

The best offices in our locations

CLF OFFICE CONNECT
CLS Holdings plc
Half-Yearly Report 2023

Chief Executive's statement

Net rental income growth, good financing progress and significant further rental upside potential

OVERVIEW

CLS has continued to perform well and deliver on its business plan despite economic conditions remaining challenging. Our investment in the portfolio to improve its quality together with the majority of our leases being index-linked has led to growth in rental income and valuations which are better compared to the overall office market. We have delivered all of our planned refinancings for the year to date and have one £24.7 million refinancing remaining in 2023. Our focus going forward is on executing a selected number of disposals to reduce LTV and reducing vacancy to capture the significant upside in the portfolio, particularly from newly refurbished buildings.

We secured 375,873 sq. ft (34,919 sqm) of lettings and renewals but vacancy increased to 9.2% (31 December 2022: 7.4%) essentially as two of our three major projects were completed in the period and are being actively marketed to prospective tenants. We invested £31.6 million of capital expenditure to improve the quality of our space but expect this amount to fall significantly from the second half of 2023 to more normal historical levels.

Over the six months, EPRA NTA decreased by 11.5% to 291.6p per share (31 December 2022: 329.6p) mainly from a reduction in property valuations and negative foreign exchange movements due to sterling strengthening. Total accounting return per share for the six months was -9.9% (30 June 2022: 2.2%).

We sold two smaller properties in the UK and Sweden and exchanged on the sale of Westminster Tower, Albert Embankment in the first half. The total consideration for the three properties is £49.0 million, 7.5% above 2022 book value. We are targeting further selected disposals in the second half to reduce gearing and to continue to invest in the portfolio's quality.

RESULTS AND FINANCING

The loss after tax for the six months to 30 June 2023 was £104.1 million (30 June 2022: £18.3 million profit), equivalent to a loss per share of 26.2p (30 June 2022: 4.4p profit). The decrease was as a result of: higher revaluation losses of £132.9 million (30 June 2022: £5.1 million); and higher net finance expense of £16.2 million (30 June 2022: £12.0 million), partly offset by higher net rental income of £55.6 million (30 June 2022: £52.8 million); reduced expenses, other and tax of £13.3 million debit (30 June 2022: £13.9 million debit); and a profit on disposal of £2.7 million (30 June 2022: £0.2 million loss). EPRA earnings per share were 5.2p (30 June 2022: 5.8p), 10.3% down on last year.

Shareholders' funds decreased in the six months by 11.6% to £1,078.7 million reflecting property valuation declines and the strengthening of sterling.

Our balance sheet liquidity remains strong with £92.5 million of cash and £50 million of undrawn facilities, and our loan book remains substantially at fixed rates with 79% fixed/capped (31 December 2022: 76%). Our weighted average cost of debt increased to 3.32% (31 December 2022: 2.69%) principally as a result of an increase in the UK base rate impacting UK floating rate debt and refinancings completed during the year at a higher all-in cost. Only one loan for £24.7 million remains to be refinanced in 2023. Net debt excluding leasehold liabilities was essentially flat at £996.9 million (31 December 2022: £992.0 million) and loan-to-value rose to 45.1% (31 December 2022: 42.2%) reflecting valuation declines. Interest cover remained high at 2.4 times (30 June 2022: 3.1 times) demonstrating the Group's operating strength and ongoing ability to generate cash.

PROPERTY PORTFOLIO

At 30 June 2023, the value of the property portfolio, including properties held for sale, was £2,210.5 million, £142.3 million lower than six months earlier. This decrease was as a result of: net valuation decreases of £131.5 million; foreign exchange losses of £37.1 million; and disposals of £5.4 million partly offset by investment in the portfolio through capital expenditure of £32.0 million.

As a result of market conditions remaining challenging, we did not pursue any acquisitions and do not expect to for at least the rest of 2023. To date, we have sold two smaller properties in the UK and Sweden and unconditionally exchanged on the sale of Westminster Tower, Albert Embankment. In aggregate, the three properties had a net initial yield of 2.4% and sold for a total of £49.0 million, 7.5% above 2022 book value.

We announced that we would be a net seller in 2023 and, in the second half of 2023, we will target further selected disposals of properties that do not fit our long-term return criteria. We will use the disposal proceeds to reduce the Group's loan to value and continue investing to improve the quality of the portfolio.

In the six months to June, the like-for-like valuation of the property portfolio (which excludes acquisitions and disposals), as well as the overall portfolio valuation, fell by 5.5% in local currency. There were like-for-like valuation decreases of 8.5% in the UK, 3.3% in Germany and 1.9% in France. In Sterling, the valuation decrease was 7.1% incorporating the strengthening of Sterling in the period. At 30 June 2023, the EPRA 'topped up' net initial yield of the portfolio was 4.9% (31 December 2022: 4.7%), 158 basis points above the Group's average cost of debt, demonstrating the Group's continuing ability to generate cash.

The EPRA vacancy rate as at 30 June 2022 was 9.2% (31 December 2022: 7.4%) with the increase as a result of the completion of our developments of The Coade at Vauxhall Walk in London and Park Avenue in Lyon. These properties offer over 100,000 sq. ft of top-quality offices with excellent amenities and sustainability credentials. Underlying vacancy was flat at 7.4%.

DIVIDENDS

In October 2023, the Group will pay an interim dividend for the current financial year of 2.60 pence per share, which is at the same level as the 2022 interim dividend, and in line with the revised dividend policy announced in May 2022 of 1.20x to 1.60x EPRA earnings dividend cover. The PID part of the dividend is 1.70 pence per share.

ENVIRONMENT, SOCIAL AND GOVERNANCE

We have built upon the good progress made in 2022 across many ESG objectives by continuing to invest in our assets and work towards the targets in our Sustainability Strategy and Net Zero Carbon Pathway.

So far in 2023, we have been continuing with the implementation of technical and cost-effective Net Zero Carbon projects across all regions. This year, 34 carbon reduction projects are complete with a further 84 projects due to be completed by the end of 2023. These projects save an estimated 1,200 tonnes CO₂e per annum, keeping us on track to achieve our 2030 targets. The projects include LED lighting upgrades, façade replacement as part of the renovation at Park Avenue, smart water metering (including leak detection) across our German portfolio, and a high-efficiency heating and air conditioning system using ground water at Front de Parc in Lyon.

We continually align implementation of opportunities with our lease and refurbishment plans, and thus refine the optimal time to deliver projects over the coming years. This ensures we maintain a comprehensive picture of the costs and compliance risks which are incorporated into the long-term asset management strategies for each property. The full programme includes meeting regulatory requirements such as future higher minimum EPC standards in the UK and the 2030 Décret Tertiaire energy efficiency targets in France.

As part of being a responsible company and long-term investor, we have continued to support local and industry related charities, with our core focus being to support the issues of homelessness, food poverty, youth skills and environmental sustainability.

Finally, as pressures continue on the lowest paid from the increased cost of living, CLS has signed up to be an accredited Living Wage Employer certified by the Living Wage Foundation. This covers both UK employees and regular contractors, and fulfils a key Sustainability Strategy commitment ahead of time.

OUTLOOK

As expected, the economic backdrop for the property market has been challenging and we expect it to remain so until interest rates have definitively peaked. There are tentative signs that the labour market is becoming less tight which is encouraging more employers to demand employees back in the office more often particularly as reports, such as “The working-from-home illusion fades” from the Economist in June 2023, demonstrate that productivity is enhanced in the office.

To encourage workers back to the office and in response to market trends, CLS is continuing to invest in its portfolio to provide high quality and affordable offices that are sustainable with good amenities and well-being facilities whilst providing flexible and digitally connected space. This, together with the majority of our leases being index-linked, is contributing to rental growth in excess of ERV growth. We also continue to see record results from our hotel through higher daily rates and our student accommodation is 100% booked for the 2023/2024 academic year at higher rates.

The diversification benefits of the portfolio have again been demonstrated with Germany and France balancing the weaker UK market. Whilst markets remain challenging, we are prioritising maintaining a strong balance sheet and will continue to be a net seller of selected assets at appropriate prices. Our long-term approach and active asset management should keep the Group in good stead, and we have significant opportunities to increase rental income through reducing vacancy, to more than compensate for higher interest costs, over the next couple of years.

Our investor proposition

Strong and consistent long-term shareholder returns

Set out below are the key tenets of our investment proposition. A fuller description can be found on pages 10 and 11 of CLS' 2022 Annual Report and Accounts:

Clear strategy <ul style="list-style-type: none">• Diversified approach• The best offices in our locations• Selected development schemes	Active management <ul style="list-style-type: none">• Experienced in-house capabilities• Secure rents and high occupancy• Interest rate management
Leading track record <ul style="list-style-type: none">• Disciplined approach to investment• Cash-backed progressive dividend• Financing headroom	Focus on sustainability <ul style="list-style-type: none">• Responsible profit• Strong ESG performance• Climate risk mitigation

DIVIDEND POLICY

The Company expects to generate sufficient cash flow to be able to meet the growth requirements of the business, maintain an appropriate level of debt and provide cash returns to shareholders via a dividend.

As announced in May 2022, we updated our dividend policy following the conversion of our UK operations to a REIT. The company will maintain a progressive dividend policy, with a dividend cover of 1.2 to 1.6 times EPRA earnings (previously 1.5 to 2.0 times). Approximately one-third of the annual dividend is paid as an interim in September or October, with the balance paid as a final dividend in April.

ANALYST COVERAGE

We are covered by four brokers which publish regular analyst research: Liberum Capital; Panmure Gordon; Berenberg and Peel Hunt. Contact details can be found on our website www.clsholdings.com.

2023 INVESTOR ENGAGEMENT

Events which have taken place	Events which are due to take place
March 2023 Annual Results presentation Annual Results investor calls and meetings	August 2023 Half-Year Results presentation
April 2023 Annual General Meeting	August/September 2023 Half-Year Results investor calls and meetings
	November 2023 Trading Update

Business review

United Kingdom

UK inflation and interest rate increases impacting overall market sentiment

	30 June 2023	31 December 2022
Value of properties	£1,000.9m	£1,070.6m
Percentage of Group's property interests	46%	46%
Number of properties	38	39
Number of tenants	211	204
EPRA vacancy rate	12.5%	10.0%
Lettable space	1.8m sq. ft	1.8m sq. ft
Government and large companies	71%	78%
Weighted average lease length to end	3.4 years	3.7 years
Leases subject to indexation	33%	33%

The value of the UK portfolio decreased by £69.7 million as a result of: capex of £25.9 million, offset by one disposal for £1.8 million; and valuation decreases of £93.8 million or 8.5%. The valuation decrease was fairly consistent across our London, South-East and government-let properties due to outward yield shifts resulting from rising interest rates and ongoing inflationary pressure. Hotel and student properties fared better reflecting the strength of these sectors.

The construction of "The Coade", our 28,400 sq. ft (2,638 sqm) new office development at Vauxhall Walk, London, was completed in April and is expected to achieve EPC A and a BREEAM rating of Excellent. In addition, "The Artesian", our development at 9 Prescott Street, London, is due to complete in Q4 2023 and will offer 92,500 sq. ft (8,594 sqm) of modern and attractive space including a café/reception, ample bike storage, showers and a large roof terrace. In both cases, we are seeing occupier demand for these locations improve with a number of viewings taking place.

In terms of disposals, we have continued to execute our strategy of disposing of assets which are either small lot sizes or have greater value for alternative use. More specifically, we completed the sale of St Cloud Gate in Maidenhead which is a 9,700 sq. ft (901 sqm) office building close to the town centre. The property has the benefit of a planning permission for a 40,000 sq. ft (3,716 sqm) Grade A office building which was granted prior to the sale.

