



Workspace Group

# Home to the entrepreneur

Half Year Report 2011

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## Who we are

**Workspace is home to the entrepreneur. Workspace is a property based company, with around 100 estates across London. We provide space and services to the small and growing businesses that drive the UK economy.**

**Our culture is focused on excellent service and, like our customers, we use our entrepreneurial skills to create value for our stakeholders. We have a clear strategy for taking the Group forward and a solid platform for growth.**



This Report is also available online:

[www.workspacegroupplc.com/publications-archive](http://www.workspacegroupplc.com/publications-archive)

# Highlights for the six months ended 30 September 2011

## Workspace reports good progress

### Financial Performance

**Trading profit after interest up 15% to £7.6m**  
(September 2010: £6.6m).

**Profit before tax £16.9m**  
(September 2010: £18.0m).

**EPRA earnings per share up 7.3% to 5.9p**  
(September 2010 (restated): 5.5p).

**Interim dividend per share increased by 10% to 2.93p** (September 2010 (restated): 2.66p).

**Underlying property valuation up 2.2% (£16m) in the six months to £733m.**

**Net bank debt reduced to £310m (Loan to value 42%). Average cost of debt 5.2%.**

**EPRA net asset value per share £2.90**  
(March 2011 (restated): £2.86).

### Trading

**Good level of customer demand with increased occupancy at our like-for-like properties now 87.4%** (86.2% at March 2011).

**Overall occupancy including refurbishment and redevelopment properties increased to 85.2%** (83.6% at March 2011).

**Total cash rent roll up 2.2% (£1.1m) in the six months to £50.0m.**

### Property and Redevelopment Activity

**Raised £63m (net of expenses) in a rights issue in July 2011 to accelerate investment in our portfolio for significant income and capital growth.**

**A number of refurbishment projects under way with capital expenditure of £8m in the six months.**

**First acquisition for £5m in our joint venture with BlackRock completed in October 2011.**

**£9m of cash from disposals.**

### Outlook

**Commenting on the results, Harry Platt, Chief Executive said:**

"During the period we have successfully driven occupancy and rent roll and accelerated our programme of refurbishment and repositioning initiatives. We have also achieved good increases in property values without any benefit from yield movement.

We are mindful of the broader economic environment but continue to see, since the half year end, good customer demand and positive KPI's. Further, our intensive management model enables us to respond quickly to both opportunity and challenges. With a strong balance sheet, experienced management team and attractive London property portfolio Workspace is well positioned for further growth."

**Daniel Kitchen, Chairman, added:**

"Workspace is a well managed business, soundly financed with a clear strategy. The immediate priority is to ensure delivery of our plans set out at the time of our rights issue in July; we are making good progress here. Given the trading results and positive lead indicators, we have increased the interim dividend by 10% to 2.93p per share, payable in February 2012.

We are in the process of appointing a replacement for Harry as Chief Executive and expect to be in a position to announce his successor early in the New Year and so ensure an orderly transition during the first half of 2012."

# Operational Review

## Our three clear priorities for the Group remain:

- To continue to drive occupancy and rental income;
- To maximise value from the property portfolio; and
- To utilise and exploit our brand.

## Portfolio performance

Customer enquiries and lettings have continued at a good level through the Summer months and into the Autumn.

| Average number per month: | Quarter to September 2011 | Quarter to June 2011 | Quarter to March 2011 | Quarter to December 2010 |
|---------------------------|---------------------------|----------------------|-----------------------|--------------------------|
| Enquiries                 | 1,000                     | 911                  | 1,045                 | 917                      |
| Lettings                  | 88                        | 77                   | 79                    | 97                       |

Total occupancy at September 2011 was 85.2%, up 1.2% in the quarter and 1.6% since March 2011. Cash rent roll was £50.0m, up 0.8% (£0.4m) in the last three months and up 2.3% (£1.1m) in the six months. Contracted rent roll, which includes stepped rates and rent free periods, was £2.7m higher than the cash rent roll at £52.7m of which 60% will convert to cash by March 2012.

## Like-for-Like properties (78 estates)

This category represents the majority of our portfolio. It excludes properties undergoing refurbishment or redevelopment.

| Like-for-Like            | September 2011 | March 2011 | September 2010 |
|--------------------------|----------------|------------|----------------|
| Occupancy                | 87.4%          | 86.2%      | 85.6%          |
| Cash rent roll           | £43.9m         | £42.9m     | £41.8m         |
| Average rent per sq. ft. | £12.17         | £12.01     | £11.70         |

Cash rent roll has improved 2.3% in the six months and average rent per sq.ft. is up by 1.3%. The increase in rent roll has come primarily from the improvement in occupancy levels although we have taken the opportunity to selectively increase pricing where there is strong demand.

