

Independent Auditors' Report to the Members of Workspace Group PLC

We have audited the Group financial statements of Workspace Group PLC for the year ended 31 March 2011 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 53, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2011 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance Statement set out on pages 38 to 43 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the Parent Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 36, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the Parent Company financial statements of the Parent Company financial statements of Workspace Group PLC for the year ended 31 March 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.

Bowker Andrews (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 June 2011

Consolidated Income Statement

For the year ended 31 March

Review of Operations	01 – 35
Governance	36 – 53
Financial Statements	54 – 86
Shareholder Information	87 – 88

	Notes	2011 £m	2010 £m
Revenue	1	68.8	66.5
Direct costs	1	(22.9)	(22.1)
Net rental income	1	45.9	44.4
Administrative expenses	3	(9.7)	(9.1)
Trading profit		36.2	35.3
Other income	2a	0.1	0.3
Other expenses	2a	–	(1.2)
Profit on disposal of investment properties	2b	2.8	5.8
Change in fair value of investment properties	10	30.8	1.8
Operating profit	3	69.9	42.0
Finance income	4	0.1	0.1
Finance costs	4	(22.2)	(24.6)
Change in fair value of derivative financial instruments	4	5.3	(0.6)
(Losses)/gains from share in joint ventures	24	(0.3)	6.7
Negative goodwill on business combination	24	–	2.4
Profit before tax		52.8	26.0
Taxation	6	0.7	(1.8)
Profit for the year after tax and attributable to equity shareholders		53.5	24.2
Basic earnings per share (pence)	8	4.7p	2.3p
Diluted earnings per share (pence)	8	4.6p	2.2p
EPRA earnings per share (pence)	8	1.3p	0.7p

Consolidated Statement of Comprehensive Income

For the year ended 31 March

	Notes	2011 £m	2010 £m
Profit for the financial year		53.5	24.2
Revaluation of owner occupied property	12	1.2	0.7
Total comprehensive income attributable to equity shareholders		54.7	24.9

The notes on pages 59 to 81 form part of these financial statements.

Consolidated Balance Sheet

As at 31 March

	Notes	2011 £m	2010 £m
Non-current assets			
Investment properties	10	713.4	713.2
Intangible assets	11	0.4	0.4
Property, plant and equipment	12	4.6	3.4
Investment in joint venture	24	6.7	–
Trade and other receivables	13	4.9	4.9
		730.0	721.9
Current assets			
Trade and other receivables	13	8.3	4.5
Cash and cash equivalents	14	2.3	2.1
		10.6	6.6
Current liabilities			
Bank overdraft	16a	(3.2)	(2.3)
Derivative financial instruments	16d & e	(10.9)	(22.6)
Trade and other payables	15	(28.0)	(28.5)
Current tax liabilities		–	(2.8)
		(42.1)	(56.2)
Net current liabilities		(31.5)	(49.6)
Non-current liabilities			
Borrowings	16a	(363.8)	(384.1)
Other non-current liabilities	20	(0.9)	(0.9)
		(364.7)	(385.0)
Net assets		333.8	287.3
Shareholders' equity			
Ordinary shares	21a	115.3	114.9
Share premium		25.0	24.7
Investment in own shares	23	(8.0)	(7.2)
Other reserves	22	15.0	13.0
Retained earnings		186.5	141.9
Total shareholders' equity		333.8	287.3
EPRA net asset value per share	9	29.5p	26.7p

The financial statements were approved and authorised for issue by the Board of Directors on 3 June 2011 and were signed on its behalf by:

H Platt
G Clemett
Directors

The notes on pages 59 to 81 form part of these financial statements.

Consolidated Statement of Changes in Equity

Review of Operations	01 – 35
Governance	36 – 53
Financial Statements	54 – 86
Shareholder Information	87 – 88

	Attributable to owners of the Parent					Total £m
	Share capital £m	Share premium £m	Investment in own shares £m	Other reserves £m	Retained earnings £m	
Balance at 1 April 2009	104.6	24.6	(5.7)	2.6	125.8	251.9
Profit for the year	–	–	–	–	24.2	24.2
Revaluation of owner occupied property	–	–	–	0.7	–	0.7
Total comprehensive income	–	–	–	0.7	24.2	24.9
Transactions with owners:						
Share issues	10.3	0.1	–	8.7	–	19.1
ESOT shares net purchase	–	–	(0.2)	–	–	(0.2)
Transfer of shares	–	–	(1.3)	–	–	(1.3)
Dividends paid	–	–	–	–	(8.1)	(8.1)
Share based payments	–	–	–	1.0	–	1.0
Balance at 31 March 2010	114.9	24.7	(7.2)	13.0	141.9	287.3
Profit for the year	–	–	–	–	53.5	53.5
Revaluation of owner occupied property	–	–	–	1.2	–	1.2
Total comprehensive income	–	–	–	1.2	53.5	54.7
Transactions with owners:						
Share issues	0.4	0.3	–	–	–	0.7
ESOT shares net purchase	–	–	(0.8)	–	–	(0.8)
Dividends paid	–	–	–	–	(8.9)	(8.9)
Share based payments	–	–	–	0.8	–	0.8
Balance at 31 March 2011	115.3	25.0	(8.0)	15.0	186.5	333.8

Consolidated Statement of Cash Flows

For the year ended 31 March

	Notes	2011 £m	2010 £m
Cash flows from operating activities			
Cash generated from operations	18	37.9	36.3
Interest received		0.1	0.1
Interest paid		(21.9)	(25.3)
Tax paid		(2.1)	-
Net cash inflow from operating activities		14.0	11.1
Cash flows from investing activities			
Purchase of investment properties		-	(4.0)
Capital expenditure on investment properties		(9.4)	(5.9)
Net proceeds from disposal of investment properties		43.9	57.1
Purchase of intangible assets		(0.2)	(0.2)
Purchase of property, plant and equipment		(0.4)	(0.1)
Investment in and loan to joint ventures		(7.4)	(0.8)
Movement in short-term funding balances with joint venture		0.6	2.0
Net cash inflow from investing activities		27.1	48.1
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		-	16.3
Finance costs for new/amended borrowing facilities		(3.8)	(1.8)
Former joint venture restructuring costs and priority fee		-	(2.1)
Settlement and re-couponing of derivative financial instruments		(6.5)	(8.6)
Repayment of bank borrowings		(17.3)	(58.2)
Movement on bank facility rental income accounts		(5.0)	-
ESOT shares net purchase		(0.8)	(0.2)
Finance lease principal payments		(0.2)	(0.4)
Dividends paid	7	(8.2)	(8.1)
Net cash outflow from financing activities		(41.8)	(63.1)
Net decrease in cash and cash equivalents		(0.7)	(3.9)
Cash and cash equivalents at start of year	18	(0.2)	3.7
Cash and cash equivalents at end of year	18	(0.9)	(0.2)

The notes on pages 59 to 81 form part of these financial statements.

Workspace Group PLC ('the Company') and its subsidiaries (together 'the Group') are engaged in property investment in the form of letting of business accommodation to small and medium sized enterprises in London.

The Company is a public limited company which is listed on the London Stock Exchange and is incorporated and domiciled in the UK.

The registered number of the Company is 2041612.

Basis of Preparation

These financial statements are presented in sterling, which is the Company's functional and the Group's presentational currency and have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, owner occupied property, derivative financial instruments and share based payments.

Significant judgements, key assumptions and estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and judgements that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The Group's significant accounting policies are stated below. Not all of these accounting policies require management to make subjective or complex judgements. The following is intended to provide an understanding of the policies that management consider critical because of the level of judgement or estimation involved in their application and their impact on the consolidated financial statements.

Investment property valuation

The Group uses the valuation performed by its independent valuers as the fair value of its investment properties. The valuation is based upon assumptions including estimated rental values, future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties.

Trade receivables

The Group is required to judge when there is sufficient objective evidence to require the impairment of individual trade receivables. It does this on the basis of the age of the relevant receivables, external evidence of the credit status of the debtor entity and the status of any disputed amounts.

Compliance with the Real Estate Investment Trust (REIT) regime

On 1 January 2007 the Group converted to a Group REIT. In order to achieve and retain Group REIT status, several entrance tests had to be met and certain ongoing criteria must be maintained. The main criteria are as follows:

- at the start of each accounting period, the assets of the tax exempt business must be at least 75% of the total value of the Group's assets
- at least 75% of the Group's total profits each year must arise from the tax exempt business
- at least 90% of the taxable profit of the property rental business must be distributed
- the Group must take reasonable steps to avoid payment of dividends to an entity controlling (directly or indirectly) 10% or more of the voting rights of Workspace Group PLC.

The Directors intend that the Group should continue as a Group REIT for the foreseeable future, with the result that deferred tax is no longer recognised on temporary differences relating to the property rental business and relevant property rental income is treated as exempt from taxation.

Significant Accounting Policies

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented unless stated otherwise:

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiary undertakings up to 31 March 2011. Subsidiaries are 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.

