

Climate Resilience Plan

Addressing Climate Risks for CLS Holdings plc

15 January 2023

Introduction

What is our Climate Resilience Plan?

As a prominent commercial real estate business specialising in office buildings across the UK, France, and Germany CLS Holdings recognise the critical importance of addressing climate change to secure the longevity and sustainability of our business and assets.

This plan aims to address the key material risks associated with climate change for our business and particularly for our assets. It is aligned to our Sustainability Strategy, Net Zero Carbon Pathway and long-term strategic budgets for our properties as well as integrating with our overall business model and strategy.

We recognise the dynamic nature of addressing climate risks as knowledge improves on the various impacts of the risks and responses of individuals, companies and governments change overtime also. As such this plan will be subject to regular review by the Sustainability Committee of CLS.

What is Climate Risk?

Climate risk is the potential for climate change to create adverse consequences for human or ecological systems. This includes impacts on lives, livelihoods, health and wellbeing, economic, social and cultural assets and investments, infrastructure, services provision, ecosystems and species.

For businesses, it can be defined in practical terms as the measure of vulnerability to climate-related impacts that have financial consequences, or that may affect various aspects of financial performance. Those consequences could be anything from minor inconvenience to a complete loss of an asset's value or operability. Risks are generally divided into physical climate risks and transitional climate risks.

Physical Climate Risks

Physical climate risk describes the potential for physical damage and financial losses from increasing exposure to climate hazards.

It considers both the direct physical impacts of climate change (such as floods destroying infrastructure), and direct and indirect socioeconomic responses to climate change (such as losses caused by direct damage to assets which prevents their operability, and the costs of repairing that damage).

Physical climate risks can be separated into two categories: shocks and stresses.

- **Shocks** – instant, destructive, and relatively short-lived with immediate financial consequences.
 - Flooding
 - Storms
 - Wildfires

- **Stresses** – slower onset but the sustained shift in climate patterns have long-term effects on property value, insurability, and wider supply chains.
 - Precipitation changes
 - Temperature changes

Transitional Climate Risk

Transition climate risks are business risks related to a transition away from fossil fuels and other greenhouse gas (GHG)-emitting activities. Decarbonisation is critical to stabilising the climate long-term, a process which will result in social, political and economic changes.

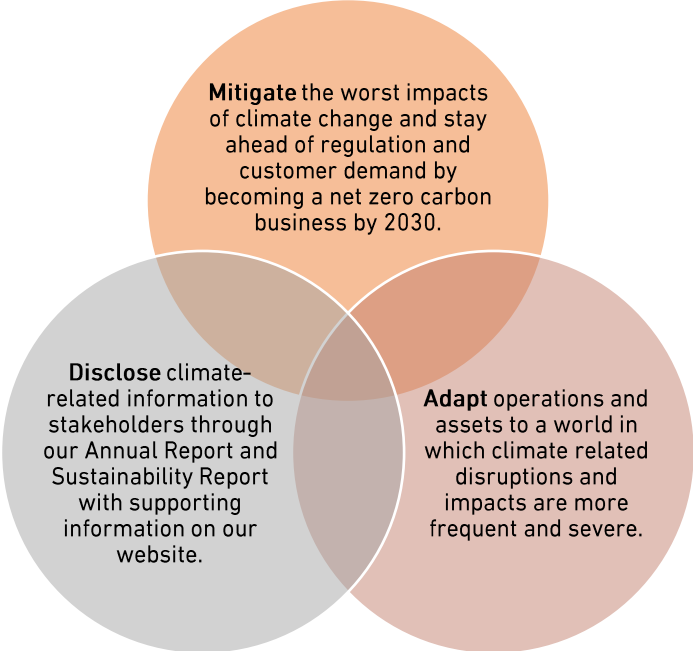
The cost of decarbonising assets and operations is a transition risk, yet businesses that fail to decarbonise also face other types of transition risk such as reputational loss, loss of market share and regulatory consequences. Risk impacts include:

- Stranded assets and depreciation e.g. reduced value of energy inefficient buildings
- Increased capital expenditure e.g. from upgrading equipment or insulating buildings
- Reduced consumer demand
- Loss of market share
- Increased costs e.g. from impacts to supply chain, or the costs of raw materials
- Legal liability from failing to comply with regulatory requirements
- Financial risk e.g. lack of insurability, or lack of access to finance, resulting from failure to comply with more stringent policy

In general, transitional climate risks and the responses to these in terms of controls, mitigations and costs are not dealt with in this plan, but have already been covered by CLS Holdings' Sustainability Strategy and Net Zero Carbon Pathway and the associated work that forms the basis of these.