## Refurbishment properties (5 estates)

These are properties that are either being refurbished or have recently been refurbished (within the last two years).

| Refurbishment  | September 2011 | March 2011 | September 2010 |
|----------------|----------------|------------|----------------|
| Occupancy      | 70.0%          | 62.8%      | 62.5%          |
| Cash rent roll | £3.6m          | £3.3m      | £3.3m          |

There have been significant improvements in both occupancy and rent roll at the refurbished properties, in particular Barley Mow where occupancy is now 87% and at Chester House, Kennington (which opened in July 2011) where occupancy, including the relocation of Workspace's head office, is 52%.

At Canalot Studios, occupancy has been impacted by the refurbishment and roof extension which reduced rent roll by £0.2m in the six months.

## Redevelopment properties (11 estates)

These are properties where we are progressing with opportunities for mixed use redevelopments or alternative use. The focus at these properties is on maintaining income and occupancy on a short-term basis until the property is vacated ahead of redevelopment or disposal.

| Redevelopment  | September 2011 | March 2011 | September 2010 |
|----------------|----------------|------------|----------------|
| Occupancy      | 78.7%          | 76.6%      | 74.8%          |
| Cash rent roll | £2.5m          | £2.4m      | £2.7m          |

## Property valuation

There has been an underlying increase in the property valuation of 2.2% in the first six months excluding the effect of acquisitions, disposals and capital expenditure. A summary of the movements is set out below:

|                                          | £m   |
|------------------------------------------|------|
| Portfolio valuation at 31 March 2011     | 719  |
| Property disposals (at book value)       | (10) |
| Property valuation surplus:              |      |
| – quarter to June 2011                   | 9    |
| – quarter to September 2011              | 7    |
| Capital expenditure                      | 8    |
| Portfolio valuation at 30 September 2011 | 733  |

A more detailed analysis of the valuation is set out below:

|                              | September 2011 | March 2011 |
|------------------------------|----------------|------------|
| Existing use valuation       | £653m          | £640m      |
| Existing use income yield*   | 7.7%           | 7.7%       |
| Added value                  | £80m           | £79m       |
| Estimated Rental Value (ERV) | £65.2m         | £61.4m     |

\* Income yield is based on the cash rent roll and valuation excluding added value.

The increase in the existing use valuation over the six months has come from the Group's success in driving occupancy and rent roll and does not include any benefit from yield movement. The existing use income yield is flat from March 2011 at 7.7% (September 2010: 7.6%).

Added value is attached to properties where the Group has obtained planning or is well advanced on obtaining planning approval for redevelopment. Movement in this value over the last six months is set out below:

|                                         | £m  |
|-----------------------------------------|-----|
| Added value at March 2011               | 79  |
| – realised on disposals                 | (8) |
| – uplift at Aberdeen Studios            | 6   |
| – uplift at Wandsworth Business Village | 2   |
| – other redevelopments                  | 1   |
| Added value at September 2011           | 80  |

The total ERV for the portfolio of £65.2m has increased by £3.9m in the six months, adjusting for disposals. This comprises a £1.3m (2.5%) increase in ERV of the core like-for-like portfolio, reflecting pricing increases now being achieved, and a £2.6m increase in the ERV of refurbishment and redevelopment properties. This latter increase was primarily at Wandsworth Business Village and Aberdeen Studios where there was an uplift of £2.2m from the mixed-use schemes at the two sites.

The total net initial yield on our whole portfolio, as calculated by our valuers, CBRE, is 6.9% (March 2011: 6.8%). The capital value per sq.ft. is £139 (March 2011: £137).