Joint ventures are those entities over which the Group, either directly or indirectly, is in a position to jointly control the financial and operating policies of the entity. Joint ventures are accounted for under the equity method whereby the consolidated financial statements include the Group's investment in and contribution from the joint venture.

Going Concern

The Group's forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Group should be able to continue to operate within the level of its current financing. All loan covenants are being comfortably met and the Group has sufficient liquidity for day to day activities and progressing business plans.

After making enquiries, the Directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

Investment properties

Investment properties are those properties owned or leased under a finance lease by the Group that are held to earn rental income or for capital appreciation or both and are not occupied by the Company or subsidiaries of the Group.

Notes to the Financial Statements

continued

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 a professional external valuer at each reporting date. Changes in fair value of investment property at the reporting date are recorded in the income statement.

Properties are treated as acquired at the point the Group assumes the significant risks and rewards of ownership and are treated as disposed when these are transferred outside of the Group's control.

Existing investment property which undergoes 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 expenditure will flow to the Group, and the cost of each item can be reliably measured. Certain internal staff costs directly attributable to capital/redevelopment projects are capitalised. 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, or if financed out of general borrowings by reference to the average rate payable on funding the assets employed by the Group and applied to the direct expenditure on the property undergoing 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.

Investment properties are recognised as non-current 'assets held for sale' when it is considered highly probable that sale completion will take place.

Property, plant and equipment Land and Buildings

Land and buildings within property, plant and equipment relate to the owner occupied building of Magenta House. The Group have adopted the revaluation model to show this asset category at fair value less subsequent depreciation for buildings. They were revalued at 31 March 2011 by CB Richard Ellis as detailed in note 12 to the financial statements.

This class of asset will continue to be revalued on a regular basis.

Depreciation rates are as follows:

Land	not depreciated
Buildings	50 years

Equipment and Fixtures

Equipment and fixtures (including motor vehicles) are stated at historical purchase cost less accumulated depreciation. Historical cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

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 expenditure 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.

Depreciation is provided using the straight line method to allocate the cost less estimated residual value over the asset's estimated useful lives which range from 4-10 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.

Intangibles

Acquired computer software licenses and external costs of implementing or developing computer software programmes and websites are capitalised. These costs are amortised over their estimated useful lives of 5 years on a straight line basis. Intangibles are stated at historical cost.

Costs associated with maintaining computer software programmes are recognised as an expense as they fall due.

Leases

A Group Company as 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. Assets acquired under finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the net present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in current and non current borrowings. Each lease payment is 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. The investment properties acquired under finance leases are subsequently carried at fair value.

Review of Operations	01 – 35
Governance	36 – 53
Financial Statements	54 – 86
Shareholder Information	87 – 88

A Group Company as lessor

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 incentives are recognised over the lease term on a straight line basis.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at cost 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 provision is recorded in the income statement.

Other receivables include bank facility rental income accounts from which interest to lenders is paid.

Trade and other payables

Trade and other payables are stated at cost.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, restricted cash in the form of tenants deposits, deposits held on 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.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the initial amount (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, except for interest capitalised on redevelopments.

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.

Derivative financial instruments

The Group enters into derivative transactions such as interest rate collars and swaps in order to manage its interest rate risk. Financial derivatives are recorded at fair value calculated by valuation techniques based on market prices, estimated future cash flows and forward interest rates. Movements in fair value are recognised in the Income Statement within total finance costs. Amounts payable or receivable under such arrangements are included within interest payable or receivable, recognised on an accruals basis.

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.

Investment in own shares

The Group operates an Employee Share Ownership Trust (ESOT). When the Group funds the ESOT in order to purchase Company shares, the loan is deducted from shareholders' equity as investment in own shares.

Revenue recognition

Revenue comprises rental income, service charges and other sums receivable from the Group's investment properties. Other sums comprise insurance 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 incentives are recognised over the lease term, on a straight line basis.

Service charges and other sums receivable from tenants are recognised by reference to the stage of completion of the relevant service or transactions at the reporting date.

Rental income from property let out under a finance lease is accounted for by allocating each lease payment between receivable and finance income so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance income is credited to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the receivable 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 income in the periods in which they are earned.

Income 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 then the revenue associated with that conditional item is valued and included as deferred consideration.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined that its chief operating decision maker is the Executive Board of the Company. The Group considers that it has only one operating segment being a single portfolio of commercial property providing business accommodation for rent in London. Discrete financial information is provided to the chief operating decision maker on a property by property basis, including rental income and direct costs and valuation gains or losses.

Direct costs

Direct costs comprise service charge and other costs directly recoverable from tenants and non recoverable costs directly attributable to investment properties and other revenue streams.

Notes to the Financial Statements

continued

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. 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.

Share based payment

The Group operates a number of share schemes under which the Group receives services from employees as consideration for equity instruments (options) of the Group.

Incentives in the form of shares are provided to employees under share option schemes. The fair value of the employee services received in exchange for the grant of options is recognised as an expense over the vesting period.

Fair value is measured by the use of Black-Scholes, Monte-Carlo and Binomial option pricing models. The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Company has established an ESOT to satisfy part of its obligations under employee share plans and other share based payment arrangements. The Company provides funding to the ESOT to purchase these shares and the cost is deducted from equity.

Pensions

The Group operates a defined contribution pension scheme. Contributions are charged to the income statement on an accruals basis.

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 and is calculated using tax rates that have been substantively enacted by the balance sheet date.

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 substantively 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 assets concerned were disposed of. Since conversion to a REIT deferred tax is not required to be provided on the investment properties held within the REIT.

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

Dividend distributions

Final dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved, while interim dividends are recognised when paid.

New and amendments to Accounting Standards

a) The following new standards, amendments and interpretations are mandatory for the first time for the Group's 31 March 2011 year end:

Standard or interpretation	Content
IFRS 3 (revised)	Business Combinations
IAS 27 (revised)	Consolidated and separate financial statements
IAS 32	Classification of rights issues
Amendment: IFRS 1	Additional exemptions for first-time adopters
Amendment: IFRS 2	Group cash-settled share-based payment transactions
IFRS 1	First-time adoption of International Financial Reporting Standards
IAS 39	Financial instruments: Recognition and measurement – Eligible hedged items.
IFRIC 17	Distribution of non-cash assets to owners
IFRIC 18	Transfers of assets from customers
Amendments	Annual improvements – 2009

IFRS 3 (revised) Business Combinations was adopted last year and was relevant to the acquisition of the former Workspace Glebe joint venture. The other standards or interpretations are either not relevant or have no significant impact on the Group's financial statements.

b) Standards, amendments and interpretations that are not yet effective and not expected to have a significant impact on the Group's financial statements:

Standard or interpretation	Content
IFRS 9	Financial instruments
Amendment: IFRS 7	Disclosures – Transfers of financial assets
Amendment: IAS 24	Related party disclosures
Amendment: IFRIC 14	Prepayments of a minimum funding requirement
IFRIC 19	Extinguishing financial liabilities with equity instruments
Amendment: IFRS 1	First time adoption on financial instrument disclosures
IFRIC 15	Arrangements for construction of real estates

Notes to the Financial Statements

For the year ended 31 March

Review of Operations	01 – 35
Governance	36 – 53
Financial Statements	54 – 86
Shareholder Information	87 – 88

1. Analysis of net rental income and segmental information

	2011			2010 (restated)		
	Revenue £m	Direct costs £m	Net rental income £m	Revenue £m	Direct costs £m	Net rental income £m
Rental income	52.0	(0.2)	51.8	49.8	(0.2)	49.6
Service charges ¹	13.8	(17.2)	(3.4)	13.6	(16.5)	(2.9)
Empty rates and other non recoverables ¹	0.5	(4.1)	(3.6)	0.6	(4.0)	(3.4)
Services, fees, commissions and sundry income	2.5	(1.4)	1.1	2.5	(1.4)	1.1
	68.8	(22.9)	45.9	66.5	(22.1)	44.4

¹ 2010 represented to combine other non recoverables and empty rates.

Discrete financial information is provided to the Executive Committee on a property by property basis, including rental income and direct costs and valuation gains or losses. All of the properties within the portfolio are geographically close to each other and have similar economic features and risks and all information provided to the Executive Committee is aggregated and reviewed in total as one portfolio. As a result management have determined that the Group operates a single operating segment providing business accommodation for rent in London, which is continuing.

As noted above, the Executive Committee assesses the performance of the operating segment using measures of rental income and direct costs and valuation gains or losses. All financial information provided to the Executive Committee is prepared on a basis consistent with these financial statements and, as the Group has only one operating segment, the measures used in assessing the business have been reconciled to profit before tax in the Consolidated Income Statement and net assets in the Consolidated Balance Sheet.

