



Leading in a growth market



Workspace Group

**Workspace Group PLC**  
Quarterly Report  
June 2006

## Highlights

Quarterly Results for the three months ended 30 June 2006

- Adjusted Net Asset Value (NAV) per share £3.36 up 7.7% over the three months and up 38.3% over twelve months (31 March 2006: £3.12; 30 June 2005: £2.43)
- Net Asset Value (NAV) per share £2.56 up 8.0% over the three months and up 38.4% over twelve months (31 March 2006: £2.37; 30 June 2005: £1.85)
- Valuation surplus £34.0m (2005: £18.1m)
- Pre-tax profits £43.1m (2005: £19.8m)
- Pre-tax profits on trading operations\* £2.7m (2005: £3.1m)
- Basic earnings per share 18.4p (2005: 8.5p)
- Joint Venture with Glebe announced
- Total rent roll £40.9m up 3.0% including acquisitions (31 March 2006: £39.7m)
- Acquisitions £24.5m since 31 March 2006

\*Trading operations exclude Income Statement Other Items as defined in the Glossary on page 29.

## Operating and Financial Review

### Chairman's Statement

We have made a good start to the year.

Adjusted NAV per share is up 7.7% over the quarter and 38.3% over the last 12 months. Acquisitions totalled £21m in the quarter with others following the quarter end. Our newly refurbished schemes at Enterprise and Clerkenwell are letting well and generally the market seems to be improving. Finally, we announced our joint venture with Glebe. This has enabled the Group:

- to crystallise a portion of the value in our current portfolio at a surplus;
- to de-gear and increase substantially our financial capacity for new acquisitions in London;
- to retain a significant interest and participation in the gains resulting from the change of use and intensification of these properties with a partner with proven experience in this area;
- to maintain our focus on our key skills.

The Government's bill on Real Estate Investment Trusts (REITs) received Royal Assent on 20 July allowing REITs to be established from 1 January 2007. We continue to review the potential to convert as the supporting regulations and guidance is released and subject to this we remain confident that it will be advantageous for the Group to convert to a REIT.

On the governance front, I am delighted to welcome Rupert Dickinson, the Chief Executive of Grainger Trust, to the Board as a non-executive director. Rupert brings a wealth of knowledge and skills in the housing and mixed-use areas, a key area of expertise as we increasingly pursue the mixed-use opportunities on our estates. I would also like to take this opportunity to thank Chris Pieroni who has retired from the Board after six years of service as a non-executive director during which time the Group has grown substantially. Bernard Cragg now takes over his duties as Senior Independent Non-Executive Director and John Bywater is to become Chairman of the Remuneration Committee.

### Chief Executive's Statement

#### Summary

Pre-tax profits for the quarter of £43.1m are up 118% on last year (30 June 2005: £19.8m) due to the continued growth in the value of the portfolio. Pre-tax profits on trading operations of £2.7m are down marginally on last year (2005: £2.8m, restated). This is due in part to the lower occupancy levels compared with last year, which should improve as the refurbished space at Enterprise and Clerkenwell is let, and in part due to the negative contribution from recent acquisitions which, whilst diluting earnings currently, will provide growth in the future. Meanwhile, adjusted NAV per share is up 7.7% to £3.36.

Total rent roll, excluding the joint venture, is up from £39.7m to £40.9m, an increase of 3.0%. Some £0.84m of this is due to acquisitions net of disposals whilst £0.33m is due to growth in the portfolio, particularly from letting recently refurbished schemes.

Earnings per share for the three month period at 18.4p are up 116% on last year.

#### Joint Venture

We believe that some 45% of the Group's portfolio has scope to add value by improvement initiatives. Within this, there are over 20 estates where value can be realised on a five year basis. 11 of these have been sold into our joint venture with Glebe.

Our joint venture partner, Glebe, is a private property development company, founded in 2004 by ex Chelsfield Director, David Phillips. The joint venture, in which Workspace has a 50% equity share, will promote the redevelopment opportunities for both these properties and others contributed by Glebe. Both Workspace and Glebe have contributed £20m equity into the joint venture, with non-recourse debt financing of £126m being provided by the Bank of Scotland.

The portfolio of 11 properties were sold into the joint venture for a cash consideration of £146m. This represented a surplus of £8.6m (6.25%) before costs over the March 2006 independent valuation. The joint venture also acquired three properties from Glebe for £9.1m.

## Operating and Financial Review

continued

Under the terms of the joint venture there will be no direct staffing, with Workspace providing the day-to-day management of the properties, and Glebe applying its expertise to deliver change of use, extension and redevelopment projects. Profits on the joint venture will be shared 55:45 in favour of Workspace in respect of the original Workspace properties, with all other profits split 50:50.

### Valuation

As usual an independent valuation of the Group's directly owned portfolio (i.e. excluding the Glebe joint venture) has been undertaken. This valuation showed a surplus of £34.0m for the quarter, a 4.0% increase. This increase was again largely attributable to yield movements in the sector over the period.

The properties in the Glebe joint venture were not revalued at 30 June 2006 since they had been valued immediately prior to the transaction in June. In future the joint venture properties will be valued quarterly in line with the Group's own investment properties and these values applied in measuring the Group's investment in the joint venture.

### Portfolio

The table overleaf shows our acquisitions and disposals during the quarter, and to date in the year.

In the first quarter the Group made acquisitions (excluding costs) of £20.4m, with another of £3.8m following the quarter end. Of particular note is the portfolio acquisition in Leyton for £16m. These estates were purchased off low rents (£4.14 per sq. ft), low capital values (£97 per sq. ft and £1.9m per acre), yet are within 3 miles of the Olympics area and we believe are capable of substantial improvement in our hands.

In addition to the disposals into the joint venture, the disposal of Stevenage Enterprise Park concluded the sale of the portfolio of properties outside the M25 announced last year. The sale of Wharf Road to United House marks the completion of our initiative to add value at this site. We achieved planning consent here in March 2005 for a mixed-used development. The consent provides for the demolition of the existing 44,000 sq. ft centre to be replaced by a development comprising 30,000 sq. ft of workspace in addition to 77 residential units in buildings of up to 10 storeys in height. The consideration, partly in cash and partly through construction of a new commercial building for Workspace, supports an overall value for the site in excess of £10m.

As noted above, as well as its interest in the joint venture with Glebe, the Group retains a number of properties where it continues to promote value adding activity such as refurbishment, extension and redevelopment. Proposals for the redevelopment of the Group's Thurston Road Estate in Lewisham, which has planning consent for a retail warehousing and residential development, is progressing. Likewise initiatives at Aberdeen Studios (Islington) and Greenheath (Tower Hamlets) continue to be advanced.

## Operating and Financial Review

continued

### Acquisitions and Disposals

| Name of Property   | Description   | Price<br>£m | Income<br>£000 | Market rent at<br>30 June 2006<br>£000 |
|--|---|-------------|----------------|--|
| <b>Acquisitions:</b>   |   |             |                |  |
| <b>Acquired during the quarter</b>   |   |             |                |  |
| Leyton Industrial Village, Fairways Business Centre and Leyton Studios, London E10   | 3 small unit industrial estates of 168,000 sq. ft   | 16.0        | 826.4          | 1,154.0                                |
| 1, Morie Street, London SW18   | Multi let offices of 22,000 sq.ft   | 4.4         | 178.0          | 381.0                                  |
| <b>Contracts completed following quarter end</b>   |   |             |                |  |
| 14, Greville Street, London EC1  | Vacant building of 14,000 sq. ft  | 3.8         | £Nil           | 670.0                                  |
|  |   | 24.2        | 1,004.4        | 2,205.0                                |
| Yield  |   |             | 4.15%          | 9.11%                                  |
| <b>Disposals</b>   |   |             |                |  |
| 11 Properties disposed to the Glebe joint venture.<br>Riverside Business Centre, SW18;<br>Bow Enterprise Park, E3;<br>Grand Union Centre, W10;<br>Highway Business Park, E1;<br>Hamilton Road Industrial Estate, SE27;<br>Parkhall Road Trading Estate, SE21;<br>Rainbow Industrial Estate, SW20;<br>Tower Bridge Business Complex. SE16 and Tower Bridge Block F, SE16;<br>Wandsworth Business Village; SW18;<br>Zennor Road Industrial Estate, SW12. | 11 estates with development potential. Total lettable floor area 1.2 million sq.ft  | 146.0       | 7,183.0        |  |
| Stevenage Enterprise Park, Stevenage, SG1  | Industrial estate of 27,000 sq.ft, deferred part of Magenta Portfolio sale of last year.  | 3.2         | 167.0          |  |
| Wharf Road, London N1  | Site sold for £1.9m with consent for mixed residential and commercial accommodation. Interest retained in commercial element (worth £8.5m). | 10.4        | Nil            |  |
|  |   | 159.6       | 7,350.0        |  |
| Yield  |   |             | 4.61%          |  |

## Operating and Financial Review

continued

Following the acquisitions and disposals completed in the quarter, and the establishment of the joint venture, the portfolio statistics and progress through the quarter may be summarised as follows:

|  | <b>30 June<br/>2006</b> | <b>31 March<br/>2006<br/>Restated*</b> |
|--|-------------------------|--|
| <b>Portfolio Statistics (excluding joint venture with Glebe)</b> |                         |  |
| Number of estates  | 96                      | 93                                     |
| Total floor space (million sq.ft)                                | 4.89                    | 4.69                                   |
| of which:  |                         |  |
| Like-for-like portfolio (million sq.ft)                          | 4.30                    | 4.30                                   |
| Disposals (million sq. ft)                                       | –                       | 0.03                                   |
| Acquisitions (million sq. ft)                                    | 0.23                    | –                                      |
| Developments (million sq. ft)                                    | 0.36                    | 0.36                                   |
| Lettable units   | 4,286                   | 4,108                                  |
| Annual rent roll of occupied units (£m)                          | 40.88                   | 39.71                                  |
| Average rent (£/sq.ft)   | 10.22                   | 10.21                                  |
| Overall occupancy (%)  | 81.76%                  | 82.99%                                 |
| Like-for-like Occupancy (%)                                      | 86.38%                  | 87.74%                                 |
| Like-for-like Average rent (£/sq.ft)                             | 10.32                   | 10.21                                  |
| Like-for-like Net Rent Roll (£m)                                 | 38.28                   | 38.48                                  |
| (*restated for disposal to joint venture)                        |                         |  |

|   |        |        |
|---|--------|--------|
| <b>Workspace Glebe Joint Venture Portfolio Statistics</b> |        |        |
| Number of estates   | 14     | 11     |
| Total floor space (million sq.ft)                         | 1.14   | 1.08   |
| Lettable units  | 806    | 797    |
| Annual rent roll of occupied units (£m)                   | 7.50   | 6.87   |
| Average rent (£/sq.ft)                                    | 7.13   | 7.06   |
| Overall occupancy (%)                                     | 92.45% | 89.75% |

Comparisons of overall occupancy and rent roll are distorted by acquisitions, disposals and transfers. The “like for like” portfolio is defined as those properties that have been held throughout the year to date and which are not subject to a refurbishment/redevelopment programme. Estates excluded from this like-for-like comparison include:

|               | <b>Construction<br/>Completion Date</b> | <b>Rent<br/>31 March 2006<br/>£000</b> | <b>Rent<br/>30 June 2006<br/>£000</b> | <b>30 June 2006<br/>%<br/>Occupied</b> |
|---------------|---|--|---------------------------------------|--|
| Clerkenwell   | June 2006                               | 14                                     | 7                                     | 7%                                     |
| Enterprise    | May 2006                                | 652                                    | 1,105                                 | 60%                                    |
| Power Road    | due Oct 2006                            | 166                                    | 158                                   | 33%                                    |
| Lombard House | due Feb 2007                            | 205                                    | 189                                   | 23%                                    |

Excluding these estates and the joint venture properties, occupancy has declined slightly in the quarter from 87.7% to 86.4%, but average rents have increased by 1.1% to £10.32.

## Operating and Financial Review

continued

### Financial Review

The most significant event of the quarter was the entry into the joint venture with Glebe and the associated transfer of £137.4m (March 2006 valuation) of investment property into it at a valuation £146m showing a surplus of £8.6m.

The joint venture has been structured on a ring-fenced standalone basis with a new £125.6m loan facility from Bank of Scotland, of which £118m was drawn at 30 June, and the joint venture parties providing the balance of the funding equally. The transfer and refinancing of the assets released approximately £123m in cash after the Workspace equity contribution and costs had been accounted for. This was applied in paying down portions of the Group's facilities with Natwest and Bradford & Bingley. In the case of Natwest, the drawn portion of the Group's revolving loan facility was repaid, preserving availability, whilst with Bradford & Bingley £70m was repaid but a right to redraw the repaid portion was negotiated. As a result, the Group's gearing (based on adjusted net assets) reduced to 62% whilst preserving the availability of these facilities. This provides the capacity not only for funding prospective acquisitions in the next year or so, but also for the repayment of the Group's debenture stock that falls due in June 2007 and payment of the taxation liability that will arise should the Group convert to a REIT next year.

Entry into the joint venture was accomplished by merging the Group's interests with those held by Glebe. In this manner, no tax liability on the assets contributed to the joint venture was triggered, and the incidence of the liability has been deferred until the assets are disposed of by the joint venture or taken from investment property into trading stock.

Following the joint venture transaction, the Group has substantial investment capacity to expand its business. An increase of the June 2006 gearing level of 38% to 100% would support an investment programme in excess of £200m.

As noted earlier, whilst profits before tax and basic earnings per share grew substantially (up 118% and 116% respectively) due to the significant increase in the valuation surplus for the quarter (up 88%), performance at a trading level was more muted. The reduction in occupancy compared to the same period last year, together with the development voids and lower returns on new acquisitions, prevented earnings growth. However, with increasing lettings at the development properties this position should improve going forward.

Against this, a further contribution, reflected in the £1.6m of "other items" income, arose as a result of the insurance settlement following the fire at Westwood Business Centre. A £2.1m settlement was negotiated with insurers. However, it was decided that the buildings should not be replaced and that the land should be used for car parking/storage. Remedial and conversion works cost £0.5m leaving a £1.6m surplus. Against this, the valuation of the property reduced by £0.7m as a result of the decision not to rebuild (recognised within the £34.0m surplus for the period) leaving a net surplus of £0.9m.

Net Assets increased from £390.3m to £420.9m mainly as a result of the valuation surplus (net of the associated deferred tax provisions). As a result adjusted (basic) net assets per share increased by 7.7% from £3.12 to £3.36 over the quarter.

Analysis of the potential to convert to a REIT continues, with no major obstacles being identified to date. At 30 June, the Group's total deferred tax liability was £133.4m compared with a £19.1m liability to tax on conversion to a REIT (together with a residual £10.6m deferred tax liability in respect of assets transferred into the joint venture). The immediate advantage of conversion is clearly apparent. However, work to assess the longer term implications of conversion continues. With an interest cover of 1.5 (including the Group's share of the joint venture), no individual shareholding exceeding 5% and 95% of its activities falling within the "tax exempt" (in a REIT) portion of its business the Group is able to satisfy the qualification tests comfortably. The focus in our analysis now is to confirm that the detailed drafting of the regulations and guidance give rise to no new issues and that as these details emerge they present no significant future concerns to the Group. Consideration is also being given to the mechanism for conversion. Further guidance will be given at the time of the Group's half year statement.

We have preserved the format of the table of key financial statistics used last year and report below on both an IFRS and former UK GAAP basis.

## Operating and Financial Review

continued

|                                   | 3 months to<br>30 June<br>2006 | Year to<br>31 March<br>2006 | 3 months to<br>30 June<br>2005 |
|-----------------------------------|--------------------------------|-----------------------------|--------------------------------|
| Net rental income: revenue        | 72%                            | 73%                         | 72%                            |
| Trading operating profit: revenue | 57%                            | 59%                         | 58%                            |
| Trading PBT: revenue              | 18%                            | 24%                         | 22%                            |
| EPS per share (pence)             | 18.4                           | 65.1                        | 8.5                            |
| NAV per share (£) – IFRS          | 2.56                           | 2.37                        | 1.85                           |
| – UK GAAP                         | 3.18                           | 3.06                        | 2.35                           |
| Trading interest cover            | 1.45                           | 1.69                        | 1.63                           |
| Gearing – IFRS                    | 77%                            | 110%                        | 112%                           |
| – UK GAAP                         | 62%                            | 85%                         | 87%                            |
| Available facilities (£m)         | 145.7                          | 15.7                        | 38.0                           |

### Prospects

The favourable yield shift benefiting property asset prices has again assisted our results. As yield improvements become less significant then the fundamentals of our business strategy of adding shareholder value by growing rents and intensifying use, should become a more dominant feature of performance.

We are focused on London where the long term prospects are good. Our rents remain affordable for our small business customers and our newly refurbished schemes at Enterprise and Clerkenwell are letting well. We are optimistic for the prospects for growth in occupancy and rent roll going forward and our added value programme, both inside and outside our joint venture with Glebe, continues to gain momentum. Finally, from our large target database, we continue to track acquisitions in London where we believe there continues to be long term value.

## Consolidated Income Statement

| Year ended<br>31 March<br>2006<br>£m | Notes  | 3 months ended 30 June 2006  |                       |             | 3 months<br>ended<br>30 June<br>2005<br>£m |       |
|--------------------------------------|--|------------------------------|-----------------------|-------------|--|-------|
|                                      |  | Trading<br>Operations*<br>£m | Other<br>Items*<br>£m | Total<br>£m |  |       |
| 63.2                                 | Revenue  | 1                            | 15.2                  | –           | 15.2                                       | 14.0  |
| (16.8)                               | Direct costs   | 1                            | (4.2)                 | –           | (4.2)                                      | (3.9) |
| 46.4                                 | <b>Net rental income</b>   | 1                            | 11.0                  | –           | 11.0                                       | 10.1  |
| (9.1)                                | Administrative expenses  |                              | (2.3)                 | (0.1)       | (2.4)                                      | (1.9) |
| 131.3                                | Gain from change in fair value of<br>investment property                           |                              | –                     | 34.0        | 34.0                                       | 18.1  |
| –                                    | Other income   | 8d                           | –                     | 1.6         | 1.6  | –     |
| 3.4                                  | Profit on disposal of investment properties  | 2                            | –                     | 4.5         | 4.5  | –     |
| 172.0                                | <b>Operating profit</b>  |                              | 8.7                   | 40.0        | 48.7                                       | 26.3  |
| 0.2                                  | Finance income – interest receivable   |                              | –                     | –           | –  | –     |
| (23.6)                               | Finance costs – interest payable   | 3                            | (6.0)                 | –           | (6.0)                                      | (5.3) |
| 0.4                                  | Change in fair value of derivative financial<br>instruments                        |                              | –                     | 0.4         | 0.4  | (1.2) |
| –                                    | Share in joint ventures' post tax profits  |                              | –                     | –           | –  | –     |
| 149.0                                | <b>Profit before tax</b>   |                              | 2.7                   | 40.4        | 43.1                                       | 19.8  |
| (42.4)                               | Taxation   | 4                            | (0.8)                 | (12.0)      | (12.8)                                     | (5.9) |
| 106.6                                | <b>Profit for the period after tax and attributable to<br/>equity shareholders</b> |                              | 1.9                   | 28.4        | 30.3                                       | 13.9  |
| 65.1p                                | Basic earnings per share   | 6                            | 1.1p                  | 17.3p       | 18.4p                                      | 8.5p  |
| 62.7p                                | Diluted earnings per share   | 6                            | 1.1p                  | 16.5p       | 17.6p                                      | 8.2p  |

\*Income Statement Trading Operations and Other Items are defined in the glossary of terms on page 29.

## Consolidated Statement of Recognised Income and Expense (SORIE)

| Year ended<br>31 March<br>2006<br>£m |  | 3 months<br>ended<br>30 June<br>2006<br>£m | 3 months<br>ended<br>30 June<br>2005<br>£m |
|--------------------------------------|--|--|--|
| 106.6                                | Profit for the financial period                    | 30.3                                       | 13.9                                       |
| 106.6                                | Total recognised income and expense for the period | 30.3                                       | 13.9                                       |

There is no difference between the profit for the financial period and the total recognised income and expense for the period.

## Consolidated Balance Sheet

| 31 March<br>2006<br>£m         |  | Notes | 30 June<br>2006<br>£m | 30 June<br>2005<br>£m |
|--------------------------------|--|-------|-----------------------|-----------------------|
| <b>Non-current assets</b>      |  |       |                       |                       |
| 954.0                          | Investment properties                                    | 8     | <b>881.0</b>          | 751.2                 |
| 0.2                            | Intangible assets  |       | <b>0.2</b>            | 0.1                   |
| 3.6                            | Property, plant and equipment                            | 9     | <b>3.5</b>            | 3.6                   |
| –                              | Investment in joint venture                              | 22    | <b>17.7</b>           | –                     |
| 957.8                          |  |       | <b>902.4</b>          | 754.9                 |
| <b>Current assets</b>          |  |       |                       |                       |
| 6.7                            | Trade and other receivables                              | 10    | <b>8.2</b>            | 8.1                   |
| 0.1                            | Financial assets – derivative financial instruments      | 14d   | <b>0.1</b>            | 0.1                   |
| 8.2                            | Investment properties held for sale                      |       | –                     | –                     |
| 1.7                            | Cash and cash equivalents                                | 11    | <b>1.8</b>            | 1.3                   |
| 16.7                           |  |       | <b>10.1</b>           | 9.5                   |
| <b>Current liabilities</b>     |  |       |                       |                       |
| (3.6)                          | Financial liabilities – borrowings                       | 14a   | <b>(3.3)</b>          | (0.2)                 |
| (1.2)                          | Financial liabilities – derivative financial instruments | 14d   | <b>(0.8)</b>          | (2.9)                 |
| (29.0)                         | Trade and other payables                                 | 12    | <b>(29.4)</b>         | (29.4)                |
| (1.7)                          | Current tax liabilities                                  | 13    | <b>(3.2)</b>          | (1.5)                 |
| (35.5)                         |  |       | <b>(36.7)</b>         | (34.0)                |
| (18.8)                         | <b>Net current liabilities</b>                           |       | <b>(26.6)</b>         | (24.5)                |
| <b>Non-current liabilities</b> |  |       |                       |                       |
| (426.1)                        | Financial liabilities – borrowings                       | 14a   | <b>(321.5)</b>        | (336.9)               |
| (122.6)                        | Deferred tax liabilities                                 | 16    | <b>(133.4)</b>        | (91.1)                |
| (548.7)                        |  |       | <b>(454.9)</b>        | (428.0)               |
| 390.3                          | <b>Net assets</b>  |       | <b>420.9</b>          | 302.4                 |
| <b>Shareholders' equity</b>    |  |       |                       |                       |
| 16.9                           | Ordinary shares  | 17    | <b>16.9</b>           | 16.9                  |
| 28.7                           | Share premium  | 19    | <b>28.7</b>           | 28.4                  |
| (5.1)                          | Investment in own shares                                 | 20    | <b>(5.1)</b>          | (5.5)                 |
| 0.8                            | Other reserves   | 18    | <b>1.1</b>            | 0.5                   |
| 349.0                          | Retained earnings  | 19    | <b>379.3</b>          | 262.1                 |
| 390.3                          | <b>Total shareholders' equity</b>                        |       | <b>420.9</b>          | 302.4                 |
| £2.37                          | Net asset value per share (basic)                        | 7     | <b>£2.56</b>          | £1.85                 |
| £2.29                          | Diluted net asset value per share                        | 7     | <b>£2.45</b>          | £1.79                 |
| £3.12                          | Adjusted net asset value per share (basic)               | 7     | <b>£3.36</b>          | £2.43                 |
| £3.01                          | Diluted adjusted net asset value per share               | 7     | <b>£3.21</b>          | £2.34                 |

## Consolidated Cash Flow Statement

| Year ended<br>31 March<br>2006<br>£m        | Notes | 3 months<br>ended<br>30 June<br>2006<br>£m | 3 months<br>ended<br>30 June<br>2005<br>£m |
|---|-------|--|--|
| <b>Cash flows from operating activities</b> |       |  |  |
| 39.0  | 15    | <b>11.2</b>                                | 8.8  |
| 0.2   |       | –  | –  |
| (22.9)                                      |       | <b>(7.3)</b>                               | (4.4)                                      |
| (1.9)                                       |       | <b>(0.2)</b>                               | (0.8)                                      |
| 14.4  |       | <b>3.7</b>                                 | 3.6  |
| <b>Cash flows from investing activities</b> |       |  |  |
| (132.8)                                     |       | <b>(21.6)</b>                              | (13.7)                                     |
| (20.9)                                      |       | <b>(4.7)</b>                               | (4.8)                                      |
| 44.2  |       | <b>148.4</b>                               | 2.3  |
| (4.8)                                       |       | <b>(1.1)</b>                               | (1.0)                                      |
| (0.1)                                       |       | –  | –  |
| (0.7)                                       |       | <b>(0.1)</b>                               | (0.2)                                      |
| –   |       | <b>(19.5)</b>                              | –  |
| (115.1)                                     |       | <b>101.4</b>                               | (17.4)                                     |
| <b>Cash flows from financing activities</b> |       |  |  |
| 103.9                                       |       | –  | 14.5                                       |
| –   |       | <b>(104.7)</b>                             | –  |
| 0.4   |       | –  | –  |
| (0.1)                                       |       | –  | –  |
| (5.8)                                       | 5     | –  | –  |
| 98.4  |       | <b>(104.7)</b>                             | 14.5                                       |
| (2.3)                                       |       | <b>0.4</b>                                 | 0.7  |
| 0.4   | 15    | <b>(1.9)</b>                               | 0.4  |
| (1.9)                                       | 15    | <b>(1.5)</b>                               | 1.1  |

## Notes to the Quarterly Results

For the 3 months ended 30 June 2006

### 1. Analysis of net rental income

| Year ended<br>31 March 2006 |               |                         |   | 3 months ended<br>30 June 2006 |              |                         | 3 months ended<br>30 June 2005 |       |                         |
|-----------------------------|---------------|-------------------------|---|--------------------------------|--------------|-------------------------|--------------------------------|-------|-------------------------|
| Revenue                     | Costs         | Net<br>Rental<br>Income |   | Revenue                        | Costs        | Net<br>Rental<br>Income | Revenue                        | Costs | Net<br>Rental<br>Income |
| £m                          | £m            | £m                      |   | £m                             | £m           | £m                      | £m                             | £m    | £m                      |
| 49.2                        | (0.2)         | 49.0                    | Rental income*                                | <b>11.7</b>                    | <b>(0.1)</b> | <b>11.6</b>             | 11.0                           | (0.1) | 10.9                    |
| 12.3                        | (15.9)        | (3.6)                   | Service charges and other recoveries          | <b>3.1</b>                     | <b>(4.0)</b> | <b>(0.9)</b>            | 2.6                            | (3.7) | (1.1)                   |
| 1.7                         | (0.7)         | 1.0                     | Services, fees, commissions and sundry income | <b>0.4</b>                     | <b>(0.1)</b> | <b>0.3</b>              | 0.4                            | (0.1) | 0.3                     |
| <b>63.2</b>                 | <b>(16.8)</b> | <b>46.4</b>             |   | <b>15.2</b>                    | <b>(4.2)</b> | <b>11.0</b>             | 14.0                           | (3.9) | 10.1                    |

\*Rental income includes surrender premia of £0.1m (31 March 2006: £2.2m, 30 June 2005: £0.2m).

The Group operates a single business segment providing business accommodation for rent in London and the South East of England, which is continuing.

### 2. Profit on disposal of investment properties

| Year ended<br>31 March<br>2006<br>£m |   | 3 months<br>ended<br>30 June<br>2006<br>£m | 3 months<br>ended<br>30 June<br>2005<br>£m |
|--------------------------------------|---|--|--|
| 44.5                                 | Gross proceeds from sale of investment properties                                 | <b>156.2</b>                               | 2.1  |
| (41.1)                               | Book value at time of sale plus sale costs  | <b>(149.1)</b>                             | (2.1)                                      |
| 3.4                                  |   | <b>7.1</b>                                 | –  |
| –                                    | Group's share of unrealised profits on sale of properties to joint venture        | <b>(2.6)</b>                               | –  |
| 3.4                                  | Pre tax profit on sale  | <b>4.5</b>                                 | –  |
| (4.7)                                | Current taxation  | <b>(3.3)</b>                               | (0.2)                                      |
| 4.9                                  | Deferred tax released on sale   | <b>1.4</b>                                 | 0.2  |
| –                                    | Group's share of tax on unrealised profits on sale of properties to joint venture | <b>0.8</b>                                 | –  |
| 0.2                                  | Net tax   | <b>(1.1)</b>                               | –  |
| 3.6                                  | Net profit on disposal after tax  | <b>3.4</b>                                 | –  |

## Notes to the Quarterly Results

continued

### 3. Finance costs

| Year ended<br>31 March<br>2006<br>£m |   | 3 months<br>ended<br>30 June<br>2006<br>£m | 3 months<br>ended<br>30 June<br>2005<br>£m |
|--------------------------------------|---|--|--|
| 21.0                                 | Interest payable on bank loans and overdrafts                   | 5.4  | 4.6  |
| 0.5                                  | Amortisation of issue costs of bank loans                       | 0.1  | 0.1  |
| 0.1                                  | Interest payable on finance leases                              | –  | –  |
| 1.4                                  | Interest payable on 11.125% First Mortgage Debenture Stock 2007 | 0.4  | 0.4  |
| 0.8                                  | Interest payable on 11.625% First Mortgage Debenture Stock 2007 | 0.2  | 0.2  |
| 0.3                                  | Interest payable on 11% Convertible Loan Stock 2011             | 0.1  | 0.1  |
| (0.5)                                | Interest capitalised on property re-developments                | (0.2)                                      | (0.1)                                      |
| 23.6                                 |   | 6.0  | 5.3  |

### 4. Taxation

| Year ended<br>31 March<br>2006<br>£m | Analysis of charge in period | 3 months<br>ended<br>30 June<br>2006<br>£m | 3 months<br>ended<br>30 June<br>2005<br>£m |
|--------------------------------------|------------------------------|--|--|
| 5.9                                  | Current tax                  | 2.8  | 0.9  |
| 36.5                                 | Deferred tax                 | 10.0                                       | 5.0  |
| 42.4                                 | Total taxation               | 12.8                                       | 5.9  |

The charge in the period is analysed as follows:

|               |   |      |       |
|---------------|---|------|-------|
| Current tax:  |   |      |       |
| 6.8           | UK corporation tax                                | 2.8  | 0.9   |
| (0.9)         | Adjustments to tax in respect of previous periods | –    | –     |
| 5.9           |   | 2.8  | 0.9   |
| Deferred tax: |   |      |       |
| 34.5          | On fair value gains of investment properties      | 9.5  | 5.1   |
| 1.2           | On accelerated tax depreciation                   | 0.3  | 0.3   |
| 0.1           | On derivative financial instruments               | 0.1  | (0.4) |
| 0.5           | Adjustments to tax in respect of previous periods | –    | –     |
| 0.2           | Others  | 0.1  | –     |
| 36.5          |   | 10.0 | 5.0   |
| 42.4          | Total taxation                                    | 12.8 | 5.9   |

## Notes to the Quarterly Results

continued

### 4. Taxation continued

The tax on the Group's profit for the period differs from the standard applicable corporation tax rate in the UK (30%). The differences are explained below:

| Year ended<br>31 March<br>2006<br>£m |  | 3 months<br>ended<br>30 June<br>2006<br>£m | 3 months<br>ended<br>30 June<br>2005<br>£m |
|--------------------------------------|--|--|--|
| 149.0                                | Profit on ordinary activities before taxation                        | 43.1                                       | 19.8                                       |
| 44.7                                 | Tax at standard rate of corporation tax in the UK of 30% (2005: 30%) | 12.9                                       | 5.9  |
|                                      | Effects of:  |  |  |
| (0.4)                                | Income taxed as capital gains  | –  | –  |
| (0.3)                                | Contaminated land relief   | –  | –  |
| (1.2)                                | Capital gains adjustments on property disposals                      | (0.2)                                      | –  |
| –                                    | – Other items  | 0.1  | –  |
| (0.4)                                | Adjustments to tax in respect of previous periods                    | –  | –  |
| 42.4                                 | Total taxation   | 12.8                                       | 5.9  |

### 5. Dividends paid

| Year ended<br>31 March<br>2006<br>£m |  | 3 months<br>ended<br>30 June<br>2006<br>£m | 3 months<br>ended<br>30 June<br>2005<br>£m |
|--------------------------------------|--|--|--|
| 3.7                                  | Final dividend 2004/5 – 2.28p per ordinary share   | –  | –  |
| 2.1                                  | Interim dividend 2005/6 – 1.25p per ordinary share | –  | –  |
| 5.8                                  |  | –  | –  |

The final dividend for 2005/6 of 2.51p per ordinary share and totalling £4.1m for the year was approved by the shareholders at the Group's Annual General Meeting on 1 August 2006 and paid on 4 August 2006.

## Notes to the Quarterly Results

continued

### 6. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding those held in the employee share ownership trust (ESOT).

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 Group has two classes of dilutive potential ordinary shares: those share options granted to employees and those issuable to convertible bond holders.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

| Profit<br>Year ended<br>31 March<br>2006<br>£m | Earnings<br>per share<br>Year ended<br>31 March<br>2006<br>pence |  | Profit                                     |  | Earnings per share                            |   |
|--|--|--|--|--|---|---|
|  |  |  | 3 months<br>ended<br>30 June<br>2006<br>£m | 3 months<br>ended<br>30 June<br>2005<br>£m | 3 months<br>ended<br>30 June<br>2006<br>pence | 3 months<br>ended<br>30 June<br>2005<br>pence |
| 106.6  | 65.1   | Earnings used for basic earnings per share         | <b>30.3</b>                                | 13.9                                       | <b>18.4</b>                                   | 8.5   |
|  |  | Interest saving net of taxation on 11% Convertible |  |  |   |   |
| 0.2  | (1.5)  | Loan Stock dilution                                | <b>0.1</b>                                 | –  | <b>(0.4)</b>                                  | (0.2)   |
| –  | (0.9)  | Share option scheme dilution                       | –  | –  | <b>(0.4)</b>                                  | (0.1)   |
| 106.8  | 62.7   | Total diluted earnings                             | <b>30.4</b>                                | 13.9                                       | <b>17.6</b>                                   | 8.2   |
| (94.9)   | (55.7)   | Less non trading items                             | <b>(28.4)</b>                              | (11.7)                                     | <b>(16.5)</b>                                 | (6.9)   |
| 11.9   | 7.0  | Trading diluted earnings                           | <b>2.0</b>                                 | 2.2  | <b>1.1</b>                                    | 1.3   |

| Year ended<br>31 March<br>2006<br>Number | Weighted average number of shares used for calculating earnings per share | 3 months<br>ended         |                           |
|--|---|---------------------------|---------------------------|
|  |   | 30 June<br>2006<br>Number | 30 June<br>2005<br>Number |
| 163,629,157                              | Weighted average number of shares (excluding shares held in the ESOT)     | <b>164,573,545</b>        | 163,256,213               |
| 2,538,531                                | Dilution due to Share Option Schemes                                      | <b>3,566,635</b>          | 1,750,575                 |
| 4,400,000                                | Dilution due to Convertible Loan Stock                                    | <b>4,400,000</b>          | 5,000,000                 |
| 170,567,688                              | Used for calculating diluted earnings per share                           | <b>172,540,180</b>        | 170,006,788               |

## Notes to the Quarterly Results

continued

### 7. Net assets per share

| 31 March<br>2006 |  | 30 June<br>2006 | 30 June<br>2005 |
|------------------|--|-----------------|-----------------|
| £m               | Net assets used for calculation of net assets per share    | £m              | £m              |
| 390.3            | Net assets at end of period (basic)                        | <b>420.9</b>    | 302.4           |
| 2.2              | Dilution due to Convertible Loan Stock                     | <b>2.2</b>      | 2.4             |
| 392.5            | Diluted net assets   | <b>423.1</b>    | 304.8           |
| 1.1              | Derivative financial instruments at fair value             | <b>0.7</b>      | 2.8             |
| 8.3              | Deferred tax on accelerated tax depreciation               | <b>8.6</b>      | 6.8             |
| 114.2            | Deferred tax on fair value change of investment properties | <b>122.9</b>    | 84.8            |
| (0.4)            | Deferred tax on derivative financial instruments           | <b>(0.3)</b>    | (0.8)           |
| 515.7            | Diluted adjusted net assets                                | <b>555.0</b>    | 398.4           |
| 513.5            | Adjusted net assets (basic)                                | <b>552.8</b>    | 396.0           |

| 31 March<br>2006 |   | 30 June<br>2006    | 30 June<br>2005 |
|------------------|---|--------------------|-----------------|
| Number           | Number of shares used for calculating net assets per share    | Number             | Number          |
| 169,509,640      | Shares in issue at period end                                 | <b>169,509,640</b> | 168,839,660     |
| (4,940,960)      | Less ESOT shares  | <b>(4,823,410)</b> | (5,380,370)     |
| 164,568,680      | Number of shares for calculating basic net assets per share   | <b>164,686,230</b> | 163,459,290     |
| 2,538,531        | Dilution due to Share Option Schemes                          | <b>3,566,635</b>   | 1,750,575       |
| 4,400,000        | Dilution due to Convertible Loan Stock                        | <b>4,400,000</b>   | 5,000,000       |
| 171,507,211      | Number of shares for calculating diluted net assets per share | <b>172,652,865</b> | 170,209,865     |

### 8(a). Investment properties

| 31 March<br>2006 |   | 30 June<br>2006 | 30 June<br>2005 |
|------------------|---|-----------------|-----------------|
| £m               |   | £m              | £m              |
| 716.5            | Balance at beginning of period                              | <b>954.0</b>    | 716.5           |
| 154.5            | Additions during the period                                 | <b>30.5</b>     | 18.6            |
| 0.5              | Capitalised interest on re-developments                     | <b>0.2</b>      | 0.1             |
| (40.6)           | Disposals during the period                                 | <b>(137.7)</b>  | (2.1)           |
| 131.3            | Net gain from fair value adjustments on investment property | <b>34.0</b>     | 18.1            |
| (8.2)            | Investment property held for sale (note below)              | –               | –               |
| 954.0            | Balance at end of period                                    | <b>881.0</b>    | 751.2           |

Property held for sale at the balance sheet date is shown separately under current assets as required by IFRS5.

Capitalised interest is included at a rate of capitalisation of 5.62% (31 March 2006: 5.73%; 30 June 2005: 5.94%). The total amount of capitalised interest included in investment properties was £1.7m (31 March 2006 £1.5m; 30 June 2005 £1.1m).

## Notes to the Quarterly Results

continued

### 8(b). Valuation

The Group's investment properties were revalued at 30 June 2006 by CB Richard Ellis, Chartered Surveyors, a firm of independent qualified valuers. The valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards on the basis of market value. Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction.

The reconciliation of the valuation report to the total shown in the Consolidated Balance Sheet as non-current assets, investment properties, is as follows:

| <b>31 March<br/>2006<br/>£m</b> |  | <b>30 June<br/>2006<br/>£m</b> | <b>30 June<br/>2005<br/>£m</b> |
|---------------------------------|--|--------------------------------|--------------------------------|
| 964.3                           | Total per CB Richard Ellis valuation report        | <b>883.1</b>                   | 753.1                          |
| (2.4)                           | Owner occupied property                            | <b>(2.4)</b>                   | (2.3)                          |
| (8.2)                           | Property held for sale (shown as current assets)   | –                              | –                              |
| 0.7                             | Head leases treated as finance leases under IAS 17 | <b>0.7</b>                     | 0.8                            |
| (0.4)                           | Other  | <b>(0.4)</b>                   | (0.4)                          |
| 954.0                           | Total per balance sheet                            | <b>881.0</b>                   | 751.2                          |

**8(c).** During the quarter part of the property at Wharf Road was sold for residential development. The consideration for this sale was £1.86m in cash plus the provision by the developer of a new 30,000 sq ft business centre to be constructed on the retained portion of the site. The commitment to deliver the building over the next two years (costing £5.8m including interest and fees) by the developer has been secured by a charge over the land sold to it; which was considered, on valuation by CBRE, to be worth more than the construction liability. On this basis, and on the assumption that the construction works are completed, the profit on this disposal has been recognised in the quarter (see note 2) and the present value of the retained land and replacement building, (also valued by CBRE), has been included in investment property.

**8(d).** Following a fire that destroyed part of the Westwood Business Centre, it has been decided that the damaged portion of the property will not be replaced. As a result the £1.6m net insurance proceeds has been recognised as other income in the Income Statement in the period. Against this, a reduction in fair value of the investment property of £0.7m has been recognised in the valuation surplus for the period.

## Notes to the Quarterly Results

continued

### 9. Property, plant and equipment

|  | Owner<br>occupied<br>land<br>£m | Owner<br>occupied<br>buildings<br>£m | Equipment<br>and<br>fixtures<br>£m | Total<br>£m |
|--|---------------------------------|--------------------------------------|------------------------------------|-------------|
| <b>Cost</b>                                    |                                 |                                      |                                    |             |
| Balance at 1 April 2005                        | 0.5                             | 1.5                                  | 4.1                                | 6.1         |
| Additions during the period                    | –                               | 0.1                                  | 0.1                                | 0.2         |
| Balance at 30 June 2005                        | 0.5                             | 1.6                                  | 4.2                                | 6.3         |
| Additions during the period                    | –                               | –                                    | 0.5                                | 0.5         |
| Balance at 31 March 2006                       | 0.5                             | 1.6                                  | 4.7                                | 6.8         |
| Additions during the period                    | –                               | –                                    | 0.1                                | 0.1         |
| Disposals during the period                    | –                               | –                                    | (1.2)                              | (1.2)       |
| <b>Balance at 30 June 2006</b>                 | <b>0.5</b>                      | <b>1.6</b>                           | <b>3.6</b>                         | <b>5.7</b>  |
| Cumulative depreciation to 30 June 2005        | –                               | –                                    | 2.7                                | 2.7         |
| Net book amount at 30 June 2005                | 0.5                             | 1.6                                  | 1.5                                | 3.6         |
| Cumulative depreciation to 31 March 2006       | –                               | 0.1                                  | 3.1                                | 3.2         |
| Net book amount at 31 March 2006               | 0.5                             | 1.5                                  | 1.6                                | 3.6         |
| <b>Cumulative depreciation to 30 June 2006</b> | <b>–</b>                        | <b>0.1</b>                           | <b>2.1</b>                         | <b>2.2</b>  |
| <b>Net book amount at 30 June 2006</b>         | <b>0.5</b>                      | <b>1.5</b>                           | <b>1.5</b>                         | <b>3.5</b>  |

### 10. Trade and other receivables

|  | 31 March<br>2006<br>£m | 30 June<br>2006<br>£m | 30 June<br>2005<br>£m |
|--|------------------------|-----------------------|-----------------------|
| 3.8 Trade debtors                                  |                        | <b>3.2</b>            | 3.6                   |
| (0.3) Less provision for impairment of receivables |                        | <b>(0.4)</b>          | (0.5)                 |
| 3.5 Trade debtors – net                            |                        | <b>2.8</b>            | 3.1                   |
| 0.3 Taxation and social security                   |                        | –                     | –                     |
| 2.9 Prepayments and accrued income                 |                        | <b>5.4</b>            | 5.0                   |
| 6.7  |                        | <b>8.2</b>            | 8.1                   |

## Notes to the Quarterly Results

continued

### 11. Cash and cash equivalents

| 31 March<br>2006<br>£m |  | 30 June<br>2006<br>£m | 30 June<br>2005<br>£m |
|------------------------|--|-----------------------|-----------------------|
| –                      | Cash at bank and in hand                 | –                     | –                     |
| 1.7                    | Restricted cash – tenants' deposit deeds | 1.8                   | 1.3                   |
| 1.7                    |  | 1.8                   | 1.3                   |

Tenants deposit deeds represent returnable cash security deposits received from tenants and are ring-fenced under the terms of the individual lease contracts.

Bank overdrafts are included within cash and cash equivalents for the purpose of the cash flow statement.

### 12. Trade and other payables

| 31 March<br>2006<br>£m |  | 30 June<br>2006<br>£m | 30 June<br>2005<br>£m |
|------------------------|--|-----------------------|-----------------------|
| 2.4                    | Trade payables                           | 1.9                   | 4.4                   |
| 0.4                    | Taxation and social security payable     | 1.9                   | 2.4                   |
| 1.7                    | Tenants' deposit deeds (see note 11)     | 1.8                   | 1.3                   |
| 5.3                    | Tenants' deposits                        | 5.5                   | 5.0                   |
| 13.9                   | Accrued expenses                         | 13.8                  | 11.4                  |
| 5.3                    | Deferred income-rent and service charges | 4.5                   | 4.9                   |
| 29.0                   |  | 29.4                  | 29.4                  |

There is no material difference between the above amounts and their fair values due to the short term nature of the payables.

### 13. Current tax liabilities

| 31 March<br>2006<br>£m |                         | 30 June<br>2006<br>£m | 30 June<br>2005<br>£m |
|------------------------|-------------------------|-----------------------|-----------------------|
| 1.7                    | Current tax liabilities | 3.2                   | 1.5                   |

## Notes to the Quarterly Results

continued

### 14. Financial liabilities – borrowings

#### a) Balances

| 31 March<br>2006<br>£m |   | 30 June<br>2006<br>£m | 30 June<br>2005<br>£m |
|------------------------|---|-----------------------|-----------------------|
| <b>Current</b>         |   |                       |                       |
| 3.6                    | Bank loan and overdrafts due within one year or on demand (secured) | <b>3.3</b>            | 0.2                   |
| <b>Non -current</b>    |   |                       |                       |
| 2.2                    | 11% Convertible Loan Stock 2011 (unsecured)                         | <b>2.2</b>            | 2.4                   |
| 12.5                   | 11.125% First Mortgage Debenture Stock 2007 (secured)               | <b>12.5</b>           | 12.5                  |
| 7.0                    | 11.625% First Mortgage Debenture Stock 2007 (secured)               | <b>7.0</b>            | 7.0                   |
| 403.7                  | Other loans (secured)   | <b>299.1</b>          | 314.3                 |
| 0.7                    | Finance lease obligations (secured)                                 | <b>0.7</b>            | 0.7                   |
| 426.1                  |   | <b>321.5</b>          | 336.9                 |
| 429.7                  |   | <b>324.8</b>          | 337.1                 |

#### b) Maturity

| 31 March<br>2006<br>£m                    |  | 30 June<br>2006<br>£m | 30 June<br>2005<br>£m |
|---|--|-----------------------|-----------------------|
| <b>Secured (excluding finance leases)</b> |  |                       |                       |
| 3.6                                       | Repayable in less than one year              | <b>3.3</b>            | 0.2                   |
| 19.5                                      | Repayable between one year and two years     | <b>19.5</b>           | –                     |
| –   | Repayable between two years and three years  | –                     | 219.5                 |
| 134.7                                     | Repayable between three years and four years | <b>100.0</b>          | –                     |
| 270.0                                     | Repayable between four years and five years  | <b>200.0</b>          | 115.3                 |
| 427.8                                     |  | <b>322.8</b>          | 335.0                 |
| (1.0)                                     | Less cost of raising finance                 | <b>(0.9)</b>          | (1.0)                 |
| 426.8                                     |  | <b>321.9</b>          | 334.0                 |
| <b>Unsecured</b>                          |  |                       |                       |
| 2.2                                       | Repayable in five years or more              | <b>2.2</b>            | 2.4                   |
| <b>Finance leases (secured)</b>           |  |                       |                       |
| 0.7                                       | Repayable in five years or more              | <b>0.7</b>            | 0.7                   |
| 429.7                                     |  | <b>324.8</b>          | 337.1                 |

## Notes to the Quarterly Results

continued

### c) Financial instruments held at fair value through the profit and loss

The following interest rate collars are held:

|  | Amount hedged<br>£m | Interest cap<br>% | Interest floor<br>% | Expiry    |
|--|---------------------|-------------------|---------------------|-----------|
| Interest rate collar (amortising amount) | 98.7                | 8.00%             | 4.50%               | July 2009 |
| Interest rate collar                     | 75.0                | 6.95%             | 4.05%               | July 2009 |
| Interest rate collar (increasing amount) | 35.1                | 7.00%             | 2.99%               | Oct 2010  |

The above instruments are treated as financial instruments at fair value with changes in value dealt with in the income statement during each reporting period.

At the period end 7% (31 March 2006: 5%, 30 June 2005: 5%) of the Group's borrowings were fixed with a further 64% (31 March 2006: 50%, 30 June 2005: 44%) subject to a collar.

### d) Fair values of financial instruments

| 31 March 2006   |            |   | 30 June 2006 |              | 30 June 2005 |            |
|---|------------|---|--------------|--------------|--------------|------------|
| Book Value  | Fair Value |   | Book Value   | Fair Value   | Book Value   | Fair Value |
| £m  | £m         |   | £m           | £m           | £m           | £m         |
| <b>Financial liabilities not at fair value through profit or loss</b> |            |   |              |              |              |            |
| 3.6   | 3.6        | Bank overdraft  | <b>3.3</b>   | <b>3.3</b>   | 0.2          | 0.2        |
| 2.2   | 2.5        | 11% Convertible Loan Stock 2011                                   | <b>2.2</b>   | <b>2.4</b>   | 2.4          | 2.8        |
| 12.5  | 13.1       | 11.125% First Mortgage Debenture Stock 2007                       | <b>12.5</b>  | <b>12.9</b>  | 12.5         | 13.4       |
| 7.0   | 7.4        | 11.625% First Mortgage Debenture Stock 2007                       | <b>7.0</b>   | <b>7.3</b>   | 7.0          | 7.5        |
| 403.7   | 403.7      | Other loans   | <b>299.1</b> | <b>299.1</b> | 314.3        | 314.3      |
| 0.7   | 0.7        | Finance lease obligations   | <b>0.7</b>   | <b>0.7</b>   | 0.7          | 0.7        |
| 429.7   | 431.0      | <b>Financial liabilities at fair value through profit or loss</b> | <b>324.8</b> | <b>325.7</b> | 337.1        | 338.9      |
| Derivative financial instruments:                                     |            |   |              |              |              |            |
| 1.2   | 1.2        | Liabilities   | <b>0.8</b>   | <b>0.8</b>   | 2.9          | 2.9        |
| (0.1)   | (0.1)      | Assets  | <b>(0.1)</b> | <b>(0.1)</b> | (0.1)        | (0.1)      |
| 1.1   | 1.1        |   | <b>0.7</b>   | <b>0.7</b>   | 2.8          | 2.8        |
| 430.8   | 432.1      |   | <b>325.5</b> | <b>326.4</b> | 339.9        | 341.7      |

The total gain recorded in the income statement was £0.4m (31 March 2006: £0.4m; 30 June 2005 deficit: £1.2m) for changes of fair value of derivative financial instruments.

The fair value of the interest rate collars has been determined by reference to market prices and discounted expected cash flows at prevailing interest rates. All other fair values have been calculated by discounting expected cash flows at prevailing interest rates. The total fair value adjustment equates to 0.6p per share (31 March 2006: 0.8p, 30 June 2005: 4.9p).

## Notes to the Quarterly Results

continued

### 15. Notes to cash flow statement

Reconciliation of profit for the period to cash generated from operations:

| Year ended<br>31 March<br>2006<br>£m |   | 3 months<br>ended<br>30 June<br>2006<br>£m | 3 months<br>ended<br>30 June<br>2005<br>£m |
|--------------------------------------|---|--|--|
| 106.6                                | Profit for the period                                       | <b>30.3</b>                                | 13.9                                       |
| 42.4                                 | Tax   | <b>12.8</b>                                | 5.9  |
| 0.6                                  | Depreciation  | <b>0.2</b>                                 | 0.1  |
| 0.1                                  | Amortisation of intangibles                                 | –  | –  |
| (3.4)                                | Profit on disposal of investment properties                 | <b>(4.5)</b>                               | –  |
| (131.3)                              | Net gain from fair value adjustments on investment property | <b>(34.0)</b>                              | (18.1)                                     |
| (0.4)                                | Fair value gains on financial instruments                   | <b>(0.4)</b>                               | 1.2  |
| (0.2)                                | Interest income   | –  | –  |
| 23.6                                 | Interest expense  | <b>6.0</b>                                 | 5.3  |
|                                      | Changes in working capital:                                 |  |  |
| (1.7)                                | Increase in trade and other receivables                     | <b>(1.3)</b>                               | (2.9)                                      |
| 2.7                                  | Increase in trade and other payables                        | <b>2.1</b>                                 | 3.4  |
| 39.0                                 | Cash generated from operations                              | <b>11.2</b>                                | 8.8  |

For the purposes of the cash flow statement, the cash and cash equivalents comprise the following:

| 31 March<br>2006<br>£m |   | 30 June<br>2006<br>£m | 30 June<br>2005<br>£m |
|------------------------|---|-----------------------|-----------------------|
| –                      | Cash at bank and in hand                | –                     | –                     |
| 1.7                    | Restricted cash – tenants deposit deeds | <b>1.8</b>            | 1.3                   |
| (3.6)                  | Bank overdrafts                         | <b>(3.3)</b>          | (0.2)                 |
| (1.9)                  |   | <b>(1.5)</b>          | 1.1                   |

June 2005 comparatives have been restated for the inclusion of restricted cash. This was previously reported as a movement in other receivables.

## Notes to the Quarterly Results

continued

### 16. Deferred tax liabilities

| 31 March<br>2006<br>£m |   | 30 June<br>2006<br>£m | 30 June<br>2005<br>£m |
|------------------------|---|-----------------------|-----------------------|
| 86.1                   | Balance at start of period  | 122.6                 | 86.1                  |
| 36.5                   | Deferred tax charge   | 10.0                  | 5.0                   |
| –                      | Group's share of tax on unrealised profits on sale of properties to joint venture | 0.8                   | –                     |
| 122.6                  | Balance at end of period  | 133.4                 | 91.1                  |

Deferred tax recognised in the balance sheet by each category of temporary timing difference is as follows:

| 31 March<br>2006<br>£m |   | 30 June<br>2006<br>£m | 30 June<br>2005<br>£m |
|------------------------|---|-----------------------|-----------------------|
| 114.2                  | Fair value gains on investment properties | 122.9                 | 84.8                  |
| –                      | – Profit on sale to joint venture         | 1.6                   | –                     |
| 0.4                    | Capitalised interest                      | 0.5                   | 0.3                   |
| 8.3                    | Accelerated tax depreciation              | 8.6                   | 6.8                   |
| (0.4)                  | Derivative financial instruments          | (0.3)                 | (0.8)                 |
| 0.1                    | Other                                     | 0.1                   | –                     |
| 122.6                  |   | 133.4                 | 91.1                  |

If the investment properties were sold for their revalued amount there would be a potential liability to corporation tax of £105.0m (31 March 2006: £95.6m, 30 June 2005: £69.6m). Under IFRS no account is taken of indexation relief on capital gains resulting in the difference between expected corporation tax to be paid and the provision made for deferred tax.

### 17. Share capital

| 31 March<br>2006<br>Number |  | 30 June<br>2006<br>Number | 30 June<br>2005<br>Number |
|----------------------------|--|---------------------------|---------------------------|
| 240,000,000                | Authorised : Ordinary shares of 10p each       | 240,000,000               | 240,000,000               |
| 169,509,640                | Issued: Fully paid ordinary shares of 10p each | 169,509,640               | 168,839,660               |
|                            | £  | £                         | £                         |
| 16,950,964                 | Issued: Fully paid ordinary shares of 10p each | 16,950,964                | 16,883,966                |
| Number                     |  | Number                    | Number                    |
|                            | Movements in share capital were as follows:    |                           |                           |
| 168,839,660                | Number of shares at start of period            | 169,509,640               | 168,839,660               |
| 69,980                     | Save as You Earn share options exercised       | –                         | –                         |
| 600,000                    | Convertible Loan Stock converted               | –                         | –                         |
| 169,509,640                | Number of shares at end of period              | 169,509,640               | 168,839,660               |

## Notes to the Quarterly Results

continued

### 18. Other reserves

| 31 March<br>2006<br>Total<br>£m |                            | Equity<br>element of<br>convertible<br>loan stock<br>£m | Equity<br>settled<br>share based<br>payments<br>£m | 30 June<br>2006<br>Total<br>£m | 30 June<br>2005<br>Total<br>£m |
|---------------------------------|----------------------------|---|--|--------------------------------|--------------------------------|
| 0.5                             | Balance at start of period | 0.2   | 0.6  | <b>0.8</b>                     | 0.5                            |
| 0.3                             | Value of employee services | –   | 0.3  | <b>0.3</b>                     | –                              |
| 0.8                             | Balance at end of period   | <b>0.2</b>  | <b>0.9</b>   | <b>1.1</b>                     | 0.5                            |

### 19. Statement of changes in shareholders' equity

| 31 March<br>2006<br>Total<br>equity<br>£m |                            | Share<br>capital<br>£m | Share<br>premium<br>£m | Investment<br>in own<br>shares<br>£m | Other<br>reserves<br>£m | Retained<br>earnings<br>£m | 30 June<br>2006<br>Total<br>equity<br>£m | 30 June<br>2005<br>Total<br>equity<br>£m |
|---|----------------------------|------------------------|------------------------|--------------------------------------|-------------------------|----------------------------|--|--|
| 288.5                                     | Balance at start of period | 16.9                   | 28.7                   | (5.1)                                | 0.8                     | 349.0                      | <b>390.3</b>                             | 288.5                                    |
| 0.3                                       | Share issues               | –                      | –                      | –                                    | –                       | –                          | –  | –  |
| 0.4                                       | Distribution of own shares | –                      | –                      | –                                    | –                       | –                          | –  | –  |
| (5.8)                                     | Dividends paid             | –                      | –                      | –                                    | –                       | –                          | –  | –  |
| 0.3                                       | Value of employee services | –                      | –                      | –                                    | 0.3                     | –                          | <b>0.3</b>                               | –  |
| 106.6                                     | Profit for the period      | –                      | –                      | –                                    | –                       | 30.3                       | <b>30.3</b>                              | 13.9                                     |
| 390.3                                     | Balance at end of period   | 16.9                   | 28.7                   | (5.1)                                | 1.1                     | 379.3                      | <b>420.9</b>                             | 302.4                                    |

### 20. Investment in own shares

The Company has established an Employee Share Ownership Trust (ESOT) to purchase shares in the market for distribution at a later date in accordance with the terms of the 1993 and 2000 Executive Share Option Schemes. The shares are held by an independent trustee and the rights to dividend on the shares have been waived. During the period the Trust transferred 117,550 shares to employees on exercise of options. At 30 June 2006, the number of shares held by the Trust totalled 4,823,410 (31 March 2006: 4,940,960, 30 June 2005: 5,380,370). The shares have been included at cost in shareholders' equity. 4,803,110 shares held by the Trust are subject to option awards.

## Notes to the Quarterly Results

continued

### 21. Capital commitments

At the period end the estimated amounts of contractual commitments for future capital expenditure not provided for were:

| <b>31 March<br/>2006<br/>£m</b> |  | <b>30 June<br/>2006<br/>£m</b> | <b>30 June<br/>2005<br/>£m</b> |
|---------------------------------|--|--------------------------------|--------------------------------|
|                                 | Under contract:  |                                |                                |
| 6.5                             | Purchases, construction or re-development of investment property | <b>7.3</b>                     | 9.0                            |
| 0.2                             | Repairs, maintenance or enhancement of investment property       | <b>0.6</b>                     | 0.5                            |
| <b>6.7</b>                      |  | <b>7.9</b>                     | 9.5                            |
|                                 | Authorised by directors but not contracted :                     |                                |                                |
| 0.2                             | Property, plant and equipment                                    | <b>0.1</b>                     | 0.3                            |
| 0.1                             | Intangible assets  | <b>0.1</b>                     | 0.2                            |
| 6.9                             | Purchases, construction or re-development of investment property | <b>7.0</b>                     | 27.2                           |
| 8.5                             | Repairs, maintenance or enhancement of investment property       | <b>10.0</b>                    | 6.5                            |
| <b>15.7</b>                     |  | <b>17.2</b>                    | 34.2                           |

### 22. Joint Venture

On 12 June 2006 the Group merged its interests in Workspace 12 Limited, a wholly owned subsidiary which held 11 properties valued at £146m with those of Glebe Three Limited, a wholly owned subsidiary of Glebe Two Limited creating a joint venture, Workspace Glebe Limited, a company incorporated in England. The purpose of the joint venture is to invest in properties contributed by Workspace and Glebe with potential for regeneration and improvement. Workspace Group plc holds 50% of the ordinary share capital of Workspace Glebe Limited. Its interest in this joint venture has been equity accounted for in the Group's consolidated financial statements.

The Group's share of amounts of each of current assets, long term assets, current liabilities and long term liabilities, income and expenses are shown below.

|   | <b>30 June<br/>2006<br/>£m</b> |
|---|--------------------------------|
| Investment property                     | <b>76.0</b>                    |
| Current assets                          | <b>1.7</b>                     |
| Total assets                            | <b>77.7</b>                    |
| Current liabilities                     | <b>(1.5)</b>                   |
| Non-current liabilities                 | <b>(58.5)</b>                  |
| Total liabilities                       | <b>(60.0)</b>                  |
| Group share of joint venture net assets | <b>17.7</b>                    |
| Revenue                                 | <b>0.3</b>                     |
| Direct costs                            | <b>(0.1)</b>                   |
| Net rental income                       | <b>0.2</b>                     |
| Administrative expenses                 | –                              |
| Finance costs – interest payable        | <b>(0.2)</b>                   |
| Profit before tax                       | –                              |
| Taxation                                | –                              |
| Profit after tax                        | –                              |

## Notes to the Quarterly Results

continued

### 22. Joint Venture continued

|  | 30 June<br>2006<br>£m |
|--|-----------------------|
| Share of joint venture at start of period                                      | –                     |
| Share of joint venture profit after tax for the period                         | –                     |
| Net equity movements in joint venture  | 1.0                   |
| Net loan movements with joint venture  | 18.5                  |
|  | 19.5                  |
| Group's share of unrealised profits on sale of properties to the joint venture | (1.8)                 |
| Share of joint venture at end of period  | 17.7                  |
| Comprising:  |                       |
| Unlisted shares at cost  | 1.0                   |
| Group's share of post acquisition retained profits after tax                   | –                     |
| Group's share of unrealised profits on sale of properties to the joint venture | (1.8)                 |
| Amounts owed by joint venture  | 18.5                  |
|  | 17.7                  |

The Group's share of capital commitments of the Workspace Glebe joint venture were £0.1m for commitments under contract and £0.4m authorised by directors but not contracted.

### 23. Post balance sheet events

On 28 July 2006 the Group acquired 14 Greville Street, EC1, a 14,000 sq.ft. vacant building for a cash consideration of £3.8m.

On 16 August 2006 the Group issued 4.4m ordinary shares to bond holders on conversion of the remaining 11% Convertible Loan Stock 2011.

### 24. Basis of preparation

The financial information reflects the current versions of the standards of the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as currently adopted by the European Union.

The accounting policies set out in the Annual Report and Financial Statements for the year ended 31 March 2006 have been applied in preparing the financial information contained in this report.

The Group has not adopted IAS 34 – Interim Financial Reporting.

This report was approved by the Board on 18 August 2006.

This report is unaudited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The financial statements for the year to 31 March 2006, which were prepared under IFRS, and on which the auditors issued an unqualified opinion, have been delivered to the Registrar of Companies.

### 25. Quarterly Statement

Copies of this statement will be dispatched to shareholders on 21 August 2006 and will be available from the Group's registered office at Magenta House, 85 Whitechapel Road, London, E1 1DU and on the Group's website [www.workspacegroup.co.uk](http://www.workspacegroup.co.uk) from 9.00am on that day.

## Directors and Advisers

### Directors

**Antony Hales BSc**, Chairman<sup>\*(2)</sup>  
**Harry Platt MA MRTPI**, Chief Executive  
**John Bywater FRICS**<sup>\*(1)</sup>  
**Madeleine Carragher FRICS**, Operations Director  
**Bernard Cragg BSc ACA**<sup>\*(1)</sup>  
**Rupert Dickinson MRICS**<sup>\*(1)</sup>  
**Patrick Marples MRICS**, Property Director  
**Mark Taylor BSc FCA**, Finance Director

\*Non-executive

<sup>(1)</sup>Member of Remuneration, Nominations and Audit Committees

<sup>(2)</sup>Member of Nominations Committee

### Company Secretary

**Mark Taylor BSc FCA**

### Auditors

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### Solicitors

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### Bankers

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Corporate Banking London  
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### Financial Advisers

**N M Rothschild**  
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### Financial Advisers and Joint Stockbrokers

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### Joint Stockbrokers

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London EC2V 7QP

### Registrars

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Website: [www.workspacegroup.co.uk](http://www.workspacegroup.co.uk).

### Registered Number

**2041612**

## Glossary of Terms

**Adjusted NAV per share** is NAV excluding deferred tax on revaluation surpluses, capital allowances, and the fair value of derivative financial instruments.

**Adjusted net assets** are shareholders' funds excluding deferred tax on revaluation surpluses, capital allowances and the fair value of derivative financial instruments.

**Comparator IPD Index** is a benchmark index computed by IPD of comparable properties in comparable locations to those held by the Group.

**Core portfolio (like-for-like portfolio)** are those properties that have been held throughout the period and which are not subject to significant redevelopment or refurbishment works.

**Diluted NAV per share** is NAV adjusted for the effect of those shares potentially issuable under convertible loan stock or employee share schemes.

**Earnings per share (EPS)** is the profit after taxation divided by the weighted average number of shares in issue during the period. Diluted and Adjusted EPS are determined as set out under NAV.

**Employee Share Ownership Trust (ESOT)** is the trust created by the Group to hold shares pending exercise of employee share options.

**Equivalent Yield** is a weighted average of the initial yield and reversionary yield and represents the return a property will produce based upon the timing of the income received.

**Estimated rental value (ERV) or market rental value** is the Group's external valuers' opinion as to the open market rent, which on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review.

**Gearing** is the Group's net debt as a percentage of net assets.

**Income Statement trading earnings/PBT etc** is that element of earnings/PBT etc that arises from trading activity alone. It therefore excludes other items (below).

**Income Statement other items** include profits and losses (together with their related taxation) on sales of investment properties and items of a non-trading nature such as: valuation adjustments arising from the fair valuing of investment properties and derivative financial instruments; adjustments arising from the treatment of head lease payments as interest; insurance claim proceeds; and certain adjustments arising from the estimation of the cost of employee share based payments.

**Initial yield** is the net rents generated by a property or by the portfolio as a whole expressed as a percentage of its valuation.

**Interest cover** is the number of times net interest payable is covered by operating profit.

**IPD** is the Investment Property Databank Ltd, a company that produces an independent benchmark of property returns.

**Like-for-like** (see core portfolio).

## Glossary of Terms

**Market rental values** (see ERV)

**Net assets per share (NAV)** are shareholders' funds, divided by the number of shares in issue at the period end (excluding shares held in the ESOT).

**Net rents** are current rents excluding any contracted increases and after deduction of inclusive service charge revenue.

**Occupancy percentage** is the area of space let divided by the total net lettable area (excluding land used for open storage).

**Open market value** is an opinion of the best price at which the sale of an interest in the property would complete unconditionally for cash consideration on the date of valuation (as determined by the Group's external valuers).

**Profit before tax (PBT)** is income less all expenditure other than taxation.

**REIT** Real Estate Investment Trust is a tax transparent property investment vehicle as announced by HM Treasury in 2005/06 and due to come into being on 1 January 2007.

**Rent per sq ft** is the current net rent divided by the occupied area.

**Reversion** is the increase in rent estimated by the Group's external valuers, where the net rent is below the current estimated rental value. The increases to rent arise on rent reviews, letting of vacant space and expiry of rent free periods or rental increase steps.

**Reversionary yield** is the anticipated yield, which the initial yield will rise to once the rent reaches the estimated rental value. It is calculated by dividing the ERV by the valuation.

**SEE** means Social Ethical and Environmental matters. The Group produces a separate SEE report, the most recent report was titled Sustainability Report 2006.

**Small and Medium Sized Enterprises (SMEs)** are those businesses with a turnover of less than £1m p.a. or staff of less than 50. Most Workspace customers are SME businesses with staffing of up to 20.

**Total Shareholder Return (TSR)** is the return obtained by a shareholder calculated by combining both share price movements and dividend receipts.

**Valuation Surplus** and growth rate is measured as the valuation surplus for the period divided by the total value of the portfolio before revaluation.