#### Refurbishment update

We are making good progress on refurbishment and repositioning initiatives in line with the plans set out at the time of the rights issue. Given the broader economic environment we are closely monitoring our capital commitments as we go forward on a project by project basis:

- At Kennington Park, the first phase of redevelopment of Chester House was completed in July 2011 for a total investment of £4m, creating a new 36,000 sq. ft. business centre. The redevelopment of the basement in the main Canterbury Court building for a gym operator was completed in October 2011 with the addition of a third floor extension (12,000 sq. ft.) to the Chester House building planned to commence in March 2012.
- Construction has commenced on the £5m roof extension (15,000 sq. ft.) and refurbishment project at Canalot Studios, completion of which is expected in late 2012.
- Construction has commenced on the £1m extension (9,000 sq. ft.) to Whitechapel Technology Centre which is expected to be completed in June 2012.
- Formal planning consent has now been received for the two floor extension at Great Guildford Street and the redevelopment and one floor extension of Greenheath Business Centre, both of which are planned to commence in the first half of 2012.
- At Greenheath, planning consent was also received for 76 residential units on the car park. This is contracted for sale at £3.4m and is expected to complete in November 2011.

#### Mixed use (New for Old) schemes

We have planning consent at four properties for mixed use, residential led redevelopments with more in the pipeline. Workspace works with development partners on these schemes with the Group receiving back new, better quality commercial space (providing uplifts to both rent and valuation) together with cash and overage on the private residential component. The current status of these schemes is set out below:

- Demolition at the Wandsworth Business Village site is underway. Construction by our development partner, Mount Anvil, of the 209 residential units and 75,000 sq ft of new business space is due to commence in February 2012 with completion expected in mid 2014.
- At Aberdeen Studios, we have planning consent for 72 residential units and a new 63,000 sq. ft. business centre (replacing the existing 53,000 sq. ft. business centre). We are in discussions with a potential development partner for this scheme.
- At Grand Union Centre, we have planning consent for 145 residential units and 80,000 sq. ft. of commercial space. We expect to sign the S106 agreement shortly and will then market the site.
- At Bow Enterprise Park, we have planning consent for 557 residential units and a new 60,000 sq. ft. business centre. The S106 agreement was signed in October 2011 and we are now looking to market the site to sell on a phased basis.

#### Disposals

During the first half, three disposals were completed for £9m with minimal loss of income. These comprised the sale of:

- Car park on Ewer Street, for student housing (£3.9m).
- Alscot Road Industrial Estate, for a residential development (£1.7m).
- Workspace's former head office, Magenta House, and adjacent car park for student housing (£3.9m).

#### BlackRock Joint Venture

Our joint venture with BlackRock in which we hold a 20.1% interest was seeded in February 2011 with eight properties from Workspace at a valuation of £35.1m. At 30 September 2011, the valuation of this portfolio was £36.3m with occupancy at 87.3% and rent roll £2.9m.

We have the capacity within our joint venture to acquire a further £65m of properties. In October 2011 the joint venture completed on its first property acquisition, Chandelier Building, NW10 for cash consideration of £4.7m. We see good potential for improving rents and valuation at this property from applying the Workspace model. We are in advanced negotiations on a number of further potential property purchases.

# Operational Review

continued

## Club Workspace

In June 2011 the Group opened its first two club locations at The Leathermarket and Clerkenwell Workshops. For a monthly fee members have access to Wi-Fi enabled business lounges within these two centres. Our target customers are early stage entrepreneurs, freelancers and others looking for professional space away from their main work location. We intend to create a network of Club Workspace lounges at our business centres across London. We are seeing a good level of demand and already have 185 paying members.

## Financial performance

| £m                                                | 30 September<br>2011 | 30 September<br>2010 |
|---------------------------------------------------|----------------------|----------------------|
| Net rental income – continuing                    | 22.6                 | 21.6                 |
| Net rental income – disposals                     | –                    | 1.3                  |
| Staff and other administrative costs              | (5.2)                | (5.1)                |
| Trading profit                                    | 17.4                 | 17.8                 |
| Interest                                          | (9.8)                | (11.2)               |
| Trading profit after interest                     | 7.6                  | 6.6                  |
| Changes in fair value of investment properties    | 16.2                 | 14.1                 |
| Change in fair value of interest rate derivatives | (6.9)                | (3.9)                |
| Other                                             | –                    | 1.2                  |
| Profit before tax                                 | 16.9                 | 18.0                 |

- Net rental income before disposals is up 4.6% reflecting the improvement in occupancy and rent roll achieved over the last year. Net rental from disposals in the prior year relates primarily to the 8 properties sold into the joint venture with BlackRock in February 2011.
- Cash collection from our customers has remained strong with 96% of customers paying within 30 days (September 2010: 96%). The bad debt charge in the first half year was £0.06m (September 2010: £0.18m).
- Interest costs have fallen by £1.4m, primarily from the reduction in the level of borrowing. The average interest rate on debt in the first half was 5.2% (September 2010: 5.6%).
- The change in fair value of interest rate derivatives represents a non-cash adjustment for the mark to market at September 2011 of the interest rate hedges on our debt facilities.

