursue the CLS group for these assets of the Companies prior to the process of the restoration of the Companies being completed and the technical title to the receivables being returned to the Group. Therefore, the Directors consider that it is not probable that an outflow of cash or other economic resources of £17.1m from the Group will occur, and therefore no provision is recognised at year end, but has been disclosed as a contingent liability.

29. Commitments

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

	2023 £m	2022 £m
Operating lease commitments – where the Group is lessor		
Within one year	100.9	100.4
Between one and two years	84.0	85.7
Between two and three years	61.0	71.4
Between three and four years	48.6	50.3
Between four and five years	36.7	38.8
More than five years	153.2	135.0
	484.4	481.6

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

Other commitments

At 31 December 2023 the Group had contracted capital expenditure of £6.9 million (2022: £16.7 million). At the balance sheet date, the Group had not exchanged contracts to acquire any investment properties (2022: £nil). There were no authorised financial commitments which were yet to be contracted with third parties (2022: £nil).

30. Post-balance sheet events

In January 2024, CLS secured a £10 million unsecured overdraft facility with RBS.

Subsequent to the year end the previously exchanged sale of Westminster Tower failed to complete. The sale was not recognised in 2023 and the property is now being re-marketed for sale.

Supplementary disclosures (unaudited)

Unaudited unless otherwise stated

Alternative Performance Measures

CLS uses all the EPRA metrics but we have also disclosed the measures that CLS used to prefer for certain of these categories. The notes below highlight where the measures that we monitor differ and our previous rationale for using them.

The measures we disclose are:

- EPRA net initial yield;
- EPRA 'topped-up' net initial yield;
- EPRA vacancy;
- EPRA capital expenditure;
- EPRA cost ratio; and
- EPRA LTV
- EPRA like-for-like gross rental income growth

Other APMs

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

- Total Accounting Return
- Net borrowings and gearing;
- Loan-to-value;
- Administration cost ratio;
- Dividend cover; and
- Interest cover.

1. EPRA APMs

i) Yield

EPRA net initial yield (NIY)

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

	2023				2022			
	United Kingdom £m	Germany £m	France £m	Total £m	United Kingdom £m	Germany £m	France £m	Total £m
Rent passing	45.5	46.4	13.2	105.1	46.0	42.6	12.8	101.4
Adjusted for properties in development	–	–	–	–	(0.9)	–	–	(0.9)
Forecast non-recoverable service charge	(3.7)	(2.0)	(0.5)	(6.2)	(1.5)	(2.1)	(0.3)	(3.9)
Annualised net rents (A)	41.8	44.4	12.7	98.9	43.6	40.5	12.5	96.7
Property portfolio ¹	745.4	883.8	246.0	1,875.2	946.8	990.1	284.2	2,221.1
Adjusted for properties in development	(15.7)	(2.9)	–	(18.5)	(118.7)	(4.9)	–	(123.6)
Purchasers' costs at 6.8%	49.6	59.9	16.7	126.2	56.3	67.0	19.3	142.6

Property portfolio valuation including purchasers' costs (B)	779.3	940.8	262.7	1,982.9	884.4	1,052.2	303.5	2,240.1
EPRA NIY (A/B)	5.4%	4.7%	4.8%	5.0%	4.9%	3.9%	4.1%	4.3%

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

EPRA 'topped-up' NIY

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

	2023				2022			
	United Kingdom £m	Germany £m	France £m	Total £m	United Kingdom £m	Germany £m	France £m	Total £m
Contracted rent	50.9	47.5	14.2	112.6	48.1	47.4	14.7	110.2
Adjusted for properties in development	–	–	–	–	(0.9)	–	–	(0.9)
Forecast non-recoverable service charge	(3.7)	(2.0)	(0.5)	(6.2)	(1.5)	(2.1)	(0.3)	(3.9)
'Topped-up' annualised net rents (A)	47.2	45.5	13.7	106.4	45.7	45.3	14.4	105.4
Property portfolio ¹	745.4	883.8	246.0	1,875.2	948.8	990.1	284.2	2,221.1
Adjusted for properties in development	(15.7)	(2.8)	–	(18.5)	(118.7)	(4.9)	–	(123.6)
Purchasers' costs (6.8%)	49.6	59.9	16.7	126.2	58.3	67.0	19.3	142.6
Property portfolio valuation including purchasers' costs (B)	779.3	940.9	262.7	1,982.9	884.4	1,052.2	303.5	2,240.1
EPRA 'topped-up' NIY (A/B)	6.1%	4.8%	5.2%	5.4%	5.2%	4.3%	4.8%	4.7%

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

ii) Vacancy

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

EPRA vacancy

	2023 £m	2022 £m
ERV of vacant space (A)	13.9	9.0
ERV of let space	112.4	112.4
ERV of total portfolio (B)	126.3	121.4
EPRA vacancy rate (A/B)	11.0%	7.4%

iii) Capital expenditure

EPRA capital expenditure

This measure shows the total amounts spent on the Group's investment properties on an accrual and cash basis with a split between expenditure used for the creation of incremental space and enhancing space ('no incremental space'). The sum of these expenditures is included in Capital expenditure in Note 12 of the Notes to the Group Financial Statements. The Group is not party to any joint venture arrangements, therefore this measure is not disclosed.