Resilience Goals and Objectives

CLS have established climate resilience objectives related to reducing climate-related risks, enhancing property resilience, and minimising environmental impact in line with BBP guidance and to support the goals of CLS continuing its business and maintaining or growing the value of assets.



These objectives are supported by clear longer-term, measurable resilience metrics and targets aligned with the company's overall business model and Sustainability Strategy. These are outlined later in this plan.

Understanding Physical Climate Risk

CLS have worked with expert global climate risk software and services provider, Jupiter Intelligence, to model the physical climate risk exposure of the portfolio of buildings in France, Germany and the UK using their software platform.

Using the latest climate models, integrating both global and local climate-related data, risk exposure is examined and modelled across seven major categories.

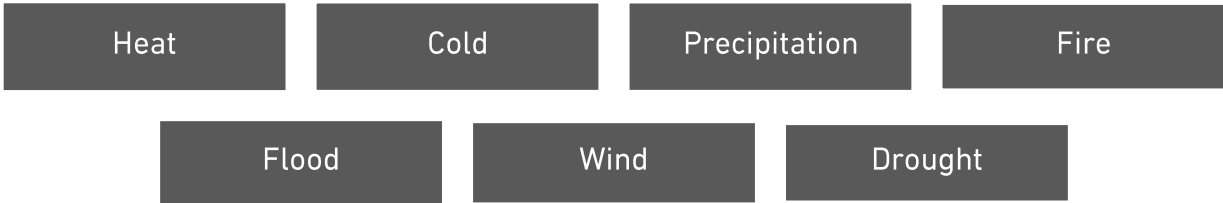


Figure 1 Climate physical risk categories

The risk exposure is modelled not only against different time scenarios (i.e. a historical baseline to 2050 and beyond), but also against key global warming pathways (Shared Socio-economic Pathways) identified by the IPCC as shown below.

IPCC Global Warming Pathways	
SSP1 (1.8°C)	Sustainability – Taking the Green Road (Low challenges to mitigation and adaptation)
SSP2 (2.7°C)	Regional Rivalry – A Rocky Road (High challenges to mitigation and adaptation)
SSP5 (4.4°C)	Fossil-fueled Development – Taking the Highway (High challenges to mitigation, low challenges to adaptation)

Modelling across these categories, pathways and timeframes requires CLS to input property-specific data to ensure the Jupiter Intelligence Climatescore Global platform outputs accurately reflect the impacts on the portfolio. The overall process is shown below.