We have unconditionally exchanged on the sale of Westminster Tower, a prominent office building of 48,500 sq. ft (4,505 sqm) which is located on the banks of the River Thames and overlooks the Houses of Parliament. The building benefits from implemented planning permission for conversion to residential apartments and the sale is due to complete in Q4 2023. Overall, these two transactions have a combined price of £42.8 million.

Vacancy increased in the period from 10.0% to 12.5% largely due to completed developments and refurbishments in particular The Coade. Since 1 January 2023, we let or renewed leases on 246,742 sq. ft (22,923 sqm) and lost 271,276 sq. ft (25,202 sqm) from expiries or new vacancies. 32 lease extensions and new leases were signed adding £2.9 million of rent at an average of 4.7% above 31 December 2022 ERV. The most significant transactions were a 5-year lease extension with Allocate Software at Thameslink House, Richmond for 14,221 sq. ft (1,321 sqm) and a 3-year lease extension with Select Contracts Limited to 2032 for 19,714 sq. ft (1,831 sqm) at Pacific House, Reading. Furthermore, we negotiated the surrender of the head lease of one of our largest assets, New Printing House Square, London from the Secretary of State. It is fully let to a variety of sub-tenants and the surrender resulted in increasing the rent receivable from the building by c.£1.2m pa whilst giving us full control of the asset. Excluding this surrender, like-for-like ERVs were up 0.8% for our UK portfolio.

The consensus forecast published by the Bank of England in June 2023 is that GDP will grow by 0.3% in 2023 and 0.6% in 2024. Unemployment rose again in June 2023 to 4.0% and the estimated employment rate was 76% which has been attributed to an increase in part-time employees.

In terms of the UK property market, commercial investment volumes were c.£14.6 billion in the first half of 2023 compared with £35.6 billion in the same period in 2022. In the South-East, the occupational take up was 493,577 sq. ft, 34% below the 10-year quarterly average. Vacancy in London is now 9.2% and in the South-East 10.9%.

Germany

Investment market slow but lettings holding up well to Government and Mittelstand

	30 June 2023	31 December 2022
Value of properties	£936.0m	£996.1m
Percentage of Group's property interests	42%	42%
Number of properties	33	33
Number of tenants	358	372
EPRA vacancy rate	6.2%	6.1%
Lettable space	3.7m sq. ft	3.9m sq. ft
Government and large companies	55%	56%
Weighted average lease length to end	5.1 years	5.2 years
Leases subject to indexation	65%	65%

The value of the German portfolio decreased by £60.1 million as a result of: capex of £4.8 million, offset by a disposal of £3.6 million; foreign exchange loss of £28.8 million; and a valuation decrease of £32.5 million or 3.3% in local currency. The portfolio valuation loss was as a result of yield expansion.

In terms of disposals we sold a land holding outside Helsingborg in Sweden for £6.2 million. The property was included within our German portfolio and it was sold with planning permission for logistics.

During the period bbw Academy ended their lease at Bismarkstrasse, Berlin after 17 years in occupation. We have commenced a substantial renovation plan to the façade, common areas and vacated floors to make the building best in class. The property will be rebranded as "Loop Berlin" which on completion will present excellent opportunities to capture substantially higher rents. During the six months to 30 June 2023, we continued to invest across the portfolio improving the quality of our assets and enhancing their sustainability credentials.

Vacancy was relatively flat at 6.2% compared with 6.1% at 31 December 2022 due to expired leases moving to development stock. Since 1 January 2023, 70,562 sq. ft (6,555 sqm) was let or renewed but 162,137 sq. ft (15,063 sqm) of space expired or was vacated. 22 lease extensions and new leases were signed adding £3.7 million of rent at an average of 17.8% above 31 December 2022 ERV. The most significant transaction was a new 30-year letting for 187,292 sq. ft (17,400 sqm) to The City of Essen at The Brix, Kruppstrasse in Essen. A substantial development programme will commence on expiration of the existing tenant's lease in July 2024. The plan to spend up to €20 million over a three year period will include a host of energy efficiency, sustainability, and wellbeing initiatives, providing The City of Essen with high quality and flexible workspace, in compliance with the EU taxonomy. Across the portfolio, like-for-like ERVs were up 1.1%. On a proforma basis, the inclusion of the Essen deal would increase proforma WAULT by 1.6 years to 6.7 years and add £0.9 million to contracted rent.

The German economy is projected to stagnate in 2023 and grow by 1.0% in 2024. High inflation is reducing real incomes and savings, dampening private consumption. Although energy prices have dropped from last summer's heights, inflation is again increasing with regards to food and services industries prices. Unemployment remained at 5.5% but is expected to rise slightly by the end of 2023.

The commercial property market stabilised somewhat in the second quarter, but activity remained low. For the first half of 2023, investment volume totalled c.€9.9 billion, substantially lower than the same period in 2022 when c.€27.8 billion was invested.

In the letting market, large companies are reluctant to take space due to the uncertain economic environment and the space-saving potential associated with hybrid working tends to be greater the larger the office. In contrast, lettings to Government and Mittelstand companies are holding up well and here we saw increased activity in the period. Take-up in the first half of 2023 was at around 1.1 million sqm, around 30% lower than the same period in 2022. The average vacancy rate in the top seven cities increased to 5.3% from 4.8%.

France

Letting market resilient for small to medium sized floorplates

	30 June 2023	31 December 2022
Value of properties	£273.6m	£286.1m
Percentage of Group's property interests	12%	12%
Number of properties	17	17
Number of tenants	149	147
EPRA vacancy rate	6.8%	2.6%
Lettable space	0.8m sq. ft	0.8m sq. ft
Government and major corporates	54%	56%
Weighted average lease length to end	5.0 years	4.9 years
Leases subject to indexation	100%	100%

The value of the French portfolio decreased by £12.5 million as a result of: capex of £1.3 million, offset by a foreign exchange loss of £8.3 million and a valuation decrease of £5.5 million or 1.9% in local currency which was largely driven by yield expansion.

During the first half of the year, we continued our programme of refurbishing several of our French properties. The most significant was the completion of our €11.2 million refurbishment at Park Avenue in Lyon. This included replacement of the existing façade and creation of new common terraces through the extension of existing landings. The sustainability credentials of the building have been enhanced through the installation of new windows, electric shades and a green roof. During the works, the tenants were relocated to temporary office space but resumed occupation in March 2023. Two new leases have been signed to date and there is a good level of interest in the remaining newly refurbished space with several viewings taking place.

Vacancy increased from 2.6% to 6.8% which was due to the completion of the Park Avenue refurbishment works. During the period, 58,569 sq. ft (5,441 sqm) was let or renewed but 68,299 sq. ft (6,345 sqm) of space expired or was vacated. Since 1 January 2023, 15 lease extensions and new leases were signed adding £1.2 million of rent at an average of 1.6% above 31 December 2022 ERV. The most significant transactions were a lease extension at Inside in Paris for 10,280 sq. ft (955 sqm) with Transdev on a 3/6/9 year lease and another extension with Citadines at Jean Jaurès, Paris for 8,837sq. ft (821 sqm) on a 6/9 year lease. Across the portfolio, like-for-like ERVs were up 1.1%. The French portfolio benefitted from a larger proportion of small to medium sized floorplates which have done well compared to larger ones.

The French economy is expected to see a slowdown in 2023 with limited growth of 0.7% followed by a slight uptick in 2024 to 1.0%. The unemployment rate is forecast to increase to 7.1% at the end of 2023 and will continue its upward trend in 2024 before stabilising in 2025. Nevertheless, hiring intentions remain high and the employment market could even set a new record.

Following the sharp decline in investment activity at the end of 2022 and in Q1 2023, the investment volume in commercial real estate in France over the first half of 2023 reached c.€6.1 billion, compared with c.€11.2 billion for the same period in 2022. The sharp drop in the number of transactions illustrates the general slowdown in activity.

Foreign investors have been scarcer since the beginning of 2023, representing only 30% of the amounts invested, mainly concentrated in the Greater Paris Region. In the Greater Paris Region, the investment volume in commercial real estate over first half 2023 reached c.€4.2 billion, down by 44% compared with the first half of 2022.

In the letting market, over first half 2023, office take-up in the Greater Paris Region reached 816,200 sqm, this is down by 22% compared to the first half of 2022. Office immediate supply on June 30 2023 in the Greater Paris Region is estimated at 4.5 million sqm, up by 10% year on year with the vacancy rate reaching 8% at 30 June 2023.

Key data

Rental Data

	Rental Income for the Period (£m)	Net Rental Income for the Period (£m)	Lettable Space (sqm)	Contracted Rent at 30 June 2023 (£m)	ERV at 30 June 2023 (£m)	Contracted Rent Subject to Indexation (£m)	EPRA Vacancy rate at 30 June 2023
UK	22.7	22.3	168,174	49.3	58.0	16.3	12.5%
Germany	21.7	20.9	347,311	45.2	48.8	29.4	6.2%
France	6.6	6.7	73,763	14.2	15.9	14.2	6.8%
Total Portfolio	51.0	49.9	589,248	108.7	122.7	59.9	9.2%

Valuation Data

	H1 Valuation Movement			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)					
UK	866.5	(104.0)	-	5.3%	5.6%	8.2%	5.2%	6.1%
Germany	934.3	(32.4)	(28.6)	3.8%	4.4%	8.9%	7.5%	5.0%
France	271.9	(5.5)	(8.3)	4.4%	4.8%	8.9%	4.2%	5.4%
Total Portfolio	2,072.7	(141.9)	(36.9)	4.5%	4.9%	8.6%	6.1%	5.6%

Lease Data

	Average Lease Length		Contracted Rent of Lease Expiring In:				ERV of Lease Expiring In:			
	To Break (Years)	To Expiry (Years)	Year 1 (£m)	Year 2 (£m)	Years 3 - 5 (£m)	After 5 Years (£m)	Year 1 (£m)	Year 2 (£m)	Years 3 - 5 (£m)	After 5 Years (£m)
UK	2.6	3.4	5.7	12.6	21.9	9.1	5.5	15.4	21.0	8.8
Germany	5.0	5.1	10.0	5.3	15.5	14.4	10.7	5.4	16.0	13.6
France	2.2	5.0	1.7	0.5	3.3	8.7	1.6	0.4	3.2	9.5
Total Portfolio	3.6	4.3	17.4	18.4	40.7	32.2	17.8	21.2	40.2	31.9

Note: The above tables comprise data for our offices in investment property and properties held for sale. They exclude owner-occupied, student accommodation and hotel.

Tenant Industries by Contracted Rent	
Government	21.3%
Commercial and Professional Services	13.0%
Information Technology	11.9%
Consumer Discretionary	10.3%
Communication Services	8.4%
Health Care	6.7%
Industrials	6.3%
Financials	6.3%
Other	6.1%
Real Estate	5.4%
Consumer staples	4.3%

Property use by rent	
Offices	88.6%
Student	5.2%
Hotel	3.9%
Food/Retail	2.3%

Financial review

RESULTS FOR THE PERIOD

HEADLINES

The loss after tax of £104.1 million (30 June 2022: £18.3 million profit) generated basic loss per share of 26.2 pence (30 June 2022: 4.4 pence profit). EPRA earnings per share, which exclude valuation losses, were 5.2 pence (30 June 2022: 5.8 pence), which were down 10.3% year on year. This was due to: higher net rental income more than offset by higher finance expenses from higher interest rates on our floating rate debt and recently refinanced loans. The higher net rental income was also reduced by tax in Germany and France and the higher UK tax rate on UK non-REIT income. Gross property assets at 30 June 2023, including those in property, plant and equipment and those held for sale, decreased to £2,210.5 million (31 December 2022: £2,352.8 million) as a result of: a revaluation decrease of £131.5 million; foreign exchange reductions of £37.0 million; and disposals of £5.5 million, partly offset by capital expenditure of £31.7 million. Net assets per share fell by 11.7% to 271.5 pence (31 December 2022: 307.3 pence) and EPRA NTA per share by 11.5% to 291.6 pence (31 December 2022: 329.6 pence). Total accounting return per share including dividends paid in the period was -9.9% (30 June 2022: 2.2%).