## Rights issue and share consolidation

In July 2011 the Group raised £63m (net) through a rights issue of 1 share for every 4 existing shares held at 23p. The purpose of this fundraising was to accelerate the Group's redevelopment programme and provide funding for property acquisitions through the BlackRock Workspace Property Trust joint venture. This was followed in August 2011 by a 1 for 10 share consolidation where shareholders received 1 ordinary share of £1.00 nominal value for every 10 shares of 10p nominal value they held. Comparative figures for dividend per share, earnings per share and net asset value per share have been restated accordingly.

## Net assets and financing

Net assets increased by £73m to £407m over the six months, the main components of this increase being the rights issue and increase in the property valuation. EPRA net assets per share, adjusting for the mark to market of the interest rate hedges, was £2.90 (March 2011: £2.86).

Net bank debt at September 2011 was £310m (March 2011: £367m) with an average term to maturity of 3.6 years. Available cash and bank facilities at September 2011 were £87m.

There is comfortable headroom for the covenants on all facilities.

## Dividend

An interim dividend of 2.93p per share will be paid in February 2012, an increase of 10% on the interim dividend paid last year of 2.66p per share (as restated for the rights issue and share consolidation). The dividend will be paid as a Property Income Distribution (PID).

# Key Statistics

|                                                       | Quarter<br>ending<br>30 September<br>2011 | Quarter<br>ending<br>30 June<br>2011 | Quarter<br>ending<br>31 March<br>2011 | Quarter<br>ending<br>31 December<br>2010 | Quarter<br>ending<br>30 September<br>2010 |
|-------------------------------------------------------|-------------------------------------------|--------------------------------------|---------------------------------------|------------------------------------------|-------------------------------------------|
| <b>Workspace Group Portfolio</b>                      |                                           |                                      |                                       |                                          |                                           |
| Number of estates                                     | 92                                        | 93                                   | 94                                    | 104                                      | 104                                       |
| Lettable floorspace (million sq. ft.)†                | 5.1                                       | 5.1                                  | 5.1                                   | 5.4                                      | 5.5                                       |
| Number of lettable units                              | 4,899                                     | 4,885                                | 4,856                                 | 5,175                                    | 5,175                                     |
| ERV                                                   | £65.2m                                    | £62.8m                               | £61.4m                                | £65.1m                                   | £65.6m                                    |
| Reversionary Yield*                                   | 8.9%                                      | 8.6%                                 | 8.5%                                  | 8.8%                                     | 9.0%                                      |
| Cash rent roll of occupied units                      | £50.0m                                    | £49.6m                               | £48.9m                                | £51.0m                                   | £51.0m                                    |
| Average annual rent per sq. ft.                       | £11.52                                    | £11.63                               | £11.47                                | £11.10                                   | £11.19                                    |
| Overall occupancy                                     | 85.2%                                     | 84.0%                                | 83.6%                                 | 84.4%                                    | 83.2%                                     |
| Like-for-like lettable floor space (million sq. ft.)  | 4.1                                       | 4.1                                  | 4.1                                   | 4.2                                      | 4.2                                       |
| Like-for-like cash rent roll                          | £43.9m                                    | £43.5m                               | £42.9m                                | £41.9m                                   | £41.8m                                    |
| Like-for-like average annual rent per sq. ft.         | £12.17                                    | £12.21                               | £12.01                                | £11.68                                   | £11.70                                    |
| Like-for-like occupancy                               | 87.4%                                     | 86.5%                                | 86.2%                                 | 86.2%                                    | 85.6%                                     |
| Property valuation                                    | £733m                                     | £727m                                | £719m                                 | £741m                                    | £732m                                     |
| Loan to value                                         | 42%                                       |                                      | 50%                                   |                                          | 54%                                       |
| <b>BlackRock Workspace Property Trust<sup>◇</sup></b> |                                           |                                      |                                       |                                          |                                           |
| Number of estates                                     | 8                                         | 8                                    | 8                                     |                                          |                                           |
| Lettable floorspace (million sq. ft.)                 | 0.3                                       | 0.3                                  | 0.3                                   |                                          |                                           |
| ERV                                                   | £3.6m                                     | £3.5m                                | £3.4m                                 |                                          |                                           |
| Cash rent roll of occupied units                      | £2.9m                                     | £3.0m                                | £3.1m                                 |                                          |                                           |
| Average rent per sq. ft.                              | £10.20                                    | £10.58                               | £10.57                                |                                          |                                           |
| Overall occupancy                                     | 87.3%                                     | 87.9%                                | 92.1%                                 |                                          |                                           |
| Property valuation                                    | £36.3m                                    | £35.6m                               | £35.1m                                |                                          |                                           |