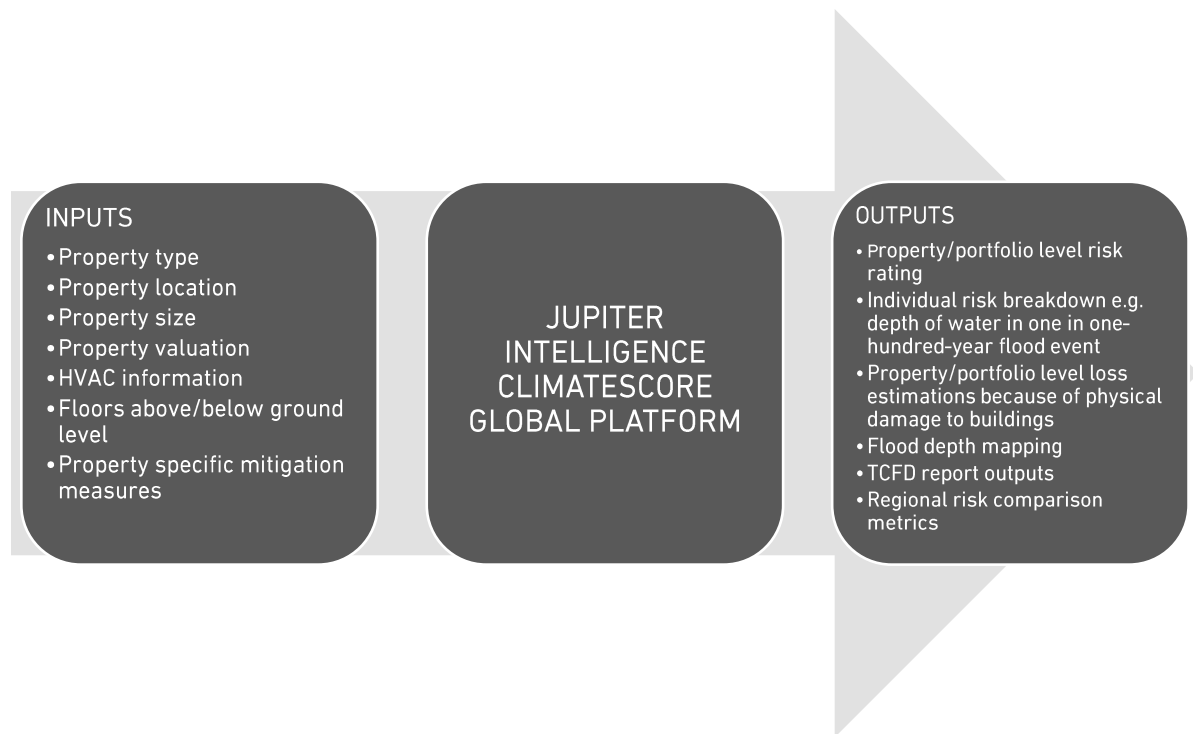


Figure 2 Physical risk modelling process using Climatescore Global platform

The outputs of the modelling have been used to characterise and assess risk in accordance with CLS Holdings overall risk management framework and establish appropriate assessment, mitigations and controls that are ultimately summarised in the Sustainability Risk Register and forms part of the Sustainability and Climate Risk in our principal risks.

Risk Assessment – Summary

CLS conducted a comprehensive assessment of climate change impacts in each operating region in 2022. This aimed to identify vulnerabilities specific to office buildings, such as exposure to flooding and heat stress. This complemented the previous assessment of climate-related transition risks that fed into the development of the CLS Sustainability Strategy and Net Zero Carbon Pathway. The results are summarised below.

Climate-related Physical Risk Analysis Summary

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

Hazard	Risk mitigation and controls
Heat	<p>Current</p> <ul style="list-style-type: none"> • Thermal comfort is managed through HVAC design and passive building design measures (e.g. external shading & natural ventilation) and monitored via occupier feedback and surveys. • HVAC system new installations and upgrades designed with consideration for future climate scenarios including appropriate mechanical and electrical equipment sizing, allowing for higher heat loads without compromising on energy efficiency. • Façade upgrades (improving insulation) and introducing external design features (e.g. blinds, solar film, brise soleil) to reduce solar heat gain. • Additional measures such as outdoor greenery and shade is being incorporated to provide 'refuges' in hotter weather conditions. <hr/> <p>Future</p> <ul style="list-style-type: none"> • Review existing buildings "at risk" for the potential need to install or upgrade cooling systems or to upgrade passive measures (e.g. external shading). • To ensure adequate occupant comfort in high temperatures.
Cold	<p>Current</p> <ul style="list-style-type: none"> • Fit-out and design standards – improved passive design to avoid thermal comfort issues and reduce energy use for heating (e.g. insulation, avoidance of thermal bridging) and ensuring components have adequate resilience to cold as per relevant standards. • Provide regular snow clearing and gritting at properties to ensure safe accessibility.
Precipitation	<p>Current</p> <ul style="list-style-type: none"> • Business continuity and emergency response planning measures in place to minimise impact in case of high precipitation warning. • Regular drainage survey being undertaken across select buildings to ensure sufficient water attenuation. • Insurance protection in place in case of physical damage or interruption and appropriate consideration in leases. <hr/> <p>Future</p> <ul style="list-style-type: none"> • Comprehensive flash flood risk assessments across the portfolio. • Flash flood mitigation measures incorporated in design of new projects and major refurbishments, including blue roofs and rainwater harvesting systems that consider future climate scenarios.