2(a). Other income and expenses

	2011 £m	2010 £m
Right of light and other damages compensation	0.1	0.3
Other income	0.1	0.3
Legal fees relating to construction contract litigation	–	(1.2)
Other expenses	–	(1.2)
	0.1	(0.9)

2(b). Profit on disposal of investment properties

	2011 £m	2010 £m
Gross proceeds from sale of investment properties	44.3	62.4
Book value at time of sale plus sale costs	(41.1)	(61.7)
	3.2	0.7
Movement in provision for joint venture tax indemnity	–	5.1
Unrealised profit on sale of properties to joint venture	(0.4)	–
Pre-tax profit on sale	2.8	5.8

3. Operating profit

The following items have been charged in arriving at operating profit:

	2011 £m	2010 £m
Depreciation	0.5	0.9
Staff costs (including share based costs)	9.9	9.6
Repairs and maintenance expenditure on investment properties	3.6	2.9
Trade receivables impairment	0.2	0.3
Amortisation of intangibles	0.2	0.1
Operating lease rentals payable	0.1	0.1
Audit fees payable to the Group's auditors ¹	0.2	0.2

¹ Services provided by the Group's Auditors – PricewaterhouseCoopers LLP:

Notes to the Financial Statements

For the year ended 31 March continued

3. Operating profit continued

Analysis of audit and non-audit services:	2011 £000	2010 £000
Audit services:		
Audit of Group and Company financial statements	123	121
Audit of subsidiary financial statements	28	25
Non-audit services:		
Group interim review	32	32
Taxation and legal services	123	117
Other services	4	2
	310	297

Total administrative expenses are analysed below:	2011 £m	2010 £m
Staff costs	5.4	5.2
Cash settled share based costs	0.3	0.1
Equity settled share based costs	0.8	1.0
Other	3.2	2.8
	9.7	9.1

4. Finance income and costs

	2011 £m	2010 £m
Interest income on bank deposits	–	0.1
Interest income on corporation tax refunds	0.1	–
Finance income	0.1	0.1
Interest payable on bank loans and overdrafts	(21.4)	(24.1)
Amortisation of issue costs of bank loans	(0.8)	(0.3)
Interest payable on finance leases	(0.2)	(0.3)
Interest capitalised on property refurbishments	0.2	0.1
Finance costs	(22.2)	(24.6)
Change in fair value of financial instruments through the income statement	5.3	(0.6)
Net finance costs	(16.8)	(25.1)

5. Employees and Directors

Staff costs for the Group during the year were:	2011 £m	2010 £m
Wages and salaries	7.5	7.4
Social security costs	0.8	0.7
Defined contribution pension plan costs (see note 29)	0.5	0.4
Cash settled share based costs	0.3	0.1
Equity settled share based costs	0.8	1.0
	9.9	9.6

The monthly average number of people (including Executive Directors) employed during the year was:	2011 Number	2010 Number
Executive Directors	2	2
Head office staff	67	68
Estates and property management staff	102	109
	171	179

Review of Operations	01 – 35
Governance	36 – 53
Financial Statements	54 – 86
Shareholder Information	87 – 88

Key management for the purposes of related party disclosure under IAS 24 are taken to be the Executive Board Directors, the non-Board Executive Directors and the Non-Executive Directors. Key management compensation is set out below:-

Key management compensation:	2011 £m	2010 £m
Salaries and short-term employee benefits	2.3	2.2
Pensions and other post-employment benefits	0.2	0.2
Termination benefits	-	0.5
Share-based payments	0.5	0.5
	3.0	3.4

The remuneration of the Executive Directors is determined by the Remuneration Committee of the Board. A table of the Directors' emoluments and details of Directors' beneficial interests in the shares of the Company and in options to acquire shares in the Company are given in the Directors' Remuneration Report on pages 44 and 52. These form part of the financial statements.

6. Taxation

Analysis of charge in period:	2011 £m	2010 £m
Current tax	(0.7)	1.9
Deferred tax	-	(0.1)
Total taxation (credit)/charge	(0.7)	1.8

The charge in the period is analysed as follows:	2011 £m	2010 £m
Current tax:		
UK corporation tax	-	-
REIT conversion charge	-	1.9
REIT penalty tax charge provision*	-	(1.2)
Adjustments to tax in respect of previous periods	(0.7)	1.1
Total taxation (credit)/charge	(0.7)	1.8

* A potential REIT penalty charge was waived in 2010 in light of changes introduced by the Finance Act 2009.

The tax on the Group's profit for the period differs from the standard applicable corporation tax rate in the UK (28%). The differences are explained below:

	2011 £m	2010 £m
Profit on ordinary activities before taxation	52.8	26.0
Adjust losses/(gains) in joint ventures	0.3	(6.7)
	53.1	19.3
Tax at standard rate of corporation tax in the UK of 28% (2010: 28%)	14.9	5.4
Effects of:		
REIT exempt income	(4.5)	(2.2)
REIT penalty tax charge	-	(1.2)
REIT conversion charge	-	1.9
Changes in fair value not subject to tax as a REIT	(11.1)	(1.5)
Share scheme adjustments	0.2	0.3
Provision for tax indemnity	-	(1.4)
Negative goodwill on business combination	-	(0.7)
Adjustments to tax in respect of previous periods	(0.7)	1.1
Losses carried forward	0.5	0.1
Total taxation per income statement	(0.7)	1.8

The Group is a Real Estate Investment Trust (REIT). The Group's UK property rental business (both income and capital gains) is exempt from tax. A REIT conversion charge of £1.9m was provided for in 2010 on the values of the former Workspace Glebe joint venture properties brought into the REIT in December 2009. This was paid in the current year. The Group's 'residual' business (subject to tax) is small and consists mainly of ancillary services and commissions.

The Group currently has £6.0m (2010: £5.9m) of revenue tax losses carried forward calculated at a corporation tax rate of 26% (2010: 28%) which is the rate substantively enacted at the Balance Sheet date following the March 2011 UK Budget Statement. These have not been recognised as an asset as they are unlikely to be utilised in the foreseeable future. Further reductions in the main rate of corporation tax to 23% by 1 April 2014 are expected to be enacted. If this rate had been applied to tax losses at the Balance Sheet date it would have reduced losses by £0.7m.

Notes to the Financial Statements

For the year ended 31 March continued

7. Dividends

Ordinary dividends paid	Payment date	Per share	2011 £m	2010 £m
For the year ended 31 March 2009 Final dividend	August 2009	0.50p	–	5.2
For the year ended 31 March 2010 Interim dividend	February 2010	0.25p	–	2.9
Final dividend	August 2010	0.50p	5.7	–
For the year ended 31 March 2011 Interim dividend	February 2011	0.28p	3.2	–
Dividends for the year			8.9	8.1
Less dividends settled in shares			(0.7)	–
Dividends – cash paid			8.2	8.1

In addition the Directors are proposing a final dividend in respect of the financial year ended 31 March 2011 of 0.55p per ordinary share which will absorb an estimated £6.3m of revenue reserves. If approved by the shareholders at the AGM, it will be paid on 5 August 2011 to shareholders who are on the register of members on 15 July 2011. The dividend will be paid as a Property Income Distribution (PID).

8. Earnings per share

The calculation of earnings per share is based on the weighted average number of shares in issue during the year excluding shares held in the Company's Employee Share Ownership Trust.

Diluted earnings per share is calculated by adjusting the weighted average number of shares to assume conversion from share option schemes.

Earnings used for calculation of earnings per share:	2011 £m	2010 (restated) £m
Profit used for basic and diluted earnings	53.5	24.2
Change in fair value of investment property	(30.8)	(1.8)
Profit on disposal of investment properties	(2.8)	(5.8)
Movement in fair value of derivative financial instruments	(5.3)	0.6
Group's share of EPRA adjustments of joint venture	0.3	(6.7)
Negative goodwill on business combination	–	(2.4)
EPRA adjusted earnings	14.9	8.1
(Deduct)/add non-recurring items (including tax)	(0.8)	2.7
Adjusted underlying earnings (before tax)	14.1	10.8

Earnings have been adjusted and calculated on a diluted basis to derive an earnings per share measure as defined by the European Public Real Estate Association (EPRA).

Underlying earnings consists of the EPRA earnings measure, with additional Company adjustments for non-recurring items and taxation.

Prior year EPRA adjusted earnings have been restated to exclude impact of negative goodwill and gain from share in joint venture.

Weighted average number of shares used for calculation of earnings per share:	2011 Number	2010 Number
Weighted average number of shares (excluding shares held in the ESOT)	1,143,192,516	1,073,361,020
Dilution due to share option schemes	25,272,506	11,540,185
Shares for diluted earnings per share	1,168,465,022	1,084,901,205

In pence:	2011	2010
Basic earnings per share	4.7p	2.3p
Diluted earnings per share	4.6p	2.2p
EPRA earnings per share	1.3p	0.7p
Underlying earnings per share	1.2p	1.0p

Review of Operations	01 – 35
Governance	36 – 53
Financial Statements	54 – 86
Shareholder Information	87 – 88

9. Net assets per share

The calculation of net assets per share is based on the number of shares in issue at the year end excluding shares held in the Company's Employee Share Ownership Trust.

Diluted net assets per share is calculated by adjusting the number of shares to assume conversion from share option schemes.