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

STATEMENT OF COMPREHENSIVE INCOME

Net rental income for the six months to 30 June 2023 of £55.6 million (30 June 2022: £52.8 million) was higher than last year by 5.3% as a result of higher rental income from index-linked leases and acquisitions more than offsetting disposals and lease surrenders as well as higher income from our hotel and student operations and higher dilapidations income. Rent collection remained at the same, consistently high levels with 99% of first half rent collected and 97% of third quarter contracted rent due collected to date.

Operating loss of £90.5 million (30 June 2022: £28.2 million profit) was due primarily to the 5.5% revaluation decline in local currency equivalent to a loss of £132.9 million (30 June 2022: £5.1 million loss) which was only partially offset by higher operating profit before revaluation and disposals of £39.7 million (30 June 2022: £36.8 million) and profit on disposal of £2.7 million (30 June 2022: £0.2 million loss).

Net interest expense of £15.5 million (30 June 2022: £6.7 million), which was up £8.8 million, is comprised of three elements. Finance costs of £17.2 million (30 June 2022: £12.6 million) were up year on year as a result of higher interest rates on CLS' floating rate debt and recent refinancings. Finance income was higher with both interest income at £1.0 million (30 June 2022: £0.6 million) and the movement in the fair value of derivatives of £0.7 million (30 June 2022: £5.3 million) benefitting from the increase in interest rates.

The tax credit of £2.3 million (30 June 2022: tax charge £3.0 million) represented an effective rate of 2.2% (30 June 2022: 14.7%). The overall tax credit is primarily attributable to the release of deferred tax liabilities in France and Germany resulting from the reduction in property values.

EPRA NET TANGIBLE ASSETS PER SHARE

EPRA NTA per share fell from 329.6p to 291.6p in the six months to 30 June 2023, a decrease of 38.0p per share or 11.5%. On a per share basis, the decrease comprised the decrease in property values of 33.4p, foreign exchange losses of 5.0p and the final 2022 dividend of 5.35p, partly offset by EPRA earnings of 5.2p and other positive movements of 0.6p.

CASH FLOW, NET DEBT AND FINANCING

In the six months to 30 June 2023, gross borrowings decreased by £16.5 million to £1,089.4 million (31 December 2022: £1,105.9 million), principally due to a stronger pound decreasing the value of debt denominated in Euros.

As at 30 June 2023, the Group had cash of £92.5 million (31 December 2022: £113.9 million) and £50.0 million (31 December 2022: £50.0 million) of undrawn facilities. The cash balance decreased by £21.4 million from 31 December 2022 given net investment in our portfolio. During the period, we invested £30.9 million of capital expenditure in our properties partially offset by net receipts from disposals of £9.7 million. Net proceeds from new financing were £83.4 million and £83.5 million of loans were repaid. Net cash flow from operating activities was £23.5 million (30 June 2022: £19.3 million) which was used to pay the 2022 final dividend of £20.5 million (net of withholding tax which was paid in July).

Net debt excluding leasehold liabilities at the half-year was £996.9 million and the Group's loan-to-value was 45.1% (31 December 2022: 42.2%). The weighted average cost of debt increased to 3.32% (31 December 2022: 2.69%) principally as a result of an increase in the UK base rate impacting UK floating rate debt and refinancing completed during the year at a higher all-in cost. Weighted average debt maturity was 3.8 years (31 December 2022: 3.8 years).

The proportions of fixed, capped and unhedged debt were 75%, 4% and 21% (31 December 2022: 72%, 4%, 24%) respectively. The proportion of fixed rate debt has increased in the first half of the year due to £25.7m of loans at floating rate having been repaid and replaced with fixed rate loans. The 4% of total debt subject to interest rate caps are all for French and German loans which are at a range of 0.5% to 1.5%, being on average 1.99% below the average 3 month EURIBOR of 3.19%.

CLS has 44 different loans secured by individual, or small portfolios of, properties. 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 44 loans, CLS has between 16% and 33% 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 or deposit cash for the period the loan is in breach, after which the cash can be released.

Overall, since the start of the year, CLS has successfully refinanced loans due in 2023 but also in 2024. Of the total loans of £162.0 million due in 2023, only one loan remains to be refinanced in December for £24.7 million.

The loan balance due in 2024, excluding amortisation, was £342.2 million at the start of 2023. Of that balance, £178.2 million of loans have been extended. We are confident that the remaining balance of £183.7 million, after amortisation, which now includes £19.7 million for Westminster Tower which was extended prior to the sale, will be refinanced well ahead of their maturity dates. The balance of £183.7 million is well-diversified being split across 10 loans with 2 loans for £84.7 million in the UK, 4 loans for £66.8 million in Germany and 4 loans for £32.2 million in France. The average loan to value across the 10 loans is only 46% financed by 7 different banks.

Finally, we are advanced for a new £30 million Revolving Credit Facility to replace the existing RCF which expires on 20 September 2023.

PRINCIPAL RISKS AND UNCERTAINTIES

A detailed explanation of the principal risks and uncertainties affecting the Group, and the steps it takes to mitigate these risks, can be found on pages 96 to 103 of the annual report and financial statements for the year ended 31 December 2022, which is available at www.clsholdings.com/investors.

The Group's principal risks and uncertainties are grouped into six categories: property; sustainability; business interruption; financing; political and economic; and people. These risks and uncertainties are expected to remain relevant for the remaining six months of the financial year, and these are discussed further below.

The Board has reviewed the risk status of each of the six risk categories, particularly with regard to the ongoing economic and geopolitical risks including high inflation and correspondingly higher interest rates as well as Russia's continued invasion of Ukraine. The overall risk landscape remains heightened; however, we do not believe that there has been sufficient change to alter any of the risk ratings. Both property and financing risks remain as high risks and we continue to monitor the risks, focused around vacancy, disposals and loan to value, and refinancings, and mitigations vigilantly.

Work continues on implementing software to document, and help test, risks and internal controls with further progress expected by the end of the year. In the second half of the year, end to end "walkthrough" tests of a number of processes and the associated controls will be performed.

Principal risk	Status at year end	Change since year end	Commentary
Property	High	No change	Investor sentiment around the property industry remains depressed given value reductions and lower market activity. In addition, with hybrid working becoming accepted, there remain concerns about the future level of demand for offices. However, there is increasing evidence that tenants are seeking out, and paying more for, higher quality offices. CLS is responding by investing in its properties to provide the best offices in our locations and staying close to our tenants.
Sustainability	Medium	No change	A key part of CLS' DNA is to provide sustainable buildings, which also accords with changing office trends and regulatory demands. We are committed to, and are on track to, deliver our 2030 Net Zero Carbon Pathway, which is a key part of our Sustainability (and wider ESG) Strategy.
Business interruption	Low	No change	We continue to invest in our IT and other equipment to give our employees the tools to perform their roles effectively. Ongoing penetration testing and other work has resulted in continued Cyber Essential Plus standard certification.
Financing	High	No change	Whilst inflation appears to have peaked and interest rates are peaking, financing risk remains high. This is reflected in higher interest costs, albeit with few increases in bank margins, and some lowering of loan to value ratios. Through ongoing selected disposals CLS is seeking to reduce Group LTV. In addition to de-gearing, CLS continues to maintain banking relationships, monitor covenants and engage early with upcoming refinancings. CLS has significant protection with c.80% of debt fixed and good covenant headroom.
Political and economic	High	No change	The risk remains high given concerns over economic growth and continued geopolitical uncertainty not least from Russia's invasion of Ukraine. The most immediate impact on CLS has been from higher interest rates and some exposure to higher construction costs but these have been mitigated through CLS' high levels of inflation-indexed rent and higher replacement values for existing buildings.
People	Medium	No change	CLS' staff turnover remains elevated given the tight labour market. Through ongoing training, CSR activities, and social and culture events activities, we continue to respond to staff needs. A new staff survey later in the year will give further feedback and areas upon which to focus.

GOING CONCERN

The Directors' assessment of going concern uses the same methodology as for the preparation and validation of the year end going concern (and viability) statement(s) (see pages 104 and 105 of the 2022 Annual Report and Accounts). This assessment uses forecasts that have been adjusted for the impacts of the current economic, property and financing markets. A more detailed description of the approach is set out in note 2 to these condensed Group financial statements.

The Group is reliant in the Base case and Severe but plausible case upon its ability to both refinance the debt maturing and to complete a number of investment property disposals in the going concern period in more challenging market conditions.

Whilst the Directors remain confident 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 ability to continue as a going concern.

Notwithstanding this material uncertainty on the going concern assumption, given our track-record and reputation, and the progress made since 31 December 2022 in terms of refinancing, 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. Therefore, the Directors continue to adopt the going concern basis in preparing these Group financial statements.

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

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- a) the condensed set of financial statements, which has been prepared in accordance with IAS 34 'Interim Financial Reporting' as contained in UK adopted financial standards, gives a true and fair view of the assets, liabilities, financial position and profit of the Group, as required by DTR 4.2.4R;
- b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the financial year); and
- c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

On behalf of the Board

Fredrik Widlund
Chief Executive Officer
8 August 2023

Andrew Kirkman
Chief Financial Officer

INDEPENDENT REVIEW REPORT TO CLS HOLDINGS plc

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 which comprises Condensed Group income statement, the Condensed Group statement of comprehensive income, the Condensed Group balance sheet, the Condensed Group statement of changes in equity, the Condensed Group statement of cash flows and the related notes to the financial statement 1 to 19. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE) issued by the Financial Reporting Council. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with UK adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

Material uncertainty related to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, we draw attention to Note 2 – Going Concern in the condensed set of financial statements, which indicates that the going concern assumption is dependent upon the timing and value of both the refinancing of the debt maturing and investment property disposals during the going concern period to 30 September 2024. The Group acknowledges that these refinancings and disposals are dependent on circumstances outside their control. As stated in note 2, these events or conditions, along with the other matters as set forth in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

Our conclusion is not modified in respect of this matter.