Climate-related Transition Risks and Opportunities Analysis Summary

TCFD Risk & Opportunity Categories	Description	Risk/ Opportunity	Short term (2020-2025)	Medium term (2025-2035)	Long term (2035 and beyond)	Controls, Mitigations & Materiality
Policy and Legal	Evolving building energy performance requirements e.g. UK – MEEES (expected to be EPC B by 2030) & new build regulations (e.g. Part L in the UK).	R	Y	Y		EPC upgrade costs completed and included in Asset Management Plans. New build and refurbishment investment cases include costs of enhanced regulatory requirements. Material: costs included in NZC Pathway
	Additional regulatory burden and impacts linked to introduction of 'energy in-use' regulations/ratings e.g. France – Décret Tertiaire (40% energy reduction by 2030) and possible use of NABERS UK.	R	Y	Y		Focus of Net Zero Carbon Pathway targets and data collection/reporting is on actual asset 'energy in use' and carbon performance, not just EPCs. Active work on Décret Tertiaire for French buildings. Material: costs included in NZC Pathway
	Enhanced onerous emissions reporting obligations in addition to voluntary disclosures.	R	Y	Y		We already report full Scope 1, 2 & 3 emissions and associated metrics in multiple frameworks with further improvements planned to data and reporting.
	Current and future emissions pricing and taxation.	R	Y	Y	Y	Current risk addressed by focus on energy reduction at assets and use of certified zero carbon energy sources. Future risk is factored into planning through allocated future purchase of carbon offsets for Net Zero Carbon 2030 commitment. Material: costs included in NZC Pathway

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

Key Actions

Mitigation: Addressing Transition Risks

- Implement Sustainability Strategy and Net Zero Carbon Pathway. These contain detail on actions such as retrofitting of existing buildings and sustainable design of new buildings and refurbishment to be ready for Net Zero Carbon target in 2030. This also involves a holistic sustainability focus (i.e. not simply carbon-driven)
- Ensure compliance with existing environmental laws and regulations, as well as industry standards and best practices related to carbon and energy reduction in buildings and operations.
- Provide training and capacity building opportunities for CLS property teams and others in CLS to enhance their understanding of carbon and energy reduction in buildings and operations.
- Engage with tenants and supply chain to enhance their understanding of carbon and energy reduction and stimulate action.
- Ensure carbon and energy reduction are assessed and fully embedded within all major investment decisions.
- Continuously gather knowledge about the technologies and innovation for energy and carbon reduction available in the market

Adaptation: Addressing Physical Risks

- Develop and implement adaptation strategies to address the impacts of climate change, such as extreme weather events and changing precipitation patterns where climate physical risk assessment for a property deems it necessary. Including investing in:
 - Flood protection measures, including drainage systems, flood barriers, and green infrastructure, to mitigate the risk of flooding in vulnerable areas.
 - Enhancing building resilience to heat stress through passive cooling measures, green roofs, and shading devices and active measures (i.e. air conditioning).
 - Designing new buildings and major refurbishments to address likely future climate
- Ensure compliance with existing environmental laws and regulations, as well as industry standards and best practices related to climate physical risk resilience.
- Provide training and capacity building opportunities for CLS property teams to enhance their understanding of climate physical risks and resilience strategies.
- Further develop CLS emergency response plans to integrate and prepare for increased climate-related emergencies, such as extreme weather events.
- Ensure climate related physical risks are assessed and fully embedded within all major investment decisions.
- Consider the interdependency between physical and transitional climate-related risks.

Disclosure: Metrics, Targets, Monitoring and Reporting

CLS adopted a TCFD (Taskforce on Climate-related Financial Disclosure) aligned reporting approach in its' 2022 annual report. Going forward CLS will make climate-related financial disclosures annually as required under UK company regulations to demonstrate how climate-related risks and opportunities are addressed. This includes reporting on metrics shown below.

Targets and KPIs selected for tracking climate-related transition and physical risks are shown in tables below. There are more details on the targets and calculations in the referenced documents and sections. Many of the KPIs are independently assured annually and these are indicated in the table.

Note that most targets and KPIs used to manage climate-related transitional risk are drawn from our Sustainability Strategy and Net Zero Carbon Pathway. Short-term focus areas and targets are established and reviewed year to year by the Sustainability Committee as needed. Typically Interim, short-term targets are year-on-year improvement towards each target stated below.

Climate-related Transition Risk & Opportunities KPIs & Targets

KPI	EPRA SBPR OR SASB REFERENCE	LONG TERM TARGETS AND REFERENCES
SCOPE 1 AND 2 EMISSIONS (TCO ₂ E)	GHG-Dir-Abs, GHG-Indir-Abs	See Net Zero Carbon Pathway for SBTi aligned target
TOTAL ENERGY CONSUMPTION (KWH)	Total-Energy-Abs	See Net Zero Carbon Pathway for SBTi aligned target
TOTAL ELECTRICITY CONSUMPTION (KWH)	Elec-Abs	n/a
PROPORTION OF ELECTRICITY SOURCED FROM RENEWABLE SOURCES (%)	Elec-Abs	100%
ON-SITE RENEWABLE ENERGY GENERATION (MWH)	Elec-Abs	n/a
TOTAL FUEL CONSUMED ON SITE (KWH)	Fuels-Abs	n/a
BUILDING EMISSIONS INTENSITY BY FLOOR AREA (KWH/M ² /YEAR)	Energy-Int	See Net Zero Carbon Pathway / CRREM aligned target
SCOPE 3 EMISSIONS AND SPLIT	Sustainability	See Net Zero Carbon Pathway / SBTi aligned target / CRREM aligned target
EPC (ENERGY PERFORMANCE CERTIFICATE) SPLIT OF THE PORTFOLIO	Cert-Tot	Fully MEES compliant UK – Expected to be minimum EPC C by 2027, EPC B by 2030. Fully Decret Tertiare compliant France
PROPORTION OF PORTFOLIO WITH GREEN BUILDING RATINGS BY FLOOR AREA (%)	Cert-Tot	See Sustainability Strategy targets

**KPI performance is 3rd party assured

***Methodology for calculation included in the annual Sustainability Report

Climate-related Physical Risk & Opportunities KPIs & Targets

KPI	EPRA SBPR OR SASB REFERENCE	LONG TERM TARGETS
NUMBER (AND % BY VALUE) OF ASSETS LOCATED IN AREAS EXPOSED TO HIGH OR HIGHEST RISK OF INLAND, COASTAL AND FLASH FLOODING - CURRENT AND 2030 (SSP 5 SCENARIO)*	n/a	Less than 5% Assets (by value) by 2035
% ASSETS WITH MEASURES INSTALLED TO MITIGATE FLOODING (IN HIGHEST RISK AREAS)	n/a	100% by 2035
% TOTAL WATER WITHDRAWN IN REGIONS WITH HIGH OR EXTREMELY HIGH BASELINE WATER STRESS	SASB IF-RE-140a.2	<10% by 2035
% ASSETS WITH ADAPTATION MEASURES TO MITIGATE OVERHEATING	n/a	100%

*As per ClimateScore Global platform definitions.

Financial Planning

CLS understand that it is crucial to allocate sufficient financial resources to implement climate resilience measures, including capital investment in building upgrades and operational expenses for ongoing maintenance and monitoring.

The Net Zero Carbon Pathway is fully costed and integrated with long-term strategic budgets for properties and asset management plans. The business is working towards costing physical measures for adaptation, such as flood defences and overheating protection where relevant.

The further financial implications of physical risks are difficult to assess given future uncertainty. These could impact insurance costs, property valuation, and potential revenue losses due to property damage or business disruption. None of these financial impacts are manifest currently, nor are they expected to change in the foreseeable future thus do not require provisions to be made in accounts. These potential impacts are reviewed annually as part of the CLS risk management framework.

Governance

The Board has clear oversight of climate-related matters and is responsible for overseeing our approach to all material climate-related risks and opportunities. The Board receives regular briefings on such issues and through CLS' governance framework and can effectively delegate to the appropriate sub-committees and individuals.

Given the risks and opportunities arising from climate change impact various aspects of our operations, the Board's sub-committees include representation from department heads. This ensures company-wide management of climate-related risks and opportunities using a "top down, bottom up" approach.

This plan is owned by the Sustainability team, and they will report regularly on progress to the Sustainability Committee.

Continuous Improvement

CLS recognise the dynamic nature of addressing climate risks in response to changing climate conditions, emerging risks, technological advancements, regulatory change, and stakeholder feedback. As such, this plan will be subject to regular review by the CLS Sustainability Committee and we expect to update the plan incorporating lessons learned, and industry benchmarks to continuously improve resilience measures and enhance our adaptive capacity over time.