Net assets used for calculation of net assets per share:	2011 £m	2010 £m
Net assets at end of year (basic)	333.8	287.3
Derivative financial instruments at fair value	10.9	22.6
EPRA net assets	344.7	309.9
EPRA net assets per share (pence)	29.5p	26.7p

Number of shares used for calculating net assets per share:	2011 Number	2010 Number
Shares in issue at year-end	1,152,731,338	1,149,459,056
Less ESOT shares at year-end	(9,750,321)	(5,748,189)
Number of shares for calculating basic net assets per share	1,142,981,017	1,143,710,867
Dilution due to share option schemes	26,959,784	14,968,151
Number of shares for calculating diluted adjusted net assets per share	1,169,940,801	1,158,679,018

Net assets have been adjusted and calculated on a diluted basis to derive a net asset per share measure as defined by the European Public Real Estate Association (EPRA).

10. Investment properties

	2011 £m	2010 £m
Balance at 1 April	713.2	664.1
Property acquisitions	–	5.1
Capital expenditure	10.0	6.4
Additions from business combination with former joint venture	–	96.7
Capitalised interest on refurbishments	0.2	0.1
Disposals during the year	(40.7)	(60.6)
Depreciation on finance leases	(0.1)	(0.4)
Change in fair value of investment properties	30.8	1.8
Balance at 31 March	713.4	713.2

Capitalised interest is included at a rate of capitalisation of 5.5% (2010: 6.7%). The total amount of capitalised interest included in investment properties is £3.2m (2010: £3.0m).

Investment property includes buildings under finance leases of which the carrying amount is £3.5m (2010: £3.5m). Investment property finance lease commitment details are shown in note 16(f).

The Group has determined that all tenant leases are operating leases within the meaning of IAS17. The majority of the Group's tenant leases are granted with a rolling three month tenant break clause. The future minimum non-cancellable rental receipts under operating leases granted to tenants are as follows:

	2011 £m	2010 (restated) £m
Within one year	20.3	20.4
Between two and five years	0.7	0.3
Beyond five years	0.7	0.2
	21.7	20.9

Valuation

The Group's investment properties were revalued at 31 March 2011 by the external valuer, CB Richard Ellis, a firm of independent qualified valuers. The valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors Valuation Standards, sixth edition on the basis of market value assuming that the property would be sold subject to any existing leases. 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 after proper marketing wherein the parties had both acted knowledgeably, prudently and without compulsion.

Notes to the Financial Statements

For the year ended 31 March continued

10. Investment properties continued

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

	2011 £m	2010 £m
Total per CB Richard Ellis valuation report	718.7	717.4
Deferred consideration on sale of property (note 13)	(4.9)	(4.9)
Owner occupied property (note 12)	(3.9)	(2.7)
Head leases treated as finance leases under IAS 17	3.5	3.5
Short leases valued as head leases	–	(0.1)
Total investment properties per balance sheet	713.4	713.2

11. Intangible assets

Computer software

	£m
Cost	
Balance at 1 April 2009	0.8
Additions during the year	0.2
Balance at 31 March 2010	1.0
Additions during the year	0.2
Balance at 31 March 2011	1.2
Accumulated amortisation	
Balance at 1 April 2009	0.5
Charge for the year	0.1
Balance at 31 March 2010	0.6
Charge for the year	0.2
Balance at 31 March 2011	0.8
Net book value at 31 March 2011	0.4
Net book value at 31 March 2010	0.4

None of the Group's intangible assets have been internally generated. All are regarded as having a finite life and are amortised accordingly.

12. Property, plant and equipment

	Owner occupied land £m	Owner occupied buildings £m	Equipment and fixtures £m	Total £m
Cost or valuation				
Balance at 1 April 2009	0.5	1.6	4.3	6.4
Additions during the year	–	0.1	0.1	0.2
Disposals during the year	–	–	(0.1)	(0.1)
Gain/(loss) on revaluation	0.9	(0.4)	–	0.5
Balance at 31 March 2010	1.4	1.3	4.3	7.0
Additions during the year	–	–	0.4	0.4
Disposal during the year	–	–	(0.2)	(0.2)
Gain/(loss) on revaluation	1.5	(0.3)	–	1.2
Balance at 31 March 2011	2.9	1.0	4.5	8.4
Accumulated depreciation				
Balance at 1 April 2009	–	0.1	3.2	3.3
Charge for the year	–	0.1	0.4	0.5
Gain on revaluation	–	(0.2)	–	(0.2)
Balance at 31 March 2010	–	–	3.6	3.6
Charge for the year	–	–	0.4	0.4
Disposals during the year	–	–	(0.2)	(0.2)
Balance at 31 March 2011	–	–	3.8	3.8
Net book amount at 31 March 2010	1.4	1.3	0.7	3.4
Net book amount at 31 March 2011	2.9	1.0	0.7	4.6

Review of Operations	01 – 35
Governance	36 – 53
Financial Statements	54 – 86
Shareholder Information	87 – 88

As permitted by IAS 16 'Property, plant & equipment' the Group's owner occupied property (land and buildings) is included at valuation. The property was valued at 31 March 2011 by CB Richard Ellis, a firm of independent qualified valuers who value the whole of the Group's Investment property portfolio based on market information (see note 10). The carrying value of the land and buildings under the historic cost model would have been £2.0m. The net revaluation gain of £1.2m (2010: £0.7m) has been recognised in the statement of comprehensive income and taken to other reserves (note 22).

13. Trade and other receivables

	2011 £m	2010 £m
Non-current trade and other receivables		
Deferred consideration on sale of investment property	4.9	4.9
	4.9	4.9

The non-current receivable relates to deferred consideration arising on the sale of the Thurston Road site in February 2010. The value of this receivable has been fair valued by CB Richard Ellis on the basis of market value as at 31 March 2011, using appropriate discount rates, and will be revalued on a regular basis.

	2011 £m	2010 £m
Current trade and other receivables		
Trade receivables	2.4	3.3
Less provision for impairment of receivables	(0.5)	(0.5)
Trade receivables – net [see note 17(b)]	1.9	2.8
Prepayments and accrued income	1.4	1.7
Bank facility rental income accounts	5.0	–
	8.3	4.5

There is no material difference between the above amounts and their fair values due to the short-term nature of the receivables. Trade receivables are impaired when there is evidence that the amounts may not be collectable under the original terms of the receivable. All the Group's trade and other receivables are denominated in sterling.

Movements on the provision for impairment of trade receivables are shown below:

	2011 £m	2010 £m
Balance at 1 April	0.5	0.3
Provision for receivables impairment	0.2	0.3
Receivables written off during the year	(0.2)	(0.1)
Balance at 31 March	0.5	0.5

As at 31 March 2011, the ageing of trade receivables past due but not impaired was as follows:

	Total 2011 £m	Impairment 2011 £m	Unimpaired 2011 £m	Total 2010 £m	Impairment 2010 £m	Unimpaired 2010 £m
Up to 3 months past due	1.6	(0.1)	1.5	2.5	–	2.5
3 to 6 months past due	0.2	(0.1)	0.1	0.2	(0.1)	0.1
Over 6 months past due	0.6	(0.3)	0.3	0.6	(0.4)	0.2
	2.4	(0.5)	1.9	3.3	(0.5)	2.8

The trade receivables balance is deemed to be all past due as rental payments are due on demand. Trade receivables that are not impaired are expected to be fully recovered as there is no recent history of default or indications that debtors will not meet their obligations. Impaired receivables are provided against based on expected recoverability.

14. Cash and cash equivalents

	2011 £m	2010 £m
Cash at bank and in hand	0.2	–
Restricted cash – tenants' deposit deeds	2.1	2.1
	2.3	2.1

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 (see note 18).

Notes to the Financial Statements

For the year ended 31 March continued

15. Trade and other payables

	2011 £m	2010 £m
Trade payables	1.9	2.0
Taxation and social security payable	1.4	1.8
Tenants' deposit deeds (see note 14)	2.1	2.1
Tenants' deposits	7.6	7.6
Accrued expenses and deferred income	11.2	11.3
Amounts due to related parties	0.6	–
Deferred income-rent and service charges	3.2	3.7
	28.0	28.5

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

16. Borrowings

a) Balances

	2011 £m	2010 £m
Current		
Bank loans and overdrafts due within one year or on demand (secured)	3.2	2.3
	3.2	2.3
Non-current		
Bank loans (secured)		
Finance lease obligations (part secured)	360.3	380.6
	3.5	3.5
	363.8	384.1
	367.0	386.4

The secured loans and overdraft facility are secured on investment properties with balance sheet values totalling £692.4m (2010: £670.6m).

b) Maturity

	2011 £m	2010 £m
Secured (excluding finance leases)		
Repayable in less than one year	3.2	2.3
Repayable between one year and two years	95.5	–
Repayable between two years and three years	–	312.8
Repayable between three years and four years	68.0	–
Repayable between four years and five years	200.0	68.0
	366.7	383.1
Less cost of raising finance	(3.2)	(0.2)
	363.5	382.9
Finance leases (part secured)		
Repayable in five years or more	3.5	3.5
	367.0	386.4

c) Interest rate and repayment profile

	Principal £m	Interest rate	Interest payable	Repayable
Current				
Bank overdraft due within one year or on demand	3.2	Base +2.25%	Variable	On demand
Non-current				
Loan – Bayern LB	200.0	LIBOR +2.25%	Quarterly	June 2015
Loan – Royal Bank of Scotland (RBS)	95.5	LIBOR +2.75%	Monthly	November 2012
Loan – Bank of Scotland (BoS)	68.0	LIBOR +1.25%	Quarterly	December 2014

Review of Operations	01 – 35
Governance	36 – 53
Financial Statements	54 – 86
Shareholder Information	87 – 88

d) Derivative financial instruments

The following interest rate derivatives are held:

	Amount hedged £m	Rate payable (or cap strike rate) %	Rate Receivable %	Term/expiry
Interest rate cap	100.0	5.43%	–	to October 2012
Interest rate cap	15.5	5.00%	–	to October 2012
Interest rate swap	100.0	4.00%	3 month LIBOR	to October 2012
Interest rate swap	80.0	4.00%	1 month LIBOR	to October 2012
Interest rate swap	50.0	5.16%	3 month LIBOR	to June 2013
Interest rate swap*	40.0	1.50%	3 month LIBOR	to October 2012
Interest rate swap*	140.0	3.23%	3 month LIBOR	October 2012 to June 2015

* These swaps comprise three derivatives with different providers but with identical rates, payment dates and end dates.