	Notes	2023 £m	2022 £m
Acquisitions	12	–	83.4
Amounts spent on the completed investment property portfolio	12		
Creation of incremental space		2.1	12.7
Creation of no incremental space		47.5	45.5
EPRA capital expenditure		49.6	141.6
Conversion from accrual to cash basis		(3.2)	(1.0)
EPRA capital expenditure on a cash basis	CF ¹	46.4	140.6

¹ Group statement of cash flows

iv) Cost ratios

EPRA cost ratio

The Group has a policy of capitalising certain staff costs directly attributable to the management of the development of investment properties as outlined in Note 2.5 of the Notes to the Group Financial Statements.

	Notes	2023 £m	2022 £m
Recurring administration expenses		18.2	15.7
Other expenses	4	15.6	16.2
Less: Other investments segment and student accommodation operating costs		(5.2)	(5.7)
		28.6	26.2
Net service charge costs	4	5.7	4.9
Service charge costs recovered through rents but not separately invoiced		(0.1)	(0.3)
Dilapidations receipts		(2.3)	(1.2)
EPRA costs (including direct vacancy costs) (A)		31.9	29.6
Direct vacancy costs		(6.1)	(4.0)
EPRA costs (excluding direct vacancy costs) (B)		25.8	25.6
Gross rental income	4	102.8	99.4
Service charge components of gross rental income		(0.1)	(0.3)
EPRA gross rental income (C)		102.7	99.1
EPRA cost ratio (including direct vacancy costs) (A/C)		31.1%	29.9%
EPRA cost ratio (excluding direct vacancy costs) (B/C)		25.1%	25.8%

v) EPRA LTV

	Notes	2023 £m	2022 £m
Borrowings from financial institutions	19	1,070.6	1,105.9
Net payables		52.2	44.8
Cash and cash equivalents	16	(70.6)	(113.9)
Net debt (A)		1,052.2	1,036.8
Properties held as property, plant and equipment	13	39.7	37.5
Investment properties	12	1,850.5	2,295.0
Properties held for sale	14	172.7	20.3

Financial assets – equity investments		1.4	2.7
Total property value (B)		2,064.3	2,355.5
EPRA LTV (A/B)		51.0%	44.0%

2. Other APMs

i) Total Accounting Return per share

	Notes	2023 pence	2022 pence
EPRA NTA at 31 December	5	253.0	329.6
Distribution – prior year final ¹	25	5.4	5.4
Distribution – current year interim	25	2.6	2.6
Less: EPRA NTA at 1 January (A)	5	(329.6)	(350.5)
Return before dividends (B)		(68.6)	(12.9)
Total Accounting Return (NTA) (B/A)		(20.8)%	(3.7)%

¹ The 2023 and 2022 final dividend was 5.35p but has been rounded to 5.4p for the purpose of this note.

ii) Net borrowings and gearing

	Notes	2023 £m	2022 £m
Borrowings short-term	19	193.9	173.4
Borrowings long-term	19	876.7	932.5
Add back: unamortised issue costs	19	5.0	5.3
Gross debt	19	1,075.6	1,111.2
Cash	16	(70.6)	(113.9)
Net borrowings (A)		1,005.0	997.3
Net assets (B)		929.2	1,220.8
Net gearing (A/B)		108.2%	81.7%

iii) Balance sheet loan-to-value

	Notes	2023 £m	2022 £m
Borrowings short-term	19	193.9	173.4
Borrowings long-term	19	876.7	932.5
Less: cash	16	(70.6)	(113.9)
Net debt (A)		1,000.0	992.0
Investment properties	12	1,850.5	2,295.0
Properties in plant, property and equipment	13	39.7	37.5
Properties and land held for sale	14	172.7	20.3
Total property portfolio (B)		2,062.9	2,352.8
Balance sheet loan-to-value (A/B)		48.5%	42.2%

iv) CLS administration cost ratio

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

	Notes	2023 £m	2022 £m
Recurring administration expenses		18.2	15.7
Less: Other investment segment	4	(0.1)	(0.2)
Underlying administration expenses (A)		18.1	15.5

Net rental income (B)	4	113.0	107.8
Administration cost ratio (A/B)		16.0%	14.4%

v) Dividend cover

	Notes	2023 £m	2022 £m
Interim dividend	25	10.3	10.6
Final dividend	25	21.3	21.3
Total dividend (A)		31.6	31.9
EPRA earnings (B)	5	40.9	47.0
Dividend cover (B/A)		1.30	1.47

vi) Interest cover

	Notes	2023 £m	2022 £m
Net rental income	4	113.0	107.8
Recurring administration expenses	4	(18.2)	(15.7)
Other expenses	4	(15.6)	(16.2)
Group revenue less costs (A)		79.2	75.9
Finance income (excluding derivatives and dividend income)	8	1.6	1.3
Finance costs (excluding derivatives)	9	(37.1)	(26.8)
Net interest (B)		(35.5)	(25.5)
Interest cover (-A/B)		2.23	2.98

vii) EPRA like-for-like gross rental income growth

This measure shows the growth in gross rental income on properties owned throughout the current and previous year under review. This growth rate excludes properties held for development, acquired or disposed in either year.

	2023 %	2022 %
Increase/(decrease) in gross rental income (%)	3.5	(1.8)

	2023 £m	2022 £m
Increase/(decrease) in gross rental income (£m)	3.4	(1.8)