† Excludes storage space

\* Based on ERV divided by valuation

◇ Workspace Group hold a 20.1% interest in the BlackRock Workspace Property Trust

# Consolidated Income Statement

|                                                                                | Notes | Unaudited 6 months ended<br>30 September |            | Audited<br>Year ended<br>31 March<br>2011<br>£m |
|--------------------------------------------------------------------------------|-------|------------------------------------------|------------|-------------------------------------------------|
|                                                                                |       | 2011<br>£m                               | 2010<br>£m |                                                 |
| Revenue                                                                        | 2     | 33.4                                     | 34.4       | 68.8                                            |
| Direct costs                                                                   | 2     | (10.8)                                   | (11.5)     | (22.9)                                          |
| <b>Net rental income</b>                                                       | 2     | <b>22.6</b>                              | 22.9       | 45.9                                            |
| Administrative expenses                                                        |       | (5.2)                                    | (5.1)      | (9.7)                                           |
| <b>Trading profit</b>                                                          |       | <b>17.4</b>                              | 17.8       | 36.2                                            |
| Other income                                                                   |       | –                                        | –          | 0.1                                             |
| (Loss)/profit on disposal of investment properties                             | 3     | (0.4)                                    | 1.2        | 2.8                                             |
| Loss on disposal of property, plant and equipment                              | 4     | (0.1)                                    | –          | –                                               |
| Change in fair value of investment properties                                  | 10    | 16.2                                     | 14.1       | 30.8                                            |
| <b>Operating profit</b>                                                        |       | <b>33.1</b>                              | 33.1       | 69.9                                            |
| Finance income                                                                 | 5     | 0.1                                      | 0.1        | 0.1                                             |
| Finance costs                                                                  | 5     | (9.9)                                    | (11.3)     | (22.2)                                          |
| Change in fair value of derivative financial instruments                       | 5     | (6.9)                                    | (3.9)      | 5.3                                             |
| Gains/(losses) from share in joint ventures                                    | 14    | 0.5                                      | –          | (0.3)                                           |
| <b>Profit before tax</b>                                                       |       | <b>16.9</b>                              | 18.0       | 52.8                                            |
| Taxation                                                                       | 6     | (0.2)                                    | –          | 0.7                                             |
| <b>Profit for the period after tax and attributable to equity shareholders</b> |       | <b>16.7</b>                              | 18.0       | 53.5                                            |
| Basic earnings per share (pence) <sup>†</sup>                                  | 8     | 13.2p                                    | 15.3p      | 45.4p                                           |
| Diluted earnings per share (pence) <sup>†</sup>                                | 8     | 12.8p                                    | 15.0p      | 44.4p                                           |
| EPRA earnings per share <sup>†</sup>                                           | 8     | 5.9p                                     | 5.5p       | 12.4p                                           |

<sup>†</sup> Comparative figures have been restated to reflect the effect of the rights issue and share consolidation as described in note 15.

# Consolidated Statement of Comprehensive Income

|                                                                       | Unaudited 6 months ended<br>30 September |            | Audited<br>Year ended<br>31 March<br>2011<br>£m |
|-----------------------------------------------------------------------|------------------------------------------|------------|-------------------------------------------------|
|                                                                       | 2011<br>£m                               | 2010<br>£m |                                                 |
| Profit for the financial period                                       | 16.7                                     | 18.0       | 53.5                                            |
| Revaluation of owner occupied property                                | –                                        | 0.3        | 1.2                                             |
| <b>Total comprehensive income attributable to equity shareholders</b> | <b>16.7</b>                              | 18.3       | 54.7                                            |