The responsibilities of the directors with respect to going concern are described in the relevant section of this report.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern (including the material uncertainty set out in Note 2) and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including the Material uncertainty related to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Financial statements

Condensed Group income statement for the six months ended 30 June 2023

	Notes	Six months ended 30-Jun-23 £m (unaudited)	Restated Six months ended 30-Jun-22 £m (unaudited)	Year ended 31-Dec-22 £m (audited)
Revenue	4	72.3	68.3	139.7
Costs	4	(16.7)	(15.5)	(31.9)
Net rental income		55.6	52.8	107.8
Administration expenses		(8.8)	(8.4)	(15.7)
Other expenses		(7.1)	(7.6)	(16.2)
Operating profit before revaluation and disposals		39.7	36.8	75.9
Net revaluation movement on investment property	10	(132.9)	(5.1)	(136.5)
Net revaluation movement on equity investments		–	(3.3)	(3.8)
Profit/(loss) on sale of investment property		2.7	(0.2)	0.5
Operating profit		(90.5)	28.2	(63.9)
Finance income	6	1.7	5.9	10.1
Finance costs	7	(17.2)	(12.6)	(26.8)
Foreign exchange loss		(0.4)	(0.2)	(0.3)
Impairment of goodwill		–	–	(1.1)
(Loss)/profit before tax		(106.4)	21.3	(82.0)
Taxation	8	2.3	(3.0)	0.1
(Loss)/profit for the period		(104.1)	18.3	(81.9)
Attributable to:				
Owners of the Company		(104.1)	18.3	(81.9)
Basic and diluted earnings per share	15	(26.2)p	4.4p	(20.2)p

Condensed Group statement of comprehensive income
for the six months ended 30 June 2023

	Note	Six months ended 30 June 2023 £m (unaudited)	Restated Six months ended 30 June 2022 £m (unaudited)	Year ended 31 December 2022 £m (audited)
(Loss)/profit for the period		(104.1)	18.3	(81.9)
Other comprehensive income				
Items that may be reclassified to profit or loss				
Revaluation of property, plant and equipment	11	(0.1)	1.3	1.9
Foreign exchange differences		(16.8)	13.6	28.5
Deferred tax on fair value movements		–	(0.2)	(0.4)
Total items that may be reclassified to profit or loss		(16.9)	14.7	30.0
Total other comprehensive (expense)/income		(16.9)	14.7	30.0
Total comprehensive (expense)/income for the period		(121.0)	33.0	(51.9)
Attributable to:				
Owners of the Company		(121.0)	33.0	(51.9)

Condensed Group balance sheet
at 30 June 2023

		30 June 2023 £m (unaudited)	Restated 30 June 2022 £m (unaudited)	31 December 2022 £m (audited)
	Notes			
Non-current assets				
Investment properties	10	1,992.7	2,299.1	2,295.0
Property, plant and equipment	11	39.6	42.4	39.6
Goodwill and intangible assets		3.0	3.5	2.8
Equity investments		2.5	3.3	2.7
Deferred tax		3.1	2.6	2.8
Derivative financial instruments		7.2	5.1	8.5
		2,048.1	2,356.0	2,351.4
Current assets				
Trade and other receivables		14.2	30.9	15.8
Derivative financial instruments		1.9	–	–
Cash and cash equivalents	17	92.5	110.4	113.9
		108.6	141.3	129.7
Assets held for sale	12	180.6	59.5	20.3
Total assets		2,337.3	2,556.8	2,501.4
Current liabilities				
Trade and other payables		(63.0)	(52.9)	(58.6)
Current tax		(0.2)	(0.6)	(2.0)
Borrowings	13	(224.5)	(184.6)	(173.4)
Derivative financial instruments		–	(0.2)	–
		(287.7)	(238.3)	(234.0)
Non-current liabilities				
Deferred tax		(102.6)	(114.5)	(110.5)
Borrowings	13	(864.9)	(858.6)	(932.5)
Leasehold liabilities		(3.4)	(3.5)	(3.6)
		(970.9)	(976.6)	(1,046.6)
Total liabilities		(1,258.6)	(1,214.9)	(1,280.6)
Net assets		1,078.7	1,341.9	1,220.8
Equity				
Share capital	14	11.0	11.0	11.0
Share premium		83.1	83.1	83.1
Other reserves		98.7	99.9	115.4
Retained earnings		885.9	1,147.9	1,011.3
Total equity		1,078.7	1,341.9	1,220.8

Condensed Group statement of changes in equity
for the six months ended 30 June 2023

Unaudited	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
At 1 January 2023	11.0	83.1	115.4	1,011.3	1,220.8
Arising in the six months ended 30 June 2023:					
Total comprehensive income for the period	–	–	(16.9)	(104.1)	(121.0)
Share-based payments	–	–	0.2	–	0.2
Dividends to shareholders	–	–	–	(21.3)	(21.3)
Total changes arising in the period	–	–	(16.7)	(125.4)	(142.1)
At 30 June 2023	11.0	83.1	98.7	885.9	1,078.7

Unaudited	Share capital £m	Share premium £m	Restated Other reserves £m	Restated Retained earnings £m	Total £m
At 1 January 2022	11.0	83.1	88.7	1,147.9	1,330.7
Arising in the six months ended 30 June 2022:					
Total comprehensive income for the period (restated)	–	–	14.7	18.3	33.0
Share-based payments	–	–	–	–	–
Transfer of fair value of property (restated)	–	–	(3.5)	3.5	–
Dividends to shareholders	–	–	–	(21.8)	(21.8)
Total changes arising in the period	–	–	11.2	–	11.2
At 30 June 2022	11.0	83.1	99.9	1,147.9	1,341.9

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

Condensed Group statement of cash flows
for the six months ended 30 June 2023

		30 June 2023 £m (unaudited)	Restated 30 June 2022 £m (unaudited)	31 December 2022 £m (audited)
	Notes			
Cash flows from operating activities				
Cash generated from operations	16	40.6	31.0	70.5
Interest received		1.0	0.6	1.3
Interest paid		(15.4)	(11.3)	(24.2)
Income tax paid on operating activities		(2.7)	(1.0)	(4.6)
Net cash inflow from operating activities		23.5	19.3	43.0
Cash flows from investing activities				
Purchase of investment properties		–	(32.1)	(83.4)
Capital expenditure on investment properties		(30.9)	(25.9)	(57.2)
Proceeds from sale of investment properties		9.7	9.8	56.2
Income tax paid on sale of properties		(1.8)	(3.8)	(3.2)
Purchases of property, plant and equipment		(0.7)	(0.1)	(0.4)
Purchase of intangibles		(0.1)	(0.4)	(0.8)
Repayment of vendor loan		–	–	7.7
Cost on foreign currency transactions		–	–	(0.2)
Net cash outflow from investing activities		(23.8)	(52.5)	(81.3)
Cash flows from financing activities				
Dividends paid		(20.5)	(21.8)	(32.4)
Purchase of own shares		–	–	(25.8)
New loans		83.9	14.7	144.1
Issue costs of new loans		(0.5)	(0.2)	(1.1)
Repayment of loans		(83.5)	(16.1)	(99.4)
Net cash (outflow)/inflow from financing activities		(20.6)	(23.4)	(14.6)
Cash flow element of net decrease in cash and cash equivalents				
Foreign exchange loss		(0.5)	(0.4)	(0.6)
Net decrease in cash and cash equivalents		(21.4)	(57.0)	(53.5)
Cash and cash equivalents at the beginning of the period		113.9	167.4	167.4
Cash and cash equivalents at the end of the period		92.5	110.4	113.9

Notes to the condensed Group financial statements 30 June 2023

1 BASIS OF PREPARATION

The financial information contained in this half-yearly financial report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The results disclosed for the year ended 31 December 2022 are an abridged version of the full accounts for that year, which received an unqualified report from the Auditor, did not contain a statement under section 498(2) or (3) of the Companies Act 2006 or include a reference to any matter to which the Auditor drew attention by way of emphasis without qualifying the Auditor's report, and have been filed with the Registrar of Companies. The annual financial statements of CLS Holdings plc are prepared in accordance with United Kingdom adopted International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs). The condensed financial statements included in this half-yearly financial report have been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the United Kingdom.

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the latest audited annual financial statements. A number of new standards and amendments to IFRSs have become effective for the financial year beginning on 1 January 2023. These new standards and amendments are listed below:

- Insurance Contracts – Amended IFRS 17
- Definition of Accounting Estimates – Amendments to IAS 8
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The adoption of these new standards and amendments to IFRSs did not materially impact the condensed Group financial statements for the six months ended 30 June 2023 and are not expected to materially impact the full year financial statements for the 12 months ended 31 December 2023.

2 GOING CONCERN – BASIS OF PREPARATION

Background

CLS' strategy and business model include regular secured loan refinancings, and capital deployment and recycling through acquisitions, capital expenditure and disposals. Over the last thirty years, the Group has successfully navigated several periods of economic uncertainty, including the recent economic stress resulting from the Covid-19 pandemic, Russia's invasion of Ukraine and the cost-of-living crisis. The Group continues to have high rent collection and low bad debts, and has a long-term track record in financing and refinancing debt including £229.9 million completed in 2022 and a further £299.1 million during the six month period to 30 June 2023.

Going concern period and basis

The Group's going concern assessment covers the period to 30 September 2024 ("the going concern period"). The period chosen takes into consideration the maturity date of loans totalling £226.3 million that expire by September 2024. The going concern assessment uses the forecast cash flows approved by the Board at its May 2023 meeting as the Base case, updated for the actual results achieved for 2023 half year. The assessment also considers a Severe but plausible case.

Forecast cash flows – Base case

The forecast cash flows prepared for the Base case take account of the Group's principal risks and uncertainties, and reflect the current greater uncertainty related to the more challenging economic backdrop. The forecast cash flows have been updated using assumptions regarding forecast forward interest curves, inflation and foreign exchange, updated for a worsening of these assumptions in 2023 and 2024. The Base case includes the impact of revenue growth, principally from contractual increases in rent, and increasing cost levels in line with forecast inflation.

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 £226.3 million with 9 lenders expiring within the going concern period will be refinanced as expected (£96.1 million) or will be repaid (£130.2 million, of which £116.4 million is linked to forecast property disposals, with the balance being planned repayments). The Directors recognise that these events and conditions are outside their control; however, they remain 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 existing and new lenders in relation to these refinancings with the Group having ongoing relationships with over 24 banks;
- CLS' track record of prior refinancings, particularly in the 18 months to 30 June 2023 when £529.0 million was successfully refinanced or extended as planned, both in terms of timing and commercial terms; and
- recent refinancings subsequent to the period end that have been executed, credit approved by lenders, or where the terms have been agreed.

The Group also has a number of mitigating actions at its disposal, as set out below.

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 May 2023. The Directors acknowledge that property disposals are not within their control both in terms of timing and value; however, the Directors are confident these transactions will be completed within the going concern period, based on their history of achieving disposals and the status of ongoing disposal processes (offers accepted or terms agreed for 6 properties for £39.1 million). 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, which utilise non-recourse property loans, contain Loan to Value ('LTV'), Interest Cover Ratio ('ICR') and Debt Service Coverage Ratio ('DSCR') covenants. In the Base case, limited cure payments have been forecast such 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 all scenarios modelled and are expected to be immaterial.

Forecast cash flows – Severe but plausible case

A Severe but plausible case has been assessed which has been produced by flexing key assumptions further including: lower rents; increased service charges; higher property and administration expenses; falling property values; and higher interest rates. The flexed assumptions are more severe than CLS experienced during the 2007-2009 global financial crisis and other downturns such as that experienced in 2020-2022 during the Covid-19 pandemic. A key assumption in this scenario is a reduction in property values of 10% until September 2024, impacting forecast refinancings, sales and cash cures. This is in addition to the property value reduction of 10.5% experienced over the 12 months to 30 June 2023.

Assumptions around refinancing and investment property disposals remain the same as in the base case; however, the reduction in property values of 10% results in additional cure payments of £5.2 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 before putting in place controllable mitigating actions as set out below.

Mitigating actions

In the Severe but plausible case, CLS would need to take further mitigating actions including depositing additional cash to equity cure certain loans as required under the agreements of £15.1 million, scaling back uncommitted capital expenditure (without impacting revenue streams over the going concern period) and deferring in full the dividend related to the Property Income Distribution required under the UK REIT rules as well as drawing upon its existing £50 million of currently unutilised facilities of which £30 million is committed until 20 September 2023 and £20 million is an overdraft available subject to certain criteria being met and until further notice. Discussions for a new secured £30 million revolving credit facility are advanced. As with the Base case, it is assumed that loan facilities are refinanced as they become due. If needed, further disposals could be considered as there are no sale restrictions on CLS' £2.2 billion of properties, albeit the timing and the amount of these potential disposals are not in the Group's control.

Material uncertainty related to going concern

As described above, the Group is reliant in the Base case and Severe but plausible case upon its ability to both refinance the debt maturing and to complete a number of investment property disposals in the going concern period in more challenging market conditions.

Whilst the Directors remain confident 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 ability to continue as a going concern.

Notwithstanding this material uncertainty on the going concern assumption, given our track-record and reputation, and the progress made since 31 December 2022 in terms of refinancing, 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. Therefore, the Directors continue to adopt the going concern basis in preparing these Group financial statements.

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

3 RESTATEMENT OF PRIOR PERIOD

The restatement of the prior period noted below does not change profit, earnings per share or the net assets of the Group materially; they are presentational restatements that reclassify amounts to alternative financial statement lines.

£95.0 million reclassification from property plant and equipment to investment property

The student accommodation at Spring Mews was held as investment property until 31 December 2020 when it was reclassified to property, plant and equipment. The accounting judgement made at that time was reconsidered and it was determined that it was more appropriate and market sector comparable to classify the student accommodation as an investment property and so it has been reclassified back to investment property. There is a £1.0 million increase to profit before tax and a corresponding decrease in other comprehensive income as a result of the revaluation movement being recognised in the income statement for investment property. The impact on basic and diluted earning per share is an increase of 0.2p. These impacts are not material.

4 SEGMENT INFORMATION

The Group has two operating divisions – investment properties and other investments. Other investments comprise the hotel at Spring Mews and other small corporate investments. The Group manages the investment properties division on a geographical basis due to its size and geographical diversity. Consequently, the Group's principal operating segments are:

Investment properties: United Kingdom
 Germany
 France

Other investments

The Group's results for the six months ended 30 June 2023 by operating segment were as follows:

	Investment properties			Other investments £m	Central administration £m	Total £m
	United Kingdom £m	Germany £m	France £m			
Rental income	22.7	21.7	6.6	–	–	51.0
Other property-related income	4.2	0.3	0.5	2.4	–	7.4
Service charge income	6.0	5.5	2.4	–	–	13.9
Revenue	32.9	27.5	9.5	2.4	–	72.3
Service charges and similar expenses	(7.3)	(6.6)	(2.8)	–	–	(16.7)
Net rental income	25.6	20.9	6.7	2.4	–	55.6
Administration expenses	(3.8)	(1.6)	(0.7)	(0.1)	(2.6)	(8.8)
Other expenses	(3.6)	(2.1)	(0.3)	(1.1)	–	(7.1)
Revenue less costs	18.2	17.2	5.7	1.2	(2.6)	39.7
Net movements on revaluation of investment property	(93.1)	(34.4)	(5.4)	–	–	(132.9)
Movement on revaluation of equity investments	–	–	–	–	–	–
Profit on sale of investment property	0.1	2.6 ¹	–	–	–	2.7
Operating profit/(loss)	(74.8)	(14.6)	0.3	1.2	(2.6)	(90.5)
Finance income	0.6	0.1	0.1	–	0.9	1.7
Finance costs	(10.0)	(5.3)	(1.8)	–	(0.1)	(17.2)
Foreign exchange loss	–	–	–	–	(0.4)	(0.4)
Loss before tax	(84.2)	(19.8)	(1.4)	1.2	(2.2)	(106.4)

¹ This is the land disposal in Sweden

4 SEGMENT INFORMATION (continued)

The Group's results for the six months ended 30 June 2022 by operating segment were as follows:

	Investment properties			Other investments £m	Central administration £m	Total £m
	United Kingdom £m	Germany £m	France £m			
Rental income	25.1	17.3	6.4	–	–	48.8
Other property-related	4.0	–	0.1	2.1	–	6.2
Service charge income	5.7	5.1	2.5	–	–	13.3
Revenue	34.8	22.4	9.0	2.1	–	68.3
Service charges and similar expenses	(6.8)	(6.0)	(2.7)	–	–	(15.5)
Net rental income	28.0	16.4	6.3	2.1	–	52.8
Administration expenses	(3.6)	(1.4)	(0.8)	–	(2.6)	(8.4)
Other expenses	(3.7)	(2.1)	(0.3)	(1.5)	–	(7.6)
Revenue less costs	20.7	12.9	5.2	0.6	(2.6)	36.8
Net movements on revaluation of investment property	4.6	(3.6)	(6.1)	–	–	(5.1)
Net movements on revaluation of equity	–	–	–	(3.3)	–	(3.3)
Loss on sale of investment property	(0.2)	–	–	–	–	(0.2)
Operating profit/(loss)	25.1	9.3	(0.9)	(2.7)	(2.6)	28.2
Finance income	3.4	0.7	0.7	1.1	–	5.9
Finance costs	(7.9)	(2.8)	(1.3)	(0.6)	–	(12.6)
Foreign exchange loss	–	–	–	–	(0.2)	(0.2)
Share of associates after tax	–	–	–	–	–	–
Profit/(loss) before tax	20.6	7.2	(1.5)	(2.2)	(2.8)	21.3

4 SEGMENT INFORMATION (continued)

The Group's results for the year ended 31 December 2022 were as follows:

	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 movements on revaluation of investment properties	(79.6)	(41.5)	(15.4)	–	–	(136.5)
Net revaluation movements on equity investments	–	–	–	(3.8)	–	(3.8)
(Loss)/profit on sale of investment property	(0.3)	–	0.8	–	–	0.5
Operating profit/(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)
Loss before tax	(50.7)	(18.8)	(5.8)	(1.1)	(5.6)	(82.0)

SEGMENT ASSETS AND LIABILITIES

	Assets			Liabilities			Capital expenditure		
	30 June 2023 £m	30 June 2022 £m	31 Dec 2022 £m	30 June 2023 £m	30 June 2022 £m	31 Dec 2022 £m	30 June 2023 £m	30 June 2022 £m	31 Dec 2022 £m
<i>Investment property segment</i>									
United Kingdom	1009.5	1,073.8	1,083.6	556.5	539.1	551.7	25.5	14.1	36.6
Germany	968.3	962.8	1,011.6	529.3	487.6	536.4	4.8	3.6	9.8
France	280.7	296.8	294.3	167.4	182.2	185.7	1.3	6.8	11.7
<i>Other investments segment</i>									
	78.8	223.4	111.9	5.4	6.0	6.8	0.7	–	0.4
	2,337.3	2,556.8	2,501.4	1,258.6	1,214.9	1,280.6	32.3	24.5	58.5

5 ALTERNATIVE PERFORMANCE MEASURES ('APMs')

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

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.

Overview of our use of APMs

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

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

1. EPRA APMs

CLS monitors the Group's financial performance using APMs which are European Public Real Estate Association ('EPRA') measures as these are a set of standard disclosures for the property industry and thus aid comparability for our stakeholder users.

The latest edition of the EPRA guidelines was issued in February 2022 and contains three net asset measures which are defined in the glossary:

- EPRA net tangible assets (NTA);
- EPRA net realisable value (NRV); and
- EPRA net development value (NDV).

CLS considers EPRA NTA to be the most relevant of these new measures as we believe that this will continue to reflect the long-term nature of our property investments most accurately. However, all three balance sheet measures along with EPRA Earnings have been disclosed.

Whilst CLS primarily uses the measures referred to above, we have also disclosed other EPRA metrics being:

- EPRA net initial yield;
- EPRA 'topped-up' net initial yield;
- EPRA vacancy;
- EPRA capital expenditure;
- EPRA cost ratio; and
- EPRA LTV

2. 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.

Changes to APMs

There have been no changes to the Group's APMs in the year. The APMs utilised by the business are defined, calculated and used on a consistent basis.

Set out below is a reconciliation of the APMs used in these results to the statutory measures.

5 ALTERNATIVE PERFORMANCE MEASURES ('APMs') (continued)

1) EPRA APMs

Number of shares for use in EPRA calculations:

	30 June 2023 Number	30 June 2022 Number	31 December 2022 Number
Weighted average number of ordinary shares in circulation	397,249,424	407,395,760	404,410,051
Number of ordinary shares in circulation	397,410,268	407,395,760	397,210,866

i) EPRA Earnings

	Six months ended 30 June 2023 £m	Restated Six months ended 30 June 2022 £m	Year ended 31 December 2022 £m
(Loss)/profit for the period	(104.1)	18.3	(81.9)
Net movement on revaluation of investment property	132.9	5.1	136.5
Deferred taxation on revaluations	(4.7)	1.9	(4.8)
Net movement on revaluation of equity investment	–	3.3	3.8
(Profit)/loss from sale of investment property	(2.7)	0.2	(0.5)
Current tax on disposals	–	–	1.6
Movement in fair value of derivative financial instruments	(0.7)	(5.3)	(8.8)
Impairment of goodwill	–	–	1.1
EPRA earnings	20.7	23.5	47.0
Basic and diluted earnings per share from continuing operations	(26.2)p	4.4p	(20.2)p
EPRA earnings per share	5.2p	5.8p	11.6p

5 ALTERNATIVE PERFORMANCE MEASURES ('APMs') (continued)

ii) Net asset value measures

30 June 2023

	IFRS NAV £m	EPRA NTA £m	EPRA NRV £m	EPRA NDV £m
Net assets	1,078.7	1,078.7	1,078.7	1,078.7
Goodwill as a result of deferred tax on acquisitions	–	–	–	–
Other intangibles	–	(3.0)	–	–
Fair value of fixed interest debt	–	–	–	89.1
- tax thereon	–	–	–	(5.6)
Deferred tax on revaluation surplus	–	100.3	100.3	–
Adjustment for short-term disposals	–	(8.3)	–	–
Fair value of financial instruments	–	(9.1)	(9.1)	–
Purchasers' costs ¹	–	–	145.7	–
	1,078.7	1,158.6	1,315.6	1,162.2
Per share	271.5p	291.6p	331.0p	292.4p

¹ Purchasers costs have been calculated using the regional market rates

30 June 2022

	IFRS NAV £m	EPRA NTA £m	EPRA NRV £m	Restated ¹ EPRA NDV £m
Net assets	1,341.9	1,341.9	1,341.9	1,341.9
Goodwill as a result of deferred tax on acquisitions	–	(1.1)	(1.1)	(1.1)
Other intangibles	–	(2.4)	–	–
Fair value of fixed interest debt ¹	–	–	–	53.0
- tax thereon ¹	–	–	–	(3.6)
Deferred tax on revaluation surplus	–	112.5	112.5	–
Adjustment for short-term disposals	–	(8.2)	–	–
Fair value of financial instruments	–	(4.9)	(4.9)	–
Purchasers' costs	–	–	153.3	–
	1,341.9	1,437.8	1,601.7	1,390.2
Per share	329.2p	352.8p	393.0p	341.2p

¹ Restated to be consistent with the 31 December 2022 disclosure which included all fair value movements and not just the downside movement.

5 ALTERNATIVE PERFORMANCE MEASURES ('APMs') (continued)

31 December 2022	IFRS NAV £m	EPRA NTA £m	EPRA NRV £m	EPRA NDV £m
Net assets	1,220.8	1,220.8	1,220.8	1,220.8
Goodwill as a result of deferred tax on acquisitions	–	–	–	–
Other intangibles	–	(2.8)	–	–
Fair value of fixed interest debt	–	–	–	87.2
- tax thereon	–	–	–	(6.4)
Deferred tax on revaluation surplus	–	108.6	108.6	–
Adjustment for short-term disposals	–	(8.6)	–	–
Fair value of financial instruments	–	(8.5)	(8.5)	–
Purchasers' costs	–	–	149.3	–
	1,220.8	1,309.5	1,470.2	1,301.6
Per share	307.3p	329.6p	370.1p	327.7p

iii) Yield

EPRA Net Initial Yield ('NIY')

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

	Six months ended 30 June 2023			
	United Kingdom £m	Germany £m	France £m	Total £m
Rent passing	46.6	40.1	13.2	99.9
Adjusted for development stock	–	–	–	–
Forecast non-recoverable service charge	(1.7)	(1.9)	(0.4)	(4.0)
Annualised net rents (A)	44.9	38.2	12.8	95.9
Property portfolio	866.5	934.4	271.8	2,072.7
Adjusted for development stock	(75.8)	(4.8)	–	(80.6)
Purchasers' costs	53.8	63.2	18.5	135.5
Property portfolio valuation including purchasers' costs (B)	844.5	992.8	290.3	2,127.6
EPRA NIY (A/B)	5.3%	3.8%	4.4%	4.5%

5 ALTERNATIVE PERFORMANCE MEASURES ('APMs') (continued)

	Six months ended 30 June 2022			
	United Kingdom £m	Germany £m	France £m	Total £m
Rent passing	49.6	38.1	12.3	100.0
Adjusted for development stock	(2.6)	(0.5)	–	(3.1)
Forecast non-recoverable service charge	(1.6)	(1.3)	(0.5)	(3.4)
Annualised net rents (A)	45.4	36.3	11.8	93.5
Property portfolio	1,043.0	933.4	287.9	2,264.3
Adjusted for development stock	(115.4)	(46.6)	–	(162.0)
Purchasers' costs	63.1	60.3	19.6	143.0
Property portfolio valuation including purchasers' costs (B)	990.7	947.1	307.5	2,245.3
EPRA NIY (A/B)	4.6%	3.8%	3.8%	4.2%

	Year ended 31 December 2022			
	United Kingdom £m	Germany £m	France £m	Total £m
Rent passing	46.0	42.6	12.8	101.4
Adjusted for development stock	(0.9)	–	–	(0.9)
Forecast non-recoverable service charge	(1.5)	(2.1)	(0.3)	(3.9)
Annualised net rents (A)	43.6	40.5	12.5	96.6
Property portfolio	946.8	990.1	284.2	2,221.1
Adjusted for development stock	(118.7)	(4.9)	–	(123.6)
Purchasers' costs	56.3	67.0	19.3	142.6
Property portfolio valuation including purchasers' costs (B)	884.4	1,052.2	303.5	2,240.1
EPRA NIY (A/B)	4.9%	3.9%	4.1%	4.3%

5 ALTERNATIVE PERFORMANCE MEASURES ('APMs') (continued)

EPRA 'topped-up' NIY

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

	Six months ended 30 June 2023			
	United Kingdom £m	Germany £m	France £m	Total £m
Contracted rent	49.3	45.2	14.2	108.7
Adjusted for development stock	–	–	–	–
Forecast non-recoverable service charge	(1.7)	(1.9)	(0.4)	(4.0)
'Topped-up' annualised net rents (A)	47.6	43.3	13.8	104.7
Property portfolio	866.5	934.4	271.8	2,072.7
Adjusted for development stock	(75.8)	(4.8)	–	(80.6)
Purchasers' costs	53.8	63.2	18.5	135.5
Property portfolio valuation including purchasers' costs (B)	844.5	992.8	290.3	2,127.6
EPRA 'topped-up' NIY (A/B)	5.6%	4.4%	4.8%	4.9%

	Six months ended 30 June 2022			
	United Kingdom £m	Germany £m	France £m	Total £m
Contracted rent	51.9	42.0	14.0	107.9
Adjusted for development stock	(2.6)	(0.6)	–	(3.2)
Forecast non-recoverable service charge	(1.6)	(1.3)	(0.5)	(3.4)
'Topped-up' annualised net rents (A)	47.7	40.1	13.5	101.3
Property portfolio	1,043.0	933.4	287.9	2,264.3
Adjusted for development stock	(115.4)	(46.6)	–	(162.0)
Purchasers' costs	63.1	60.3	19.6	143.0
Property portfolio valuation including purchasers' costs (B)	990.7	947.1	307.5	2,245.3
EPRA 'topped-up' NIY (A/B)	4.8%	4.2%	4.4%	4.5%

	Year ended 31 December 2022			
	United Kingdom £m	Germany £m	France £m	Total £m
Contracted rent	48.1	47.4	14.7	110.2
Adjusted for development stock	(0.9)	–	–	(0.9)
Forecast non-recoverable service charge	(1.5)	(2.1)	(0.3)	(3.9)
'Topped-up' annualised net rents (A)	45.7	45.3	14.4	105.4
Property portfolio	946.8	990.1	284.2	2,221.1
Adjusted for development stock	(118.7)	(4.9)	–	(123.6)
Purchasers' costs	56.3	67.0	19.3	142.6
Property portfolio valuation including purchasers' costs (B)	884.4	1,052.2	303.5	2,240.1
EPRA 'topped-up' NIY (A/B)	5.2%	4.3%	4.8%	4.7%

5 ALTERNATIVE PERFORMANCE MEASURES ('APMs') (continued)

iv) EPRA vacancy

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	Year ended 31 December 2022 £m
ERV of vacant space (A)	11.3	8.2	9.0
ERV of let space	111.4	110.6	112.4
ERV of lettable space (B)	122.7	118.8	121.4
EPRA vacancy rate (A/B)	9.2%	6.9%	7.4%

v) EPRA capital expenditure

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Acquisitions	–	22.5	83.4
Amounts spent on the completed investment property portfolio			
Creation of incremental space	1.9	5.9	12.7
Creation of no incremental space	29.7	18.6	45.5
EPRA capital expenditure	31.6	47.0	141.6
Conversion from accrual to cash basis	(0.8)	11.0	(1.0)
EPRA capital expenditure on a cash basis	30.8	58.0	140.6

vi) EPRA cost ratio

	Six months ended 30 June 2023 £m	Restated Six months ended 30 June 2022	Year ended 31 December 2022 £m
Administration expenses - recurring	8.8	8.4	15.7
Other expenses (restated)	7.1	7.6	16.2
Less: investment segment and student operating costs	(2.3)	(2.5)	(5.7)
	13.6	13.5	26.2
Net service charge costs	2.8	2.2	4.9
Service charge costs recovered through rents but not separately invoiced	(0.1)	(0.2)	(0.3)
Dilapidations receipts	(1.1)	(0.6)	(1.2)
EPRA costs (including direct vacancy costs) (A)	15.2	14.9	29.6
Direct vacancy costs	(2.7)	(2.0)	(4.0)
EPRA costs (excluding direct vacancy costs) (B)	12.5	12.9	25.6
Gross rental income	51.0	48.8	99.4
Service charge components of rental income	(0.1)	(0.2)	(0.3)
Adjusted gross rental income (C)	50.9	48.6	99.1
EPRA cost ratio (including direct vacancy costs) (A/C)	29.9%	30.7%	29.9%
EPRA cost ratio (excluding direct vacancy costs) (B/C)	24.6%	26.5%	25.8%

5 ALTERNATIVE PERFORMANCE MEASURES ('APMs') (continued)

vii) EPRA LTV

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Borrowings from financial institutions	1,089.4	998.8	1,105.9
Bank loans (secured notes)	–	44.4	–
Foreign currency derivatives	–	–	–
Net payables	48.9	22.6	44.8
Cash and cash equivalents	(92.5)	(110.4)	(113.9)
Net debt (A)	1,045.8	955.4	1,036.8
Properties held as property, plant and equipment	37.2	40.4	37.5
Investment properties	1,992.7	2,299.1	2,295.0
Properties and land held for sale	180.6	60.2*	20.3
Financial assets – equity investments	2.5	3.3	2.7
Total property value (B)	2,213.0	2,403.0	2,355.5
EPRA LTV (A/B)	47.3%	39.8%	44.0%

* This figure differs from assets held for sale on the balance sheet due to £0.7m of associated liabilities

2. Other APMs

i) Total accounting return per share

	Six months ended 30 June 2023 p	Six months ended 30 June 2022 p	Year ended 31 December 2022 p
EPRA closing net tangible assets	291.6	352.8	329.6
Add back: prior year final dividend paid	5.4	5.4	5.4
Add back: interim dividend paid	–	–	2.6
Less: EPRA opening net tangible assets (A)	(329.6)	(350.5)	(350.5)
Return before dividends (B)	(32.6)	7.7	(12.9)
Total accounting return (B/A)	(9.9%)	2.2%	(3.7%)

ii) Net borrowings and gearing

	Notes	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Borrowings short-term	13	224.5	184.6	173.4
Borrowings long-term	13	864.9	858.6	932.5
Add back: unamortised issue costs	13	4.9	5.3	5.3
Gross debt	13	1,094.3	1,048.5	1,111.2
Cash		(92.5)	(110.4)	(113.9)
Net borrowings (A)		1,001.8	938.1	997.3
Net assets (B)		1,078.7	1,341.9	1,220.8
Net gearing (A/B)		92.9%	69.9%	81.7%

5 ALTERNATIVE PERFORMANCE MEASURES ('APMs') (continued)

iii) Balance sheet loan-to-value

	Notes	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Borrowings short-term	13	224.5	184.6	173.4
Borrowings long-term	13	864.9	858.6	932.5
Less: cash		(92.5)	(110.4)	(113.9)
Net debt (A)		996.9	932.8	992.0
Investment properties	9	1,992.7	2,299.1	2,295.0
Properties in PPE	9	37.2	40.4	37.5
Properties and land held for sale	9	180.6	60.2*	20.3
Total property portfolio (B)		2,210.5	2,399.7	2,352.8
Loan-to-value (A/B)		45.1%	38.9%	42.2%

* Sum total differs from assets held for sale on the balance sheet due to £0.7m of associated liabilities

iv) Dividend cover

	Notes	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Interim dividend *		10.3	10.6	10.6
Final dividend		–	–	21.3
Total dividend (A)		10.3	10.6	31.9
EPRA earnings (B)		20.7	23.5	47.0
Dividend cover (B/A)		2.00	2.22	1.47

* The 30 June 2023 amount represents the proposed interim 2023 dividend

v) Interest cover

	Notes	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Net rental income	4	55.6	52.8	107.8
Administration expenses	4	(8.8)	(8.4)	(15.7)
Other expenses	4	(7.1)	(7.6)	(16.2)
Revenue less costs (A)	4	39.7	36.8	75.9
Finance income (excluding dividends and derivatives)	6	1.0	0.6	1.3
Finance costs (excluding derivatives)	7	(17.2)	(12.6)	(26.8)
Net interest (B)		(16.2)	(12.0)	(25.5)
Interest cover (A/B)		2.45	3.07	2.98

5 ALTERNATIVE PERFORMANCE MEASURES ('APMs') (continued)

vi) CLS administration cost ratio

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Administration expenses	8.8	8.4	15.7
Less: Other investment segment	(0.1)	–	(0.2)
Underlying administration expenses (A)	8.7	8.4	15.5
Net rental income (B)	55.6	52.8	107.8
Administration cost ratio (A/B)	15.6%	15.9%	14.4%

6 FINANCE INCOME

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Interest income			
Financial instruments carried at amortised cost	1.0	0.6	1.3
Movement in fair value of derivative financial instruments	0.7	5.3	8.8
	1.7	5.9	10.1

7 FINANCE COSTS

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Interest expense			
Secured bank loans	16.3	10.9	23.3
Secured notes	–	0.8	1.7
Amortisation of loan issue costs	0.9	0.9	1.8
	17.2	12.6	26.8

8 TAXATION

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Deferred tax			
Origination and reversal of temporary differences	(5.0)	1.8	(5.4)
	(5.0)	1.8	(5.4)
Current tax	2.7	1.2	5.3
Tax (credit)/charge	(2.3)	3.0	(0.1)

8 TAXATION continued

Tax for the six months ended 30 June 2023 has been recorded at an effective rate of 2.2% (six months ended 30 June 2022: 14.7%; year ended 31 December 2022: 18.5%), representing the best estimate of the average annual effective tax rate expected for the full year adjusted for the tax effect of one-off items, applied to the pre-tax income of the six month period. The effective tax rate for the period of 2.2% is lower than the weighted average tax rate of 21.8%. This is primarily due to the revaluation loss arising from the UK property rental business which is exempt from UK Corporation Tax under the REIT regime.

The total tax credit for the period of £2.3 million is lower than the £3.0 million tax charge for the six months ended 30 June 2022 primarily due to the release of deferred tax liabilities in Germany and France. The total tax credit for the period of £2.3 million is higher than the £0.1 million credit recognised for the year ended 31 December 2022 as a result of a decrease in the current tax charge related to France.

9 PROPERTY PORTFOLIO

	United Kingdom £m	Germany £m	France £m	Total £m
Investment property	915.4	814.9	262.4	1,992.7
Property held as property, plant and equipment	33.7	1.7	1.8	37.2
Properties held for sale	51.8	119.4	9.4	180.6
Property portfolio at 30 June 2023	1,000.9	936.0	273.6	2,210.5

	United Kingdom £m	Germany £m	France £m	Total £m
Investment property	1,105.1	926.5	267.5	2,299.1
Property held as property, plant and equipment	33.1	5.4	1.9	40.4
Properties held for sale*	32.9	6.9	20.0	59.8
Land held for sale*	–	–	0.4	0.4
Property portfolio at 30 June 2022	1,171.1	938.8	289.8	2,399.7

*Sum total differs from assets held for sale on the balance sheet due to £0.7m of associated liabilities

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

The property portfolio which comprises investment properties detailed in note 10, properties held for sale detailed in note 12, and the hotel detailed in note 11 was revalued at 30 June 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 external independent valuers as follows:

	30 June 2023			30 June 2022			31 December 2022		
	Investment property £m	Other property £m	Property portfolio £m	Investment property £m	Other property £m	Property portfolio £m	Investment property £m	Other property £m	Property portfolio £m
Cushman and Wakefield	915.4	85.5	1,000.9	1,105.1	66.0	1,171.1	1,030.0	40.6	1,070.6
Jones Lang LaSalle	1,077.3	132.3	1,209.6	1,194.0	31.0	1,225.0	1,265.0	13.6	1,278.6
L Fällström AB	–	–	–	–	3.6	3.6	–	3.6	3.6
	1,992.7	217.8	2,210.5	2,299.1	100.6	2,399.7	2,295.0	57.8	2,352.8

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. See note 10 for details on valuation technique and fair value measurement.

10 INVESTMENT PROPERTIES

	United Kingdom	Germany	France	Total
	£m	£m	£m	£m
At 1 January 2023	1,030.0	990.5	274.5	2,295.0
Capital expenditure	25.5	4.8	1.3	31.6
Disposals	(1.8)	–	–	(1.8)
Net revaluation movement	(93.0)	(34.4)	(5.5)	(132.9)
Lease incentives	(0.5)	2.0	–	1.5
Exchange rate variances	–	(28.6)	(7.9)	(36.5)
Transfer to properties held for sale	(44.8)	(119.4)	–	(164.2)
At 30 June 2023	915.4	814.9	262.4	1,992.7

	Restated* United Kingdom	Germany	France	Total
	£m	£m	£m	£m
At 1 January 2022 (restated*)	1,090.5	883.0	273.6	2,247.1
Acquisitions	–	22.5	–	22.5
Capital expenditure	14.1	3.6	6.8	24.5
Net revaluation movement (restated*)	4.7	(3.6)	(7.1)	(6.0)
Lease incentives	0.7	6.3	–	7.0
Exchange rate variances	–	21.6	6.5	28.1
Transfer to properties held for sale	(4.9)	(6.9)	(12.3)	(24.1)
At 30 June 2022 (restated*)	1,105.1	926.5	267.5	2,299.1

* See note 3 for detail

	United Kingdom	Germany	France	Total
	£m	£m	£m	£m
At 1 January 2022 (restated)	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 incentives	0.9	6.9	–	7.8
Exchange rate variances	–	48.9	14.3	63.2
Transfer to plant, property and equipment	–	–	–	–
Transfer to properties held for sale	(7.0)	–	(9.7)	(16.7)
At 31 December 2022	1,030.0	990.5	274.5	2,295.0

Investment properties include leasehold properties with a carrying value of £72.6 million (30 June 2022: £49.8 million; 31 December 2022: £77.7 million).

Interest capitalised within capital expenditure in the period amounted to £0.6 million (30 June 2022: £nil; 31 December 2022 £0.5 million)

Valuation process

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

10 INVESTMENT PROPERTIES continued

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

Valuation techniques

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

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

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

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

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

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

There were no transfers between any of the Levels in the fair value hierarchy during either 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 £132.9 million (30 June 2022: £6.0 million; 31 December 2022: £136.5 million) and are presented in the income statement in the line item 'Net movements on revaluation of investment properties'.

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 30 June 2023 and 30 June 2022, respectively.

10 INVESTMENT PROPERTIES continued

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

ERV						
Average £ per sq ft			Range £ per sq ft			
	30-Jun-23	30-Jun-22	31-Dec-22	30-Jun-23	30-Jun-22	31-Dec-22
UK	35.62	36.83	34.01	10.00 – 55.85	10.00 - 63.22	10.00 – 58.09
Germany	14.07	13.56	14.10	9.84 – 24.53	9.08 - 24.62	10.14 – 25.27
France	21.19	20.78	21.69	12.87 – 40.20	12.05 - 39.60	13.26 – 41.38

Equivalent yield						
Average %			Range %			
	30-Jun-23	30-Jun-22	31-Dec-22	30-Jun-23	30-Jun-22	31-Dec-22
UK	6.09	5.31	5.61	2.93 – 9.27	2.75 - 9.09	2.94 – 9.61
Germany	5.01	4.40	4.75	4.00 – 6.00	3.00 - 5.40	3.30 – 5.90
France	5.41	5.03	5.13	4.30 – 6.90	3.90 - 6.50	4.05 – 6.75

Sensitivity of measurement to variations in the significant unobservable inputs

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

A decrease in the equivalent yield by 25 basis points would result in an increase in the fair value of the Group's investment property by £93.5 million (30 June 2022: £137.0 million; 31 December 2022: £138.5 million) whilst a 25 basis point increase would reduce the fair value by £98.9 million (30 June 2022: £116.5 million; 31 December 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 £87.9 million (30 June 2022: £86.4 million; 31 December 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 £72.6 million (30 June 2022: £95.5 million; 31 December 2022: £106.5 million).

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

Although not a key valuation assumption, in the absence of a financial instruments note and disclosure on foreign exchange risk, the table below shows how the investment property values would be impacted by a 5% movement in the sterling/euro exchange rate at 30 June 2023.

	£m
5% increase in value of sterling against the euro	(51.3)
5% fall in value of sterling against the euro	56.7

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

The Group published its sustainability strategy including a pathway to Net Zero Carbon ("NZC") in August 2021 and has set 2030 as its date to achieve this (see pages 58 to 61 of the 2022 Annual Report). During 2021 the Group employed technical experts to carry out individual property energy audits to identify energy and carbon saving opportunities. A total of 76 properties were visited from January to April 2021 across the UK, France and Germany, with new developments, properties under refurbishment and properties earmarked for sale all excluded from the programme. The investment needed to deliver the audit findings amounts to an estimated £65 million over 9 years for all properties. We have integrated these energy audits into each Asset Management Plan to enable strategic decisions about the refurbishment, sale or full redevelopment of assets to be made. The UK portfolio is already compliant with the 2023 Minimum Energy Efficiency Standard (MEES) requirements and the 2030 target of EPC B is factored in to the NZC Pathway model (see page 58 of the 2022 Annual Report for more detail).

11 PROPERTY, PLANT AND EQUIPMENT

	30 June 2023 £m	Restated* 30 June 2022 £m	31 December 2022 £m
Hotel	27.1	25.8	26.7
Land and buildings	–	3.6	–
Owner-occupied property	10.1	11.0	10.8
Fixtures and fittings	2.4	2.0	2.1
Total	39.6	42.4	39.6

* See note 3 for detail

	Hotel £m	Owner- occupied property £m	Fixtures and fittings £m	Total £m
At 1 January 2023	26.7	10.8	3.5	41.0
Additions	0.4	–	0.3	0.7
Disposals	–	–	–	–
Reclassification	(0.2)	–	0.2	–
Revaluation	0.2	(0.4)	–	(0.2)
Exchange rate variances	–	(0.3)	–	(0.3)
At 30 June 2023	27.1	10.1	4.0	41.2

Comprising:

At cost	–	–	4.0	4.0
At valuation	27.1	10.1	–	37.2
	27.1	10.1	4.0	41.2

Accumulated depreciation and impairment

At 1 January 2023	–	–	(1.4)	(1.4)
Disposals	–	–	–	–
Depreciation charge	(0.1)	–	(0.2)	(0.3)
Revaluation	0.1	–	–	0.1
At 30 June 2023	–	–	(1.6)	(1.6)

Net book value

At 30 June 2023	27.1	10.1	2.4	39.6
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At 31 December 2022	26.7	10.8	2.1	39.6
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Valuation techniques

The fair value of the hotel has been determined using the following approach in accordance with International Valuation Standards:

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

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

The revaluation deficit for the property, plant and equipment of £0.1 million (30 June 2022: surplus £1.3 million 31 December 2022: surplus £1.9 million) was included within the revaluation reserve via other comprehensive income.

12 ASSETS HELD FOR SALE

	United Kingdom	Germany	France	Total
	£m	£m	£m	£m
At 1 January 2023	7.0	3.6	9.7	20.3
Disposals	–	(3.6) ¹	–	(3.6)
Exchange rate variances	–	–	(0.3)	(0.3)
Transfer from investment property	44.8	119.4	–	164.2
At 30 June 2023	51.8	119.4	9.4	180.6

¹ This is the disposal of our land holding in Sweden

The balance above comprises 7 properties (31 Dec 2022: 3 properties; 30 June 2022: 7 properties). The facts and circumstances of the disposals or expected disposals are commercially sensitive and therefore are not disclosed here however further detail may be obtained from the earlier part of this report. Management expect that properties transferred to held for sale during the year will be disposed of within 12 months, usually via an open market process.

	United Kingdom	Germany	France	Total
	£m	£m	£m	£m
At 1 January 2022	37.3	–	6.9	44.2
Disposals	(10.1)	–	–	(10.1)
Net revaluation movement	–	–	0.9	0.9
Exchange rate variances	–	–	0.3	0.3
Transfer from investment property	5.0	6.9	12.3	24.2
At 30 June 2022	32.2	6.9	20.4	59.5

	United Kingdom	Germany	France	Total
	£m	£m	£m	£m
At 1 January 2022	37.3	–	6.9	44.2
Disposals	(37.3)	–	(6.9)	(44.2)
Transfer from investment property	7.0	–	9.7	16.7
Transfer from property, plant and equipment	–	3.6 ¹	–	3.6
At 31 December 2022	7.0	3.6 ¹	9.7	20.3

¹ Land holding in Sweden

13 BORROWINGS

MATURITY PROFILE

	Bank loans £m	Secured notes £m	Total £m
At 30 June 2023			
Maturing in:			
Within one year or on demand	225.9	–	225.9
One to two years	176.8	–	176.8
Two to five years	424.3	–	424.3
More than five years	267.3	–	267.3
	1,094.3	–	1,094.3
Unamortised issue costs	(4.9)	–	(4.9)
Borrowings	1,089.4	–	1,089.4
Due within one year	(224.5)	–	(224.5)
Due after one year	864.9	–	864.9

At the year ended 31 December 2022, £175.1 million of borrowings were due for repayment within one year and £350.1m was due within one to two years including unamortised issue costs (see 2022 Annual Report and Accounts, note 21). During the six-month period, CLS has refinanced £299.1million (of which £83.9m was classified as new loans).

MATURITY PROFILE

	Bank loans £m	Secured notes £m	Total £m
At 30 June 2022			
Maturing in:			
Within one year or on demand	141.7	44.4	186.1
One to two years	319.3	–	319.3
Two to five years	229.4	–	229.4
More than five years	313.7	–	313.7
	1,004.1	44.4	1,048.5
Unamortised issue costs	(5.3)	–	(5.3)
Borrowings	998.8	44.4	1,043.2
Due within one year	(140.2)	(44.4)	(184.6)
Due after one year	858.6	–	858.6

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

13 BORROWINGS continued

FAIR VALUES

	Carrying amounts			Fair values		
	30 June 2023	30 June 2022	31 December 2022	30 June 2023	30 June 2022	31 December 2022
	£m	£m	£m	£m	£m	£m
Current borrowings	224.5	184.6	173.4	224.5	184.4	173.4
Non-current borrowings	864.9	858.6	932.5	777.3	805.8	845.3
	1,089.4	1,043.2	1,105.9	1,001.8	990.2	1,018.7

The fair value of borrowings represents the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, discounted at the prevailing market rate, and excludes accrued interest.

14 SHARE CAPITAL

	Ordinary shares in circulation Number	Treasury shares Number	Total ordinary shares Number	Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
At 1 January 2022 and 30 June 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
Issue of shares from treasury	199,402	(199,402)	-	-	-	-
At 30 June 2023	397,410,268	41,367,512	438,777,780	9.9	1.1	11.0

15 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.

	30 June 2023 Number	30 June 2022 Number	31 December 2022
Weighted average number of ordinary shares in circulation	397,249,424	407,395,760	404,410,051
Number of ordinary shares in circulation	397,410,268	407,395,760	397,210,866

For diluted earnings per share, the weighted average number of ordinary shares in issue 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 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 in addition to the passage of time.

	30 June 2023 Number	30 June 2022 Number	31 December 2022 Number
Employee share plan			
Element B / Special Award	932,847	520,901	520,901
LTIP	2,963,569	1,674,113	1,674,113
Total potential dilutive shares	3,896,416	2,195,014	2,195,014

16 CASH GENERATED FROM OPERATIONS

	Six months ended 30 June 2023 £m	Restated Six months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Operating (loss)/profit	(90.5)	28.2	(63.9)
Adjustments for:			
Net movements on revaluation of investment properties (restated)	132.9	5.1	136.5
Net movements on revaluation of equity investments	–	3.3	3.8
Depreciation and amortisation (restated)	0.3	0.3	0.6
Non-cash rental income (lease incentives)	(1.5)	(7.0)	(0.5)
Share-based payments	0.2	(0.6)	(7.8)
(Profit)/loss on sale of investment properties	(2.7)	0.2	0.2
Changes in working capital:			
Decrease in receivables	1.5	4.6	2.3
Increase/(decrease) in payables	0.4	(3.1)	(0.7)
Cash generated from operations	40.6	31.0	70.5

17 CASH AND CASH EQUIVALENTS

	Six months ended 30 June 2023 £m	Six months ended 30 June 2022 £m	Year ended 31 December 2022 £m
Cash at bank and cash in hand	92.5	110.4	113.9

At 30 June 2023, cash at bank and in hand included £30.0 million (31 Dec 2022: £15.8 million; 30 June 2022: £13.4 million) which was restricted by a third-party charge. £19.9 million of the restricted cash is deposited with banks in respect of borrowings (31 Dec 2022: £5.3 million; 30 June 2022: £3.0 million), £9.9 million is tenant deposits (31 Dec 2022: £10.3 million; 30 June 2022: £10.2 million) and £0.2 million (31 Dec 2022: £0.2 million; 30 June 2022: £0.2m) is from a recently terminated contract for the provision of property management services to a related party.

18 RELATED PARTY TRANSACTIONS

There have been no material changes in the related party transactions described in the last annual report, other than those disclosed elsewhere in this condensed set of financial statements.

19 POST BALANCE SHEET EVENTS

Since 30 June 2023 we have repaid a loan in Germany of £13.4 million and refinanced a loan in Germany of £20.8 million of borrowings.

GLOSSARY

Administration cost ratio

Recurring administration expenses of the investment property operating segment expressed as a percentage of net rental income.

Balance sheet loan-to-value

Net debt expressed as a percentage of property assets.

Building Research Establishment Environmental

Assessment Method (BREEAM) An environmental impact assessment method for non-domestic buildings. Their standards cover new construction, In-Use as well as refurbishment and fit-out. BREEAM In-Use enables property investors, owners, managers and occupiers to determine and drive sustainable improvements in the operational performance of their buildings. It provides sustainability benchmarking and assurance for all building types and assesses performance in a number of areas; management, health & wellbeing, energy, transport, water, resources, resilience, land use & ecology, and pollution. Performance is measured across a series of ratings; Good, Very Good, Excellent and Outstanding.

Carbon emissions Scopes 1, 2 and 3

Scope 1 – direct emissions;

Scope 2 – indirect emissions; and

Scope 3 – other indirect emissions.

CDP

CDP, formerly known as the Carbon Disclosure Project, assesses the ESG performance of all major companies worldwide and aids comparability between organisations to allow the investor community to assess the carbon and climate change risk of each company.

Contracted rent

Annual contracted rental income after any rent-free periods have expired.

Earnings per share

Profit for the year attributable to the owners of the Company divided by the weighted average number of ordinary shares in issue in the period.

Energy Performance Certificate (EPC)

An EPC is an asset rating detailing how energy efficient a building is, rated by carbon dioxide emission on a scale of A-G, where an A rating is the most energy efficient. They are legally required for any building that is to be put on the market for sale or rent.

European Public Real Estate Association (EPRA)

A not-for-profit association with a membership of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors. EPRA's Best Practices Recommendations includes guidelines for the calculation of the following performance measures which the Group has adopted.

EPRA capital expenditure

Investment property acquisitions and expenditure split between amounts used for the creation of additional lettable area ('incremental lettable space') and enhancing existing space ('no incremental space') both on an accrual and cash basis.

EPRA cost ratio

Administrative & operating costs (including & excluding costs of direct vacancy) divided by gross rental income. A measure to enable meaningful measurement of the changes in a company's operating costs.

EPRA earnings per share (EPS)

Earnings from operational activities. A measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.

EPRA net reinstatement value (NRV)

NAV adjusted to reflect the value required to rebuild the entity and assuming that entities never sell assets. Assets and liabilities, such as fair value movements on financial derivatives are not expected to crystallise in normal circumstances and deferred taxes on property valuation surpluses are excluded.

EPRA net tangible assets (NTA)

Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.

EPRA net disposal value (NDV)

Represent the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax.

EPRA net initial yield (NIY)

Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the EPRA property portfolio, increased by estimated purchasers' costs.

EPRA LTV

The aim of EPRA LTV is to assess the gearing of the shareholder equity within a real estate company by adjusting IFRS reporting. The main overarching concepts are: any capital which is not equity is considered as debt irrespective of its IFRS classification; it is calculated on proportional consolidation; and assets are included at fair value and net debt at nominal value.

EPRA 'topped up' net initial yield

This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).

EPRA vacancy rate

Estimated rental value (ERV) of immediately available space divided by the ERV of the lettable portfolio. Estimated rental value (ERV) The market rental value of lettable space as estimated by the Group's valuers.

GRESB

GRESB assesses and benchmarks the environmental, social and governance (ESG) performance of real assets, providing standardised and validated data to the capital markets.

Interest cover

The aggregate of group revenue less costs, divided by the aggregate of interest expense and amortisation of loan issue costs, less interest income.

Key performance indicators (KPIs)

Activities and behaviours, aligned to both business objectives and individual goals, against which the performance of the Group is annually assessed. Performance measured against them is referenced in the annual report.

Liquid resources

Cash and short-term deposits.

Net assets per share or net asset value (NAV)

Equity attributable to the owners of the Company divided by the diluted number of ordinary shares.

Net debt

Total borrowings less liquid resources.

Net gearing

Net debt expressed as a percentage of net assets attributable to the owners of the Company.

Net initial yield

Net rent on investment properties and properties held for sale expressed as a percentage of the valuation of those properties.

Net rent

Passing rent less net service charge costs.

Occupancy rate

Contracted rent expressed as a percentage of the aggregate of contracted rent and the ERV of vacant space.

Over-rented

The amount by which ERV falls short of the aggregate of contracted rent.

Passing rent

Contracted rent before any rent-free periods have expired.

Passive infrared sensor (PIR)

A PIR sensor will turn the lights on automatically when someone walks into a room or space and off when it becomes empty resulting in significant energy savings.

Property loan-to-value

Property borrowings expressed as a percentage of the market value of the property portfolio.

Real Estate Investment Trust (REIT)

A Real Estate Investment Trust (REIT) is a vehicle that allows an investor to obtain broadly similar returns from their investment, as they would have, had they invested directly in property. In the UK a REIT is exempt from UK tax on the income and gains of its property rental business. A REIT in the UK is required to invest mainly in property (75% of total Group's assets and profits must be in the tax exempt business) and to pay out 90% of the profits from its property rental business as measured for tax purposes as dividends to shareholders (property income distributions). In the hands of the shareholder, property income distributions (PID) are taxable as profits of a UK property rental business. The PID is received net of withholding tax, unless it is to a recipient entitled to gross payment.

Rent reviews

Rent reviews take place at intervals agreed in the lease (typically every five years) and their purpose is usually to adjust the rent to the current market level at the review date. For upwards only rent reviews, the rent will either remain at the same level or increase (if market rents are higher) at the review date.

Rent roll

Contracted rent.

Return on equity

The aggregate of the change in equity attributable to the owners of the Company plus the amounts paid to the shareholders as dividends and the purchase of shares in the market, divided by the opening equity attributable to the owners of the Company.

Reversion

The amount by which ERV exceeds contracted rent.

Streamlined energy and carbon reporting (SECR)

The SECR regulations were introduced in April 2019 and require companies incorporated in the UK to undertake enhanced disclosures of their energy and carbon emissions in their financial reporting.

SKA rating

SKA rating is an environmental assessment method, benchmark and standard for non-domestic fit-outs, led and owned by RICS. Performance is measured across the ratings; Bronze, Silver and Gold.

The Task Force on Climate-related Financial Disclosures (TCFD)

Set up by the Financial Stability Board (FSB) in response to the G20 Finance Ministers and Central Bank Governors request for greater levels of decision-useful, climate-related information; the TCFD was asked to develop climate-related disclosures that could promote more informed investment, credit (or lending), and insurance underwriting decisions. In turn, this would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

Total Accounting Return – basic

The change in IFRS net assets before the payment of dividends.

Total Accounting Return

The change in EPRA NTA before the payment of dividends.

Total Shareholder Return (TSR)

The growth in capital from purchasing a share, assuming that dividends are reinvested every time they are received.

True equivalent yield

The capitalisation rate applied to future cash flows to calculate the gross property value, as determined by the Group's external valuers.

UN Sustainable Development Goals (SDGs)

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries – developed and developing – in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests.

Variable refrigerant flow (VRF)

The modular design of VRF results in energy savings by giving occupants the choice to air condition or heat only the zones in use.