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.

e) Fair values of financial instruments

	2011 Book Value £m	2011 Fair Value £m	2010 Book Value £m	2010 Fair Value £m
Financial liabilities not at fair value through profit or loss				
Bank overdraft	3.2	3.2	2.3	2.3
Bank loans	360.3	360.3	380.6	380.6
Finance lease obligations	3.5	3.5	3.5	3.5
	367.0	367.0	386.4	386.4
Financial liabilities at fair value through profit or loss				
Derivative financial instruments:				
Liabilities	10.9	10.9	22.6	22.6
Assets	–	–	–	–
	10.9	10.9	22.6	22.6

The total change in fair value of derivative financial instruments recorded in the income statement was a gain of £5.3m (2010: £0.6m loss). This is net of £6.5m (2010: £8.6m) paid in the year to settle/re-coupon some instruments.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined in accordance with IFRS 7 as below:

- Level 1- Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2- Use of a model with inputs (other than quoted prices included in level 1) that are directly or indirectly observable market data
- Level 3- Use of a model with inputs that are not based on observable market data.

The fair values of all the Group's financial derivatives has been determined by reference to market prices and discounted expected cash flows at prevailing interest rates and as such are a Level 2 valuation.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial liabilities at fair value through profit or loss				
Derivative financial instruments:				
Liabilities	–	10.9	–	10.9
Assets	–	–	–	–

The total fair value calculated equates to 1.0p per share (31 March 2010: 2.0p).

Notes to the Financial Statements

For the year ended 31 March continued

16. Borrowings continued

f) Finance leases

Finance lease liabilities are in respect of leased investment property.

Minimum lease payments under finance leases fall due as follows:	2011 £m	2010 £m
Within one year	0.3	0.4
Between two and five years	0.8	0.8
Beyond five years	21.7	21.9
	22.8	23.1
Future finance charges on finance leases	(19.3)	(19.6)
Present value of finance lease liabilities	3.5	3.5

17. Financial risk management objectives and policy

The Group has identified exposure to the following financial risks:

Market risk
Credit risk
Liquidity risk
Capital risk

The policies for managing each of these risks and the principal effects of these policies on the results for the year are summarised below:

a) Market risk

Market risk is the risk that changes in market conditions such as interest rates and equity prices will affect the Group's income or valuations.

The Group's exposure to market risk is restricted to that of interest rate changes on its borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group finances its operations through a mixture of retained profits and borrowings. The Group borrows at both fixed and floating rates of interest and then uses interest rate swaps and caps to generate the desired interest and risk profile.

The Group's policy is to fix at least 50% of its borrowings. At 31 March 2011 74% (2010: 72%) of Group borrowings were fixed through the use of interest rate swaps.

All transactions entered into are approved by the Board and are in accordance with the Group's treasury policy. The Board also monitors variances on interest rates to budget and forecast rates to ensure that the risk relating to interest rates is being sufficiently safeguarded against.

Based upon year end variable rate loan balances, a reasonably possible interest rate movement of +/-0.5% would have increased or decreased net interest payable and equity by £0.5m (2010: £0.5m).

b) Credit risk

The Group's main financial assets are cash and cash equivalents, deposits with banks and financial institutions and trade and other receivables.

Credit risk is the risk of financial loss if a tenant or a counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to this risk principally relates to the receivables from tenants and cash and cash equivalent balances held with counterparties.

The Group's exposure to credit risk in relation to receivables from tenants is influenced mainly by the characteristics of individual tenants occupying its rental properties. The Group has some 4,000 tenants in approximately 100 properties. The largest 10 single tenants generate only 6% of net rent roll. As such, the credit risk attributable to individual tenants is low.

Review of Operations	01 – 35
Governance	36 – 53
Financial Statements	54 – 86
Shareholder Information	87 – 88

The Group's credit risk in relation to tenants is further managed by performing credit checks and analysis on new customers and requesting that tenants provide a deposit equivalent to three months rent on inception of lease as security against default. The Group also monitors aged debt balances and any potential bad debts every week, the information being reported to Board level every month for monitoring as part of the performance monitoring process. The Group's debtor recovery is consistently high and as such is deemed a low risk area.

Cash and cash equivalents and financial derivatives are held with major UK clearing banks or building societies in order to minimise any risk exposure in this area.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2011 £m	2010 £m
Cash and cash equivalents (note 14)	2.3	2.1
Trade receivables – current (note 13)	2.4	3.3
Other receivables - non current (note 13)	4.9	4.9
	9.6	10.3

c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's approach to managing liquidity is to ensure it will always have sufficient funds to meet obligations as they fall due. This is performed via a variety of methods including daily cash flow review and forecasting, monthly monitoring of the maturity profile of debt and the regular revision of borrowing facilities in relation to the Group's requirements and strategy.

To ensure it can effectively manage its liquidity risk; the Group has an overdraft facility of £4m available on demand and ensures sufficient headroom on total borrowings. At 31 March 2011 headroom excluding overdraft was £35m (31 March 2010: £36m).

Cash flow is monitored formally on a monthly basis as part of internal performance monitoring with regular daily monitoring and forecasting undertaken to manage day to day cash flows and any balances which are ring-fenced by lenders. The Board reviews compliance with loan covenants which include agreed interest cover and loan to value ratios, alongside review of available headroom on loan facilities.

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities existing at the balance sheet date. Interest payments are based upon the loan balances and applicable interest rates payable on these at each year end.

31 March 2011

	Carrying Amount £m	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total contracted cash flows £m
Financial Liabilities						
Bank overdraft	3.2	3.2	–	–	–	3.2
Secured bank loans (note 16b)	363.5	–	95.5	–	268.0	363.5
Interest payable on secured bank loans	–	10.8	9.6	7.4	8.0	35.8
Derivative financial instruments	10.9	8.3	7.3	3.9	3.8	23.3
Finance lease liabilities	3.5	0.3	0.4	0.4	21.7	22.8
Trade and other payables	24.8	24.8	–	–	–	24.8
Bank priority fee	0.9	–	–	–	0.9	0.9
	406.8	47.4	112.8	11.7	302.4	474.3

Notes to the Financial Statements

For the year ended 31 March continued

17. Financial risk management objectives and policy continued

31 March 2010

	Carrying Amount £m	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total contracted cash flows £m
Financial Liabilities						
Bank overdraft	2.3	2.3	–	–	–	2.3
Secured bank loans (note 16b)	380.8	–	–	312.8	68.0	380.8
Interest payable on secured bank loans	–	10.2	10.2	7.3	0.2	27.9
Derivative financial instruments	22.6	11.7	11.7	7.4	0.4	31.2
Finance lease liabilities	3.5	0.4	0.4	0.4	21.9	23.1
Trade and other payables	24.8	24.8	–	–	–	24.8
Bank priority fee	0.9	–	–	–	0.9	0.9
	434.9	49.4	22.3	327.9	91.4	491.0

Prior year numbers have been restated to include bank priority fee and exclude deferred income.

d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide returns to shareholders, maintain a good capital structure and reduce the cost of capital.

Capital risk management remained a key area for the Group throughout the financial year. During the year the Group refinanced its debt with Bayern LB to extend the facility to five years. The Group also entered into a joint venture with the BlackRock UK Property Fund using net proceeds from the deal to reduce borrowings and further enhance capital structure.

Actions taken in the last few years in relation to borrowings and capital raising have enabled the Group to have sufficient headroom on financing and to ensure it is comfortably within all applicable loan to value covenants applied on borrowings which range between 75% to 85%.