# Consolidated Balance Sheet

|                                             | Notes | Unaudited<br>30 September<br>2011<br>£m | Audited<br>31 March<br>2011<br>£m | Unaudited<br>30 September<br>2010<br>£m |
|---------------------------------------------|-------|-----------------------------------------|-----------------------------------|-----------------------------------------|
| <b>Non-current assets</b>                   |       |                                         |                                   |                                         |
| Investment properties                       | 10    | 731.8                                   | 713.4                             | 727.5                                   |
| Intangible assets                           |       | 0.3                                     | 0.4                               | 0.4                                     |
| Property, plant and equipment               |       | 1.0                                     | 4.6                               | 3.5                                     |
| Investment in joint venture                 | 14    | 7.1                                     | 6.7                               | –                                       |
| Trade and other receivables                 |       | 4.6                                     | 4.9                               | 4.9                                     |
|                                             |       | <b>744.8</b>                            | <b>730.0</b>                      | <b>736.3</b>                            |
| <b>Current assets</b>                       |       |                                         |                                   |                                         |
| Trade and other receivables                 | 11    | 16.4                                    | 8.3                               | 11.1                                    |
| Cash and cash equivalents                   | 13    | 31.9                                    | 2.3                               | 2.3                                     |
|                                             |       | <b>48.3</b>                             | <b>10.6</b>                       | <b>13.4</b>                             |
| <b>Current liabilities</b>                  |       |                                         |                                   |                                         |
| Bank overdraft                              | 12    | (1.6)                                   | (3.2)                             | –                                       |
| Derivative financial instruments            |       | (16.5)                                  | (10.9)                            | (22.1)                                  |
| Trade and other payables                    |       | (30.2)                                  | (28.0)                            | (28.7)                                  |
| Current tax liabilities                     |       | (0.2)                                   | –                                 | (0.9)                                   |
|                                             |       | <b>(48.5)</b>                           | <b>(42.1)</b>                     | <b>(51.7)</b>                           |
| <b>Net current liabilities</b>              |       | <b>(0.2)</b>                            | <b>(31.5)</b>                     | <b>(38.3)</b>                           |
| <b>Non-current liabilities</b>              |       |                                         |                                   |                                         |
| Borrowings                                  | 12    | (336.8)                                 | (363.8)                           | (396.8)                                 |
| Other non-current liabilities               |       | (0.9)                                   | (0.9)                             | (0.9)                                   |
|                                             |       | <b>(337.7)</b>                          | <b>(364.7)</b>                    | <b>(397.7)</b>                          |
| <b>Net assets</b>                           |       | <b>406.9</b>                            | <b>333.8</b>                      | <b>300.3</b>                            |
| <b>Shareholders' equity</b>                 |       |                                         |                                   |                                         |
| Ordinary shares                             | 15    | 144.1                                   | 115.3                             | 115.3                                   |
| Share premium                               |       | 59.2                                    | 25.0                              | 25.0                                    |
| Investment in own shares                    |       | (8.7)                                   | (8.0)                             | (8.1)                                   |
| Other reserves                              |       | 13.5                                    | 15.0                              | 13.9                                    |
| Retained earnings                           |       | 198.8                                   | 186.5                             | 154.2                                   |
| <b>Total shareholders' equity</b>           |       | <b>406.9</b>                            | <b>333.8</b>                      | <b>300.3</b>                            |
| EPRA net asset value per share <sup>†</sup> | 9     | <b>£2.90</b>                            | £2.86                             | £2.68                                   |

† Comparative figures have been restated to reflect the effect of the rights issue and share consolidation as described in note 15.

# Consolidated Statement of Changes in Equity

|                                                   | Attributable to owners of the Parent |                     |                                |                      |                         |              |
|---------------------------------------------------|--------------------------------------|---------------------|--------------------------------|----------------------|-------------------------|--------------|
|                                                   | Share capital<br>£m                  | Share premium<br>£m | Investment in own shares<br>£m | Other reserves<br>£m | Retained earnings<br>£m | Total<br>£m  |
| <b>Unaudited 6 months ended 30 September 2011</b> |                                      |                     |                                |                      |                         |              |
| Balance at 1 April 2011                           | 115.3                                | 25.0                | (8.0)                          | 15.0                 | 186.5                   | 333.8        |
| Profit for the period                             | –                                    | –                   | –                              | –                    | 16.7                    | 16.7         |
| Release of revaluation of owner occupied property | –                                    | –                   | –                              | (1.9)                | 1.9                     | –            |
| Total comprehensive income                        | –                                    | –                   | –                              | (1.9)                | 18.6                    | 16.7         |
| Transactions with owners:                         |                                      |                     |                                |                      |                         |              |
| Share issues (note 15)                            | 28.8                                 | 34.2                | –                              | –                    | –                       | 63.0         |
| ESOT shares net purchase                          | –                                    | –                   | (0.7)                          | –                    | –                       | (0.7)        |
| Dividends paid (note 7)                           | –                                    | –                   | –                              | –                    | (6.3)                   | (6.3)        |
| Value of employee services                        | –                                    | –                   | –                              | 0.4                  | –                       | 0.4          |
| <b>Balance at 30 September 2011</b>               | <b>144.1</b>                         | <b>59.2</b>         | <b>(8.7)</b>                   | <b>13.5</b>          | <b>198.8</b>            | <b>406.9</b> |
| <b>Unaudited 6 months ended 30 September 2010</b> |                                      |                     |                                |                      |                         |              |
| Balance at 1 April 2010                           | 114.9                                | 24.7                | (7.2)                          | 13.0                 | 141.9                   | 287.3        |
| Profit for the period                             | –                                    | –                   | –                              | –                    | 18.0                    | 18.0         |
| Revaluation of owner occupied property            | –                                    | –                   | –                              | 0.3                  | –                       | 0.3          |
| Total comprehensive income                        | –                                    | –                   | –                              | 0.3                  | 18.0                    | 18.3         |
| Transactions with owners:                         |                                      |                     |                                |                      |                         |              |
| Share Issues                                      | 0.4                                  | 0.3                 | –                              | –                    | –                       | 0.7          |
| ESOT shares net purchase                          | –                                    | –                   | (0.9)                          | –                    | –                       | (0.9)        |
| Dividends paid                                    | –                                    | –                   | –                              | –                    | (5.7)                   | (5.7)        |
| Value of employee services                        | –                                    | –                   | –                              | 0.6                  | –                       | 0.6          |
| Balance at 30 September 2010                      | 115.3                                | 25.0                | (8.1)                          | 13.9                 | 154.2                   | 300.3        |
| <b>Audited 12 months ended 31 March 2011</b>      |                                      |                     |                                |                      |                         |              |
| Balance at 1 April 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)        |
| Value of employee services                        | –                                    | –                   | –                              | 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

|                                                                              |       | Unaudited 6 months ended<br>30 September |            | Audited<br>Year ended<br>31 March<br>2011 |
|------------------------------------------------------------------------------|-------|------------------------------------------|------------|-------------------------------------------|
|                                                                              | Notes | 2011<br>£m                               | 2010<br>£m | £m                                        |
| <b>Cash flows from operating activities</b>                                  |       |                                          |            |                                           |
| Cash generated from operations                                               | 13    | 16.2                                     | 17.6       | 37.9                                      |
| Interest received                                                            |       | –                                        | 0.1        | 0.1                                       |
| Interest paid                                                                |       | (9.5)                                    | (11.0)     | (21.9)                                    |
| Tax paid                                                                     |       | –                                        | (1.9)      | (2.1)                                     |
| Net cash inflow from operating activities                                    |       | 6.7                                      | 4.8        | 14.0                                      |
| <b>Cash flows from investing activities</b>                                  |       |                                          |            |                                           |
| Capital expenditure on investment properties                                 |       | (7.7)                                    | (3.5)      | (9.4)                                     |
| Net proceeds from disposal of investment properties                          |       | 5.4                                      | 4.1        | 43.9                                      |
| Purchase of intangible assets                                                |       | –                                        | (0.1)      | (0.2)                                     |
| Purchase of property, plant and equipment                                    |       | (0.5)                                    | (0.2)      | (0.4)                                     |
| Net proceeds from disposal of property, plant and equipment                  |       | 3.8                                      | –          | –                                         |
| Investment in and loan to joint ventures                                     |       | –                                        | –          | (7.4)                                     |
| Movement in short-term funding balances with joint ventures                  |       | –                                        | –          | 0.6                                       |
| Distributions received from joint venture                                    |       | 0.1                                      | –          | –                                         |
| Net cash inflow from investing activities                                    |       | 1.1                                      | 0.3        | 27.1                                      |
| <b>Cash flows from financing activities</b>                                  |       |                                          |            |                                           |
| Proceeds from issue of ordinary share capital                                |       | 66.3                                     | –          | –                                         |
| Fees paid on share issue                                                     |       | (3.1)                                    | –          | –                                         |
| Finance costs for new/amended borrowing facilities                           |       | (2.1)                                    | (3.8)      | (3.8)                                     |
| Settlement and re-couponing of derivative financial instruments              |       | (0.4)                                    | (4.4)      | (6.5)                                     |
| Repayment of bank borrowings                                                 |       | (25.5)                                   | –          | (17.3)                                    |
| Drawdown of bank borrowings                                                  |       | –                                        | 16.2       | –                                         |
| Movement on bank facility ring fenced accounts                               |       | (4.9)                                    | (4.2)      | (5.0)                                     |
| ESOT shares purchase                                                         |       | (0.7)                                    | (0.9)      | (0.8)                                     |
| Finance lease principal payments                                             |       | (0.1)                                    | (0.1)      | (0.2)                                     |
| Dividends paid                                                               | 7     | (6.1)                                    | (5.4)      | (8.2)                                     |
| Net cash inflow/(outflow) from financing activities                          |       | 23.4                                     | (2.6)      | (41.8)                                    |
| <b>Net increase/(decrease) in cash, cash equivalents and bank overdrafts</b> |       | <b>31.2</b>                              | <b>2.5</b> | <b>(0.7)</b>                              |
| Cash, cash equivalents and bank overdrafts at start of period                | 13    | (0.9)                                    | (0.2)      | (0.2)                                     |
| <b>Cash, cash equivalents and bank overdrafts at end of period</b>           | 13    | <b>30.3</b>                              | <b>2.3</b> | <b>(0.9)</b>                              |

# Notes to the Half Year Report

For the 6 months ended 30 September 2011

## 1. Basis of preparation and accounting policies

The half year report has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The half year report should be read in conjunction with the annual financial statements for the year ended 31 March 2011, which have been prepared in accordance with IFRSs as adopted by the European Union.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2011, as described in those annual financial statements, except as described below.

The condensed financial statements in the half year report are unaudited and do not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The statutory accounts for the year to 31 March 2011, which were prepared under IFRS have been delivered to the Registrar of Companies. The auditors' opinion on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement made under Section 498 of the Companies Act 2006.

The Group's financial performance does not suffer materially from seasonal fluctuations. There have been no changes in estimates of amounts reported in prior periods which have a material impact on the current half year period.

The directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future and for this reason the half year report is prepared on a going concern basis.

This report was approved by the Board on 11 November 2011.

## New and amendments to accounting standards

a) The following new standards, amendments and interpretations are mandatory for the first time for years beginning after 1 April 2011:

| Standard or interpretation | Content                                                     | Applicable for financial years beginning on or after |
|----------------------------|-------------------------------------------------------------|------------------------------------------------------|
| Amendment: IAS 24          | Related party disclosures                                   | 1 January 2011                                       |
| Amendment: IFRIC 14        | Prepayments of a minimum funding requirement                | 1 January 2011                                       |
| IFRIC 19                   | Extinguishing financial liabilities with equity instruments | 1 July 2010                                          |
| Amendment: IFRS 1          | First time adoption on financial instrument disclosures     | 1 July 2010                                          |
| Amendments                 | Annual improvements 2010                                    | 1 January 2011                                       |

These either had no material impact on the Group's financial statements or resulted in changes to presentation and disclosure only.

b) The following standards, amendments and interpretations are not yet effective and are either not expected to have a material impact on the Group's financial statements or will result in changes to presentation and disclosure only. They have not been adopted early by the Group:

| Standard or interpretation | Content                                                               | Applicable for financial years beginning on or after |
|----------------------------|-----------------------------------------------------------------------|------------------------------------------------------|
| IFRS 9                     | Financial instruments: Classification and measurement                 | 1 January 2013                                       |
| IFRS 10                    | Consolidated financial statements                                     | 1 January 2013                                       |
| IFRS 11                    | Joint arrangements                                                    | 1 January 2013                                       |
| IFRS 12                    | Disclosures of interests in other entities                            | 1 January 2013                                       |
| IFRS 13                    | Fair value measurement                                                | 1 January 2013                                       |
| IAS 27 (revised)           | Separate financial statements                                         | 1 January 2013                                       |
| IAS 28 (revised)           | Associates and joint ventures                                         | 1 January 2013                                       |
| IAS 19 (revised)           | Employee benefits                                                     | 1 January 2013                                       |
| Amendment: IFRS 7          | Financial instruments: Disclosures on derecognition                   | 1 July 2011                                          |
| Amendment: IFRS 1          | First time adoption, on fