Workspace Group PLC
Adoption of International Financial Reporting Standards (IFRS)

August 2005

Contents

Transition to IFRS

Introduction

Included in this document:

- Is a description of the differences between UK Generally Accepted Accounting Principles (GAAP) and IFRS as they affect Workspace Group.
- The consolidated results converted from UK GAAP to IFRS for the full year to 31 March 2005.
- The consolidated balance sheets converted from UK GAAP to IFRS for the date of IFRS transition, 1 April 2004 and for 31 March 2005.
- The Group's principal accounting policies under IFRS.

IFRS will continue to evolve through development and adoption of new Standards and Interpretations as well as through practical experience gained from the application of IFRS by reporting entities and their auditors. For these reasons the information contained in this document may be amended before its presentation in the audited financial statements of the Group for the year ended 31 March 2006.

The information presented in this document is unaudited.

Adoption of International Financial Reporting Standards

Under European legislation companies listed on Exchanges within the European Union are required to adopt IFRS for accounting periods beginning on or after 1 January 2005. The first full reporting year for Workspace Group is therefore the year ended 31 March 2006 and first reporting period the quarter to 30 June 2005. The transition date to IFRS for Workspace Group plc is 1 April 2004.

IFRS 1 requires reporting entities to select accounting policies that comply with IFRS and apply them retrospectively to all periods presented in the first IFRS financial statements but permits a number of exemptions. The Group intends to take advantage of the following exemptions:

- Share based payment transactions – to not apply IFRS2 Share Based Payment to equity settled share based payments granted before 7 November 2002 and cash settled share based payment liabilities outstanding prior to 1 January 2005.
- Fair value as deemed cost – to take fair value as the deemed cost of owner occupied property, plant and equipment at the date of IFRS transition.
- Compound financial instruments – not to identify separately the elements of original equity and interest on compound financial instruments where the liability element has been settled before the date of transition.

IFRS adjustments

The principal differences between UK (GAAP) and IFRS as they affect the reported results and their presentation of Workspace Group are set out below:

IAS 40 Investment property

IAS 40 requires that the revaluation gains or losses on investment property held at fair value be recognised on the face of the Income Statement rather than in reserves in the Statement of Group Total Recognised Gains and Losses as is the case under UK GAAP. As a result the revaluation reserve is no longer shown as a separate component of equity in the Balance Sheet but is included within retained earnings, and is non distributable.

Under UK GAAP, on disposal of properties the tax due on the realisation of gains previously recognised through the revaluation reserve was shown in the Statement of Group Total Recognised Gains and Losses. Under IFRS it is included in the Income Statement. The tax due on sale will comprise an element in the Income Statement current tax charge (being the difference between the sales price and property's carrying value at the point of disposal) and a transfer from the deferred tax reserve of the deferred tax amount already provided in previous periods.

IAS 12 Income taxes

IAS 12 requires full provision to be made for the deferred tax on revaluation gains or losses of investment properties at the tax rate estimated at the point of realisation. A tax charge therefore arises in the Income Statement if a revaluation surplus occurs, the corresponding entry being a deferred tax liability in the balance sheet. Under IAS 12 the provision for deferred tax will take no account of indexation allowances afforded under UK taxation law, the tax provided is not a calculation of potential Capital Gains Tax liability. Under UK GAAP the liability is an estimate of the Capital Gains Tax, but is not provided for, only disclosed in the notes (note 17 in the 31 March 2005 accounts).

IAS 17 Leases

IAS 17 requires leases, whether as the lessee or lessors to be examined to differentiate between finance and operating leases. Most property leases were recognised as operating leases under UK GAAP but under IFRS different criteria may mean some are considered as finance leases. Leases which extend for long periods and therefore under which a substantial portion of the asset life is consumed may be regarded as finance leases.

a) Head leases. Some (or some parts) of the investment properties of the Group are held under long leases which under IFRS are classified as finance leases so requiring recognition of a liability based on the minimum lease payments and a corresponding increase in the carrying value of the investment property. Many of these head leases incur only a peppercorn rent hence creating no finance lease liability. For head leases with rental payments other than peppercorn the rent paid is split between interest payable and repayment of the lease liability. Any rent payable in excess of the minimum lease payments as identified at initial recognition of the lease is considered as contingent rent and is expensed immediately.

   Under UK GAAP leasehold investment properties were reported at the valuation of the legal interest owned.

b) Tenant leases are subject to the same tests. Because of the multi tenanted nature of the Group's buildings and the short-term nature of most tenancies, no leases granted by the Group have been determined to be finance leases.

SIC-15 Operating Lease – Incentives

SIC-15 requires that any lease incentives offered to tenants, such as rent free periods or reduced initial rents are recognised over the lease term. An adjustment is therefore made to increase revenue in the Income Statement and create a financial asset. Under UK GAAP any incentive was spread to the shorter of the lease term or period to the first rent review or lease break. The Group has granted no material operating lease incentives.

IAS 10 Events after the Balance Sheet Date

IAS 10 requires dividends only to be recognised when there is an irrevocable legal obligation to make payment. The final dividend does not become irrevocable until approved by the members at the Annual General Meeting. Under IFRS the final dividend is therefore not recognised until approved and interim dividend not recognised until paid.

IFRS adjustments
continued

IAS 16 Property
IAS 16 requires owner occupied property to be shown as part of Property, Plant and Equipment. The Group's head office is defined as owner occupied property. As land has an indefinite life and buildings a finite life the land and building elements of the owner occupied property are shown separately, the latter being depreciated over the expected useful life and the former not being depreciated. Under UK GAAP the whole property was subject to depreciation. The valuation of the asset at the date of transition to IFRS is taken to be its deemed cost, any surplus or deficit being recognised in retained reserves.

IAS 23 Borrowing costs
IAS 23 allows the capitalisation of directly attributable borrowing costs on the creation or refurbishment of property by applying the weighted average borrowing costs to the expenditures on the asset. In the case of investment properties only the expenditure on the improvement costs may be subject to capitalisation of related borrowing costs and the underlying carrying cost of the property is excluded. Under UK GAAP interest capitalisation arose on both the original value of the investment property and on the improvement costs.

IAS 38 Intangible Assets
IAS 38 requires externally acquired computer software to be classified as an intangible asset. Under UK GAAP software was shown within fixtures and fittings amongst other tangible assets.

IAS 32/39 Financial Instruments: Disclosure and Presentation, Recognition and Measurement
a) IAS 32 requires the Convertible Loan Stock to be split into its equity and debt components. The debt element is carried at amortised cost, amortised over the life of the instrument, such that interest is charged at a constant effective interest rate compared to the liability outstanding at any given point in time. Under UK GAAP the instrument was considered wholly as debt.
b) IAS 32 requires derivative financial instruments to be valued at fair value through the Income Statement and their carrying values shown in the Balance Sheet unless they meet the IFRS hedging criteria. Under UK GAAP the fair value of such items was disclosed by way of a note and any original cost amortised over the life of the item.
c) IAS 39 requires the identification of any embedded derivatives in the Group's contractual arrangements. Embedded derivatives are derivative instruments that have been combined with other contractual arrangements to create a composite contract. The Group currently believes it has no material embedded derivatives.

IAS 7 Cash Flow Statements
IAS 7 defines cash and cash equivalents to include short-term, highly liquid investments, thus including short-term bank deposits. Cash equivalents were shown as investments under UK GAAP.

IFRS 2 Share-based payment
The Group operates an employee Save as You Earn scheme, an Executive Share Option Scheme and a Long Term incentive plan (LTIP). IFRS 2 requires the cost of services provided where payment is made through a share based payment scheme to be recognised as an expense in the Income Statement over their vesting periods and requires that where there is no reliable estimate of the cost of these services then the fair value of the options granted should be recognised as the cost of services. The fair values have been estimated by use of the Black- Scholes option valuation model in the case of the SAYE and Executive share option schemes which have non market related performance conditions and by use of Monte Carlo simulation in the case of the LTIP whose performance conditions are market related. Subsequent changes in fair value are shown as an expense in the Income Statement. Provision is also made for employer's National Insurance costs relating to share based payment schemes.

IFRS adjustments
continued

Under UK GAAP the SAYE and Executive Share Option schemes were not directly recognised as an expense (although the interest costs arising from borrowings made to finance the purchase of shares held in the Group's ESOT to satisfy option exercises were recognised, together with share dilution where new shares were issued). The purchase cost of the matching shares was recognised for the LTIP on a straight line basis over the vesting period. Employer's National Insurance costs were recognised on share options expected to meet their vesting criteria.

IAS 7 Cash Flow statements

Under IFRS the consolidated cash flow statement describes movements in cash and cash equivalents. Under UK GAAP the cash flow analyses movements in cash only. With that exception there are no material differences between the previously published and restated cash flow statements.

Reconciliation of consolidated profit

for the year ended 31 March 2005

	Previous GAAP £000s	IAS 40 Investment Property £000s	IAS 12 Contingent tax £000s	IAS 17 Property head leases £000s	IAS 16 Owner occupied property £000s	IAS 23 Capitalisation of interest £000s	IAS 32/39 Convertible loan stock £000s	IAS 39 Fair value of derivatives £000s	IFRS 2 Share based payments £000s	Restated under IFRS £000s
Revenue – continuing operations	55,039									55,039
Direct costs	(14,122)			51						(14,071)
Net Rental Income	40,917	0	0	51	0	0	0	0	0	40,968
Administrative expenses	(7,660)				2				15	(7,643)
Gain from change in fair value of investment property	0	67,256				667				67,923
(Loss) on disposal of investment properties	(75)									(75)
Operating profit	33,182	67,256	0	51	2	667	0	0	15	101,173
Interest receivable and payable and similar charges	(18,773)			(51)		(667)	2	39		(19,450)
Change in fair value of derivative financial instruments	0							1,097		1,097
Profit before tax	14,409	67,256	0	0	2	0	2	1,136	15	82,820
Taxation	(4,273)	516	(20,177)				(7)	(341)	(60)	(24,342)
Profit for the period	10,136	67,772	(20,177)	0	2	0	(5)	795	(45)	58,478

Reconciliation of equity

at 31 March 2005

	Previous GAAP £000s	IAS 40 Investment Property £000s	IAS 12 Contingent tax £000s	IAS 17 Property head leases £000s	IAS 10 Dividends £000s	IAS 16 Owner occupied property £000s	IAS 38 Computer software intangible £000s	IAS 32/39 Convertible loan stock £000s	IAS 39 Fair value of derivatives £000s	IFRS 2 Share based payments £000s	Restated under IFRS £000s
Non current assets											
Investment properties	715,785			752							716,537
Intangible assets	0						143				143
Property, plant and Equipment – other	3,675					(509)	(143)				3,023
Property, plant and Equipment – land	0					500					500
Total non current assets	719,460	0	0	752	0	(9)	0	0	0	0	720,203
Current assets											
Trade and other receivables	5,223								(167)	103	5,159
Financial assets – derivative financial instruments	0								187		187
Tenant deposits	1,251										1,251
Cash and cash equivalents	3										3
Total current assets	6,477	0	0	0	0	0	0	0	20	103	6,600
Current Liabilities											
Financial liabilities – borrowings	(812)			(5)							(817)
Trade and other payables	(28,542)				3,721			69		(64)	(24,816)
Current tax liabilities	(2,495)		0						(12)		(2,507)
Total current liabilities	(31,849)	0	0	(5)	3,721	0	0	69	(12)	(64)	(28,140)
Net current (liabilities)/assets	(25,372)	0	0	(5)	3,721	0	0	69	8	39	(21,540)
Non Current Liabilities											
Financial liabilities – borrowings	(321,671)			(747)				16			(322,402)
Financial liabilities – derivative financial instruments									(1,729)		(1,729)
Deferred tax liabilities	(7,346)	4,284	(83,473)					(5)	463	2	(86,075)
Total non current liabilities	(329,017)	4,284	(83,473)	(747)	0	0	0	11	(1,266)	2	(410,206)
Net Assets	365,071	4,284	(83,473)	0	3,721	(9)	0	80	(1,258)	41	288,457
Equity											
Ordinary Shares	16,884										16,884
Investment in own shares	(5,519)										(5,519)
Share premium	28,388										28,388
Other reserves	0							151		310	461
Revaluation reserve	263,353	(263,353)									0
Retained earnings	61,965	267,637	(83,473)		3,721	(9)		(71)	(1,258)	(269)	248,243
Total equity	365,071	4,284	(83,473)	0	3,721	(9)	0	80	(1,258)	41	288,457

Reconciliation of equity

at 31 March 2004

	Previous GAAP £000s	IAS 40 Investment Property £000s	IAS 12 Contingent tax £000s	IAS 17 Property head leases £000s	IAS 10 Dividends £000s	IAS 16 Owner occupied property £000s	IAS 38 Computer software intangible £000s	IAS 32/39 Convertible loan stock £000s	IAS 39 Fair value of derivatives £000s	IFRS 2 Share based payments £000s	Restated under IFRS £000s
Non current assets											
Investment properties	626,060			757							626,817
Intangible assets	0						195				195
Property, plant and Equipment – other	3,654					(511)	(195)				2,948
Property, plant and Equipment – land	0					500					500
Total non current assets	629,714	0	0	757	0	(11)	0	0	0	0	630,460
Current assets											
Trade and other receivables	6,795								(206)		6,589
Financial assets – derivative financial instruments	0								543		543
Tenant deposits	1,150										1,150
Cash and cash equivalents	181										181
Total current assets	8,126	0	0	0	0	0	0	0	337	0	8,463
Current Liabilities											
Financial liabilities – borrowings	(1,340)			(5)							(1,345)
Financial liabilities – derivative financial instruments	0										0
Trade and other payables	(27,360)				3,321			80		(207)	(24,166)
Current tax liabilities	(2,242)										(2,242)
Total current liabilities	(30,942)	0	0	(5)	3,321	0	0	80	0	(207)	(27,753)
Net current (liabilities)/assets	(22,816)	0	0	(5)	3,321	0	0	80	337	(207)	(19,290)
Non Current Liabilities											
Financial liabilities – borrowings	(305,756)			(752)				29			(306,479)
Financial liabilities – derivative financial instruments									(3,182)		(3,182)
Deferred tax liabilities	(5,483)		(63,296)					(9)	792	62	(67,934)
Total non current liabilities	(311,239)	0	(63,296)	(752)	0	0	0	20	(2,390)	62	(377,595)
Net Assets	295,659	0	(63,296)	0	3,321	(11)	0	100	(2,053)	(145)	233,575
Equity											
Ordinary Shares	1,673										1,673
Investment in own shares	(6,206)										(6,206)
Share premium	42,912										42,912
Other reserves	0							175		79	254
Revaluation reserve	209,565	(209,565)									0
Retained earnings	47,715	209,565	(63,296)		3,321	(11)		(75)	(2,053)	(224)	194,942
Total equity	295,659	0	(63,296)	0	3,321	(11)	0	100	(2,053)	(145)	233,575

IFRS accounting policies

The principal accounting policies intended to be adopted for the financial statements for the year ended 31 March 2006 are set out below. These have been consistently applied in preparing the balance sheet at the date of transition to IFRS of 1 April 2004 and the summary IFRS balance sheets as at 31 March 2005 and 30 June 2004 and income statements for the 12 and 3 month periods then ending, as presented above.

1. Basis of Preparation

The consolidated financial information has been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through the profit and loss, and investment properties.

2. Basis of consolidation

The consolidated financial information includes the financial information in respect of the Company and all its subsidiary undertakings. Subsidiaries comprise all entities over which the Group has the power to govern the financial and operating policies. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences to the date control ceases.

Inter company transactions, balances and unrealised gains from intra group transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3. Investment property

Investment properties are those properties owned or held under an operating or finance lease by the Group to earn rental income or for capital appreciation or both and are not substantially occupied by any part of the Group.

Land or buildings held under operating leases are classified and accounted for as investment properties where the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at cost, including related transaction costs. After initial recognition investment property is held at fair value based on a valuation by an external professional valuer at each reporting date.

Changes in fair value of investment property at the reporting date and its carrying amount prior to re measurement are recorded in the Income Statement.

Properties are treated as acquired at the point the Group assumes the significant risks and returns of ownership and are treated as disposed when these are transferred to the buyer.

Existing investment property that commences redevelopment for continued future use as investment property remains in investment property. Property that is being constructed or developed for future use as investment property, but has not previously been classified as such, is classified as property, plant and equipment and initially recognised at cost until construction or development is complete at which time it is reclassified as investment property at fair value.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of each item can be reliably measured. All other repairs and maintenance costs are charged to the income statement during the period in which they are incurred. In the case of existing investment properties undergoing redevelopment capitalised interest on the redevelopment expenditure is added to the asset's carrying amount.

Borrowing costs capitalised are calculated by reference to the actual interest rate payable on borrowings for, or if financed out of general borrowings by reference to the average rate paid on, funding the assets employed by the Group applied to the direct expenditure on the property under on-going redevelopment. Interest capitalised is from the date of commencement of the re-development activity until the date when substantially all the activities necessary to prepare the asset for its intended use are complete.

IFRS accounting policies
continued

4. Property plant and equipment
All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditure is charged to the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of each item can be reliably measured. All other repairs and maintenance costs are charged to the income statement during the period in which they are incurred. In the case of properties undergoing construction or development, capitalised interest on the development expenditure is added to the asset's carrying amount.

Depreciation is provided using the straight line method to allocate the cost over the asset's estimated useful lives as follows:

Land	Not Depreciated
Buildings	50 years
Motor vehicles	4 years
Equipment and fixtures	4 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at least at each financial year end. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

5. Intangible assets
Acquired computer software licences and external costs of implementing or developing computer software programs are capitalised. These costs are amortised over their estimated useful lives of 4 years on a straight line basis.

Costs associated with maintaining computer software programs and internally incurred costs of software implementation and development are recognised as an expense as incurred.

6. Leases
A group company as a lessee

i) Operating leases – leases in which substantially all the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases are charged to the income statement on a straight line basis over the period of the lease.
ii) Finance leases – leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property or the net present value of the minimum lease payments. Each lease payment is allocated between liability and finance charges so as to achieve a constant rate of return on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non current borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The investment properties acquired under finance leases are carried at fair value.

A group company as lessor

i) Operating leases – properties leased out under operating leases are included in investment property in the balance sheet. Rental income from operating leases is recognised in the income statement on a straight line basis over the lease term. When the Group provides incentives to its customers the cost of incentives are recognised over the lease term on a straight line basis as a reduction of rental income.

IFRS accounting policies
continued

6. Leases continued

ii) Finance Leases – when assets are leased out under a finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method before tax which reflects a constant periodic rate of return. Where only the buildings element of a property lease is classified as a finance lease, the land element is treated as an operating lease.

7. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

8. Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured less provision for impairment where it is established there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The movement in provision is shown in the Income Statement.

9. Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within cash and cash equivalents for the purpose of the cash flow statement.

10. Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of issue.

11. Income tax

Income tax on the profit for the year comprises current and deferred tax.

Current income tax is tax payable on the taxable income for the year and any prior year adjustment.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates that have been enacted by the balance sheet date and are expected to apply when the related deferred income tax is realised or the deferred tax liability settled. Deferred tax is provided in full on the difference between the original cost of investment properties and their carrying amounts at the reporting date without taking into account deductions and allowances which would apply if the properties concerned were disposed of (in particular, no adjustment is made for indexation allowances).

No provision is made for temporary differences arising on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and relating to investments in subsidiaries where it is probable that the temporary differences will not reverse in the foreseeable future.

IFRS accounting policies
continued

12. Pensions
The Group operates defined contribution pension arrangements with its staff. Contributions are charged to the Income Statement as incurred.

13. Share based payment
Incentives in the form of shares are provided by the Group to employees under its share option and long-term co-investment schemes. The fair value of the options and matching shares granted is recognised over the vesting period.

The Company has established an ESOT to satisfy part of its obligation to provide shares under its schemes. The Company provides funding to the ESOT to purchase these shares. Such shares are treated as treasury shares and deducted from equity and no profit or loss is recognised on their sale, issue or cancellation.

14. Revenue recognition
Revenue includes rental income, service charges and other sums receivable from tenants of the Group's investment properties. Other sums include insurance re-charges, supplies of utilities, premia associated with surrender of tenancies, commissions, fees and other sundry income.

Rental income from operating leases is recognised in the Income Statement on a straight line basis over the lease term. When the Group provides lease incentives to its tenants the cost of incentives are recognised over the lease term, on a straight line basis, as a reduction in income.

Revenue for the sale of assets is recognised when the significant risks and returns have been transferred to the buyer. In the case of sales of properties this is generally taken on completion. Where any aspect of consideration is conditional other than through the passing of time then the revenue associated with that conditional item is deferred until the condition is satisfied and the amount of the consideration is ascertained. Profits are measured by reference to the net proceeds and the valuation at the start of the financial year.

15. Direct Costs
Minimum lease payments payable under head leases categorised as finance leases are allocated between liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Contingent rents, being those lease payments that are not fixed at the inception of the lease, for example increases arising on rent reviews, are recorded as an expense in the Income Statement in the period in which they are incurred.

Workspace Group PLC

Produced by Stephen Duke Limited 020 7422 0040 (9832)