18. Notes to cash flow statement

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

	2011 £m	2010 £m
Profit for the period	53.5	24.2
Tax	(0.7)	1.8
Depreciation	0.5	0.8
Amortisation of intangibles	0.2	0.1
Profit on disposal of investment properties	(2.8)	(5.8)
Net gain from change in fair value of investment property	(30.8)	(1.8)
Equity settled share based payments	0.8	1.0
Change in fair value of financial instruments	(5.3)	0.6
Interest income	(0.1)	(0.1)
Interest expense	22.2	24.6
Share in joint ventures	0.3	(6.7)
Negative goodwill on business combination	–	(2.4)
Changes in working capital:		
Decrease in trade and other receivables	1.3	1.2
(Decrease) in trade and other payables	(1.2)	(1.2)
Cash generated from operations	37.9	36.3

Review of Operations	01 – 35
Governance	36 – 53
Financial Statements	54 – 86
Shareholder Information	87 – 88

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

	2011 £m	2010 £m
Cash at bank and in hand	0.2	–
Restricted cash – tenants' deposit deeds	2.1	2.1
Bank overdrafts	(3.2)	(2.3)
	(0.9)	(0.2)

19. Analysis of net debt

	At 1 April 2010 £m	Cash flow £m	Non-cash items £m	At 31 March 2011 £m
Cash at bank and in hand	–	0.2	–	0.2
Restricted cash – tenants' deposit deeds	2.1	–	–	2.1
Bank overdrafts	(2.3)	(0.9)	–	(3.2)
	(0.2)	(0.7)	–	(0.9)
Bank loans	(380.8)	17.3	–	(363.5)
Less cost of raising finance	0.2	3.8	(0.8)	3.2
Finance lease obligations	(3.5)	0.2	(0.2)	(3.5)
	(384.1)	21.3	(1.0)	(363.8)
Total	(384.3)	20.6	(1.0)	(364.7)

20. Other non-current liabilities

	2011 £m	2010 £m
Bank priority fee	0.9	0.9
	0.9	0.9

This fee is payable to Bank of Scotland before the end of the term of the associated loan in December 2014.

21(a). Share capital

	2011 Number	2010 Number
Issued: Fully paid ordinary shares of 10p each	1,152,731,338	1,149,459,056

	2011 £m	2010 £m
Issued: Fully paid ordinary shares of 10p each	115.3	114.9

Movements in share capital were as follows:

	2011 Number	2010 Number
Number of shares at 1 April	1,149,459,056	1,046,116,842
Issue of shares	3,272,282	103,327,509
Save as You Earn share options exercised	–	14,705
Number of shares at 31 March	1,152,731,338	1,149,459,056

The share issue during the year arose from the take up from the scrip dividend in August 2010.

Notes to the Financial Statements

For the year ended 31 March continued

21(b). Share-based payments

The Group operates a number of share schemes:

i) Long Term Equity Incentive Plan (LTIP)

The LTIP scheme is a performance award scheme whereby shares are issued against three Group performance measures which are assessed over the three year vesting period. These are:

- Absolute TSR
- Relative TSR
- Relative NAV

Under the 2010 LTIP scheme 11,112,334 performance and matching shares were awarded in June 2010 to Directors and senior management (2009 LTIP scheme: 17,900,696). The Directors' shares under these schemes are analysed in detail in the Directors' Remuneration Report on page 51.

A binomial model was used to determine the fair value of the LTIP grant for the Absolute TSR and Relative TSR elements of the LTIP scheme.

Assumptions used in the model were as follows:

	2011	2010
Share price at grant	21p	16p
Exercise price (pence)	Nil	Nil
Average expected life (years)	3	3
Risk free rate	1%	2%
Expected dividend yield	4%	5%
Average share price volatility	59%	51%
Fair value per option – Absolute TSR element	12p	7p
Fair value per option – Relative TSR element	13p	8p

The relative NAV is a non-market based condition and the intrinsic value is therefore the share price at date of grant of 21p. At each balance sheet date, the Directors assess the likelihood of meeting the conditions under this element of the scheme. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity. The assessment at year end was that up to 50% of the relative NAV element will vest.

The expected Workspace share price volatility was determined by taking account of the daily share price movement over a three year period. The respective FTSE 250 Real Estate share price volatility and correlations were also determined over the same period. The average expected term to exercise used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions and historical experience.

The risk free rate has been determined from market yield curves for government gilts with outstanding terms equal to the average expected term to exercise for each relevant grant. The expected dividend yield was determined by calculating the present value of expected future dividend payments to expiry.

ii) Employee share schemes

The Group operates a Save as You Earn (SAYE) share option scheme and an Executive Share Option Scheme (ESOS) for which there have been no grants since 2008. Grants under ESOS are normally exercisable between three and ten years from the date of grant and normally granted at the market price ruling at the date of grant.

Grants of ESOS options made in 2006, 2007 and 2008 did not meet the required performance conditions and have lapsed.

Grants under the SAYE scheme are normally exercisable after three or five years saving. In accordance with UK practice, the majority of options under the SAYE schemes are granted at a price 20% below the market price ruling at the date of grant.

Review of Operations	01 – 35
Governance	36 – 53
Financial Statements	54 – 86
Shareholder Information	87 – 88

21(b). Share-based payments continued

Details of the movements for the SAYE and equity-settled ESOS schemes during the year were as follows:

	ESOS		SAYE	
	Number	Weighted exercise price	Number	Weighted exercise price
Options outstanding				
At 1 April 2009	5,658,989	145p	283,605	97p
Options granted	–	–	4,405,690	12p
Options exercised	–	–	(14,705)	12p
Options lapsed	(626,820)	145p	(331,519)	81p
At 31 March 2010	5,032,169	145p	4,343,071	12p
Options granted	–	–	347,851	17p
Options lapsed	(2,064,822)	178p	(385,986)	14p
At 31 March 2011	2,967,347	108p	4,304,936	12p

Of the outstanding ESOS options at 31 March 2011 2,967,347 [2010: 4,209,912] were exercisable immediately. None of the SAYE options outstanding were available to exercise.

At 31 March 2011 in total there were 7,272,283 [2010: 9,375,240] SAYE and ESOS share options exercisable on the Company's ordinary share capital. Of these, 1,587,213 were Directors' share options and are disclosed in the Directors' Remuneration Report. 5,685,070 options are held by employees who are not Directors and these are analysed below:

Non-Director options Date of grant	Scheme	Exercise price (Pence)	Ordinary shares Number	Exercisable between	
29 July 2002	ESOS	89.39p	499,027	29.07.2005	29.07.2012
30 June 2003	ESOS	85.10p	456,444	30.06.2006	30.06.2013
30 June 2004	ESOS	13.58p	270,140	30.06.2007	30.06.2014
17 June 2005	ESOS	18.37p	226,810	17.06.2008	17.06.2015
1 September 2005	ESOS	19.99p	80,044	01.09.2008	01.09.2015
				Exercisable between	
22 July 2008	SAYE	91.7p	4,370	01.09.2013	01.03.2014
21 July 2009	SAYE	11.9p	2,948,206	01.09.2012	01.03.2013
21 July 2009	SAYE	11.9p	852,178	01.09.2014	01.03.2015
20 July 2010	SAYE	17.1p	318,939	01.09.2013	01.03.2014
20 July 2010	SAYE	17.1p	28,912	01.09.2015	01.03.2016
Total			5,685,070		

The exercise of all options, other than those obtained under the Group's Save As You Earn scheme, is dependent upon the Group achieving specified performance targets as disclosed in the Directors' Remuneration Report on page 51.

The fair value of the SAYE share options granted during the year have been calculated using the Black-Scholes model. Inputs to the model are summarised as follows:

	2011 SAYE 3 year	2011 SAYE 5 year	2010 SAYE 3 year	2010 SAYE 5 year
Weighted average share price at grant	21p	21p	15p	15p
Exercise price	17p	17p	12p	12p
Expected volatility	59%	54%	51%	42%
Average expected life (years)	3	5	3	5
Risk free rate	1%	2%	2%	2%
Expected dividend yield	4%	4%	5%	5%
Possibility of ceasing employment before vesting	25%	25%	25%	25%

The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. The expected dividend yield is based on the present value of expected future dividend payments to expiry.

Notes to the Financial Statements

For the year ended 31 March continued

21(b). Share-based payments continued

Fair values per share of these options were:

	2011	2011	2010	2010
	Grant date	Fair value of award	Grant date	Fair value of award
SAYE – 3 year	20 July 2010	8p	21 July 2009	6p
SAYE – 5 year	20 July 2010	8p	21 July 2009	5p

iii) Co-Investment Plan

The Group operated a Co-Investment Plan for Directors, the exercise of which depended on the achievement of certain market related performance conditions. No grants were made during the year on this scheme as it has been replaced by the Long Term Equity Incentive Plan (LTIP).

The scheme and performance criteria are fully explained in the Directors' Remuneration Report on page 49.

iv) Cash settled share based payments

National Insurance payments due on the exercise of non-approved ESOS options and shares from the LTIP and the Co-Investment Plan are considered cash settled share based payments.

The estimated fair value of the National Insurance cash settled share based payments have been calculated using the Black-Scholes model. At each balance sheet date the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement.

Inputs to the model for the grants during the year are summarised as follows:

	2011	2010
Share price at 31 March	27p	24p
Exercise price	–	–
Expected volatility	59%	51%
Term of option remaining (years)	2.2	2.2
Risk free rate	1%	2%
Expected dividend yield	4%	5%
Possibility of ceasing employment	10%	10%
Fair value of cash based payment per share	24p	22p

v) Share based payment charges

The Group recognised a total charge in relation to share based payments as follows:

	2011	2010
	£m	£m
Equity settled share based payments	0.8	1.0
Cash settled share based payments	0.3	0.1
	1.1	1.1

The total liability at the end of the period in respect of cash-settled share based schemes was £0.4m (2010: £0.1m).

22. Other reserves

	Owner occupied property £m	Equity settled share based payments £m	Merger reserve £m	Total £m
Balance at 1 April 2009	–	2.6	–	2.6
Arising on share issue	–	–	8.7	8.7
Revaluation gain	0.7	–	–	0.7
Share based payments	–	1.0	–	1.0
Balance at 31 March 2010	0.7	3.6	8.7	13.0
Revaluation gain	1.2	–	–	1.2
Share based payments	–	0.8	–	0.8
Balance at 31 March 2011	1.9	4.4	8.7	15.0

The revaluation gain on owner occupied property relates to the accounting policy to include owner occupied land and buildings at valuation rather than historic cost.

The merger reserve was created in the prior year following the raising of £18.8m of equity through a cashbox share placing structure.

Review of Operations	01 – 35
Governance	36 – 53
Financial Statements	54 – 86
Shareholder Information	87 – 88

23. 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, Co-Investment Plan and Long Term Equity Incentive Plan. The shares are held by an independent trustee and the rights to dividends on the shares have been waived except where the shares are beneficially owned by participants. During the year the Trust purchased 4,002,132 shares for a cash consideration of £0.8m. At 31 March 2011 the number of shares held by the Trust totalled 9,750,321 (2010: 5,748,189). At 31 March 2011 the market value of these shares was £2.7m (2010: £1.4m) compared to a nominal value of £1.0m (2010: £0.6m).

	2011 £m	2010 £m
Balance at 1 April	7.2	5.7
Acquisition of ordinary shares	0.8	0.2
Transfer of shares	–	1.3
Balance at 31 March	8.0	7.2

24. Joint ventures

a) BlackRock Workspace Property Trust

On 23 February 2011 the Company entered into an arrangement with the BlackRock UK Property Fund by creating a Jersey property unit trust. The Group holds a 20.1% interest in the trust (BlackRock Workspace Property Trust) whose aim is to build a £100m fund of office and industrial property in and around London. The Company is property manager with significant delegated powers including responsibility for asset management and recommending acquisitions and disposals. Transactions between the Group and the joint venture are on an arm's length basis. This joint venture has been equity accounted for in the Group's consolidated financial statements.

The Group's 20.1% share of the joint venture assets and liabilities at 31 March 2011 is shown below:

	31 March 2011 £m
Investment properties	7.1
Current assets	0.3
Total assets	7.4
Current liabilities	(0.3)
Total liabilities	(0.3)
Net assets	7.1
Unrealised surplus on sale of properties to joint venture	(0.4)
Investment in joint venture	6.7

The Group's 20.1% share of the joint venture income and expenses for the period 23 February 2011 to 31 March 2010 is shown below:

	Period ended 31 March 2011 £m
Revenue	0.1
Direct costs	–
Net rental income	0.1
Administrative expenses	–
Change in fair value of investment properties	(0.3)
Set up costs	(0.1)
Loss before tax	(0.3)
Taxation	–
Loss after tax	(0.3)

b) Workspace Glebe

For the period to 11 December 2009, Workspace Group PLC held 50% of the ordinary share capital of Workspace Glebe Limited. Its interest in this joint venture was equity accounted for in the Group's consolidated financial statements.

On 11 December 2009 Workspace Group PLC acquired the remaining 50% of the share capital of Workspace Glebe Limited from Glebe Two Limited, the former joint venture partner. From this date Workspace Glebe Limited became a wholly owned subsidiary of Workspace Group PLC.

Notes to the Financial Statements

For the year ended 31 March continued

24. Joint ventures continued

The Group's 50% share of the joint venture income and expenses for the period 1 April 2009 to 11 December 2009 is shown below:

	Period ended 11 December 2009 £m
Revenue	3.0
Direct costs	(1.1)
Net rental income	1.9
Administrative expenses	–
Change in fair value of investment properties	(16.2)
Finance costs – interest payable	(2.6)
Change in fair value of derivative financial instruments	0.8
Loss before tax	(16.1)
Taxation	–
Loss after tax	(16.1)

This loss and subsequent adjustments arising upon the business combination are shown below:

	Year ended 31 March 2010 £m
Consideration for acquisition of joint venture	–
Net assets acquired on business combination	3.1
Acquisition related costs	(0.7)
Negative goodwill on business combination	2.4
Loss after tax	(16.1)
Revaluation of share in joint venture	18.4
Release of interest shortfall guarantee provision	4.4
Share in former joint venture profit after tax	6.7
Total credited to income statement	9.1

25. Related party transactions

Transactions between the Group and its joint ventures are set out below. These are related party transactions as defined in IAS 24:

	2011 £m	2010 £m
Transactions year ended 31 March:		
Net investment into joint ventures	7.4	–
Recharges to joint ventures	–	0.4
Recharges from joint ventures	–	(0.1)
Balances with joint ventures at 31 March:		
Amounts payable to joint venture	(0.6)	–

26. Capital commitments

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

	2011 £m	2010 £m
Under contract:		
Property, plant and equipment	0.4	–
Purchases, construction or re-development of investment property	2.0	0.4
Repairs, maintenance or enhancement of investment property	1.5	1.1
	3.9	1.5
Authorised by Directors but not contracted:		
Property, plant and equipment	0.2	0.1
Intangible assets	0.1	–
Purchases, construction or re-development of investment property	8.2	5.6
Repairs, maintenance or enhancement of investment property	2.8	4.4
	11.3	10.1
	15.2	11.6

Review of Operations	01 – 35
Governance	36 – 53
Financial Statements	54 – 86
Shareholder Information	87 – 88

27. Contingent liability

Upon restructuring of the former joint venture Workspace Group PLC entered into a proceeds sharing agreement with Workspace Glebe Limited's lenders allowing the banks to share in any property disposal proceeds remaining after the repayment of the £68m debt and priority fee, and repayment to Workspace for the initial consideration of £15m, together with any capital expenditure incurred to the date of disposal to the extent not funded by cash flows of Workspace Glebe itself. All disposals are at the option of the Group. This gives rise to a contingent liability based upon the deemed value liable under this proceeds sharing arrangement.

At 31 March 2011 the proceeds sharing contingent liability assuming all properties were sold was calculated at £15.8m (2010: £8.4m). This is based on 31 March 2011 valuation of the former joint venture portfolio of £117m (2010: £101m).

The impact of this on EPRA NAV per share if the entire Glebe portfolio were sold would be a decrease of 1.3p (2010: 0.7p). This liability will be reviewed at each six monthly valuation using the same basis to generate a contingent liability under this proceeds sharing arrangement.

28. Principal subsidiary undertakings

Except where indicated otherwise, the Company (incorporated in the UK) wholly owns the following active subsidiary undertakings incorporated in the UK and registered in England and Wales, all of which are consolidated in the Group's financial statements:

Name	Nature of business	Share capital (ordinary shares)
Workspace 11 Ltd	Property Investment	88,861,629 shares of £1
*Workspace 12 Ltd	Property Investment	1004 shares of 0.1 pence
Workspace 13 Ltd	Property Investment	138,769,653 shares of £1
*Workspace 14 Ltd	Property Investment	145,568,460 shares of £1
Workspace 15 Ltd	Property Investment	37,772,814 shares of £1
†Workspace 16 (Jersey) Ltd	Investor in joint venture	751 shares of £1
Workspace Glebe Ltd	Property Investment	2,000,004 shares of £1
*Glebe Three Ltd	Property Investment	1,000,000 shares of £1
Workspace Holdings Ltd	Holding Company	2 shares of £1
LI Property Services Ltd	Insurance Agents	100 shares of £1
Workspace Management Ltd	Property Management	1 share of £1
Anyspacedirect.co.uk Ltd	Website Service	1 share of £1

* The share capital of these subsidiaries is held by other Group companies.

† Company registered in Jersey.

A full list of subsidiary undertakings at 31 March 2011 will be appended to the Company's next annual return.

29. Pension commitments

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge for the year totals £0.5m (2010: £0.5m) representing contributions payable by the Group to the fund and is charged through operating profit.

The Group's commitment with regard to pension contributions range from 6% to 16.5% of an employee's salary and employee contributions range from 3% to 20%. The pension scheme is open to every employee after three months' qualifying service. The number of employees in the scheme at the year end was 98 (2010: 103).

30. Operating lease commitments

The following future minimum lease payments are due under non-cancellable operating leases:

	2011	2010
	£m	£m
Motor vehicles and office equipment:		
Due within one year	0.1	0.1
Due between two and five years	0.1	–
	0.2	0.1

31. Post balance sheet events

In April 2011 the Group completed the sale of Ewer Street car park (part of Great Guildford Street Business Centre) for £3.9m.

In June 2011 the Group signed a new £125m loan facility with RBS repayable in June 2015.

Independent Auditors' Report to the Members of Workspace Group PLC (Parent Company)

We have audited the Parent Company financial statements of Workspace Group PLC for the year ended 31 March 2011 which comprise the Parent Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 53, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Group annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implication for our report.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the Parent Company financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Workspace Group PLC for the year ended 31 March 2011.

Bowker Andrews (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 June 2011

Parent Company Balance Sheet

As at 31 March

Review of Operations	01 – 35
Governance	36 – 53
Financial Statements	54 – 86
Shareholder Information	87 – 88

	Notes	2011 £m	2010 (restated) £m
Fixed assets			
Investments in subsidiary undertakings	C	260.4	252.1
		260.4	252.1
Current assets			
Debtors	D	125.6	94.8
Creditors: amounts falling due within one year	E	(102.2)	(56.0)
Net current assets		23.4	38.8
Total assets less current liabilities		283.8	290.9
Net assets		283.8	290.9
Capital and reserves			
Called up share capital	F	115.3	114.9
Share premium account	F	25.0	24.7
Investment in own shares	F	(8.0)	(7.2)
Merger reserve	F	8.7	8.7
Share based payment reserve	F	4.4	3.6
Profit and loss account	F	138.4	146.2
Total shareholders' funds		283.8	290.9

The financial statements were approved by the Board of Directors on 3 June 2011 and were signed on its behalf by:

H Platt
G Clemett
Directors

The notes on pages 84 and 85 form part of these financial statements.

Workspace Group PLC
Registered number 2041612

Notes to the Parent Company Financial Statements

A. Accounting policies

Although the Group consolidated financial statements are prepared under IFRS, the Workspace Group PLC Company financial statements are prepared under UK GAAP. The principal accounting policies of the Company which have been applied consistently throughout the year are set out below:

(a) Basis of accounting

The financial statements are prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the UK. FRS 29 Financial Instruments – Disclosure (the UK GAAP equivalent of IFRS 7 Financial Instruments – Disclosure) has been adopted by the Company, but the disclosure requirements are met in note 17 of the Group financial statements.

(b) Cash flow statement

The Company has taken advantage of the convention not to produce a cash flow statement as one is prepared for the Group financial statements.

(c) Investment in subsidiary undertakings

Interests in subsidiary undertakings are carried in the Company's balance sheet at cost less impairment. Impairment in subsidiaries is taken to the profit and loss account.

(d) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred tax assets and liabilities arise from differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation.

In accordance with FRS 19 deferred tax has been recognised in respect of all timing differences which have originated, but not reversed, by the balance sheet date, except that deferred tax has not been recognised on any potential capital gain where a binding sale commitment is not in place.

The Company has not discounted deferred tax assets and liabilities.

(e) Share based payment and investment in own shares

Incentives are provided to employees under share option schemes. The Company has established an Employee Share Ownership Trust (ESOT) to satisfy part of its obligation to provide shares when Group employees exercise their options. The Company provides funding to the ESOT to purchase these shares.

The Company itself has no employees. When the Company grants share options to Group employees as part of their remuneration, the expense of the share options is reflected in a subsidiary undertaking, Workspace Management Limited. The Company recognises this as an investment in subsidiary undertakings with a corresponding increase to equity.

B. Profit for the year

As permitted by the exemption in Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The profit attributable to shareholders, before dividend payments, dealt with in the financial statements of the Company was £1.1m (2010: £25.9m).

Auditors' remuneration of £10,000 (2010: £10,000) has been borne by a subsidiary undertaking.

Proposed dividends are disclosed in note 7 to the consolidated financial statements.

C. Investment in subsidiary undertakings

Cost	£m
Balance at 1 April 2010	299.2
Additions in the year	8.3
Balance at 31 March 2011	307.5

Impairment	£m
Balance at 31 March 2010 and 2011	47.1

Net book value at 31 March 2011	260.4
Net book value at 31 March 2010	252.1

During the year the Company acquired 751 shares in Workspace 16 (Jersey) Ltd, a company registered in Jersey.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

Refer to note 28 to the consolidated financial statements for the list of subsidiary undertakings.

D. Debtors

	2011 £m	2010 £m
Amounts owed by subsidiary undertakings	125.6	94.8
	125.6	94.8

Amounts owed by subsidiary undertakings are unsecured and repayable on demand. Interest is charged to subsidiary undertakings.

E. Creditors: amounts falling due within one year

	2011 £m	2010 £m
Amounts owed to subsidiary undertakings	101.8	54.4
Other taxation and social security payable	0.4	0.4
Corporation tax payable	–	1.2
	102.2	56.0

Amounts owed to subsidiary undertakings are unsecured and repayable on demand. Interest is paid to subsidiary undertakings.

F. Capital and reserves

Movements and notes applicable to share capital, share premium account, investment in own shares, merger reserve and share based payment reserve are shown in notes 21, 22 and 23 of the consolidated financial statements.

Prior year numbers have been restated to include share based payments in equity and investment in subsidiary undertakings.

Profit and loss account:	£m
Balance at 1 April 2010	146.2
Profit for the year	1.1
Dividends paid	(8.9)
Balance at 31 March 2011	138.4

G. Reconciliation of movements in shareholders' funds

	2011 £m	2010 £m
Profit for the financial year	1.1	25.9
Dividends paid	(8.9)	(8.1)
Merger reserve arising on share issue	–	8.7
Issue of shares	0.7	10.4
Investment in own shares	(0.8)	(1.5)
Share based payments	0.8	1.0
Net movement in shareholders' funds	(7.1)	36.4
Opening shareholders' funds	290.9	254.5
Closing shareholders' funds	283.8	290.9

H. Related party transactions

The Company has taken advantage of the exemption under FRS 8 Related Party Disclosures not to disclose related party transactions with wholly owned subsidiary undertakings.

Related party transactions are the same for the Company as for the Group. For details refer to note 25 of the consolidated financial statements.

Five Years Performance

2007 - 2011

	31 March 2011 £m	31 March 2010 £m	31 March 2009 £m	31 March 2008 £m	31 March 2007 £m
Rents receivable	52.0	49.8	54.2	51.4	45.6
Service charges and other income	16.8	16.7	15.6	15.5	14.3
Revenue	68.8	66.5	69.8	66.9	59.9
Trading profit	36.2	35.3	38.4	37.0	31.6
Net interest payable [^]	(22.1)	(24.5)	(28.4)	(28.1)	(23.2)
Trading profit after interest	14.1	10.8	10.0	8.9	8.4
Profit/(loss) before taxation	52.8	26.0	(360.4)	(37.0)	112.5
Profit/(loss) after taxation	53.5	24.2	(360.4)	(34.7)	193.4
Earnings per share*	4.7p	2.3p	(134.6)p	(15.2)p	86.5p
Dividends per share*	0.83p	0.75p	1.15p	3.43p	3.11p
Dividends (total)	9.5	8.6	7.8	7.8	7.0
Investment properties	713.4	713.2	664.1	994.3	1,001.6
Less: net liabilities	(12.8)	(39.5)	(54.1)	(16.1)	(37.9)
Less: net borrowings	(366.8)	(386.4)	(358.1)	(441.4)	(381.1)
Net assets	333.8	287.3	251.9	536.8	582.6
Gearing	110%	134%	142%	82%	65%
Gearing on EPRA net assets	106%	125%	129%	82%	65%
Basic NAV per share*	£0.29	£0.25	£0.24	£2.35	£2.55
EPRA NAV per share*	£0.30	£0.27	£0.27	£2.33	£2.52

* Earnings per share, dividends per share and net assets per share have been restated to reflect adjustment for the Rights Issue in March 2009.

[^] Excludes exceptional items.

Key Performance Indicators

Workspace Group:	31 March 2011	31 March 2010	31 March 2009	31 March 2008	31 March 2007
Number of estates ¹	94	105	106	106	101
Lettable floorspace (m sq. ft.) [■]	5.1	5.5	5.0	5.2	4.9
Number of lettable units ¹	4,856	5,156	4,546	4,611	4,304
Average unit size (sq. ft.) ¹	1,049	1,067	1,099	1,118	1,139
Rent roll of occupied units ¹	£48.9m	£50.7m	£50.8m	£52.6m	£47.2m
Average rent per sq. ft. ¹	£11.47	£11.22	£12.64	£11.88	£11.34
Overall occupancy ¹	83.6%	81.9%	80.3%	85.8%	84.8%
Enquiries (number)*	11,535	12,109	10,515	9,414	7,913
Lettings (number)*	1,051	1,203	1,035	1,007	1,149

BlackRock Workspace Property Trust (BWPT):	31 March 2011
Number of estates	8
Lettable floorspace (m sq.ft.) [■]	0.3
Number of lettable units	281
Average unit size (sq.ft.)	1,147
Rent roll of occupied units	£3.1m
Average rent per sq.ft.	£10.57
Overall occupancy	92.1%

[■] Excludes storage space

¹ Excluding BWPT which is shown separately

* Including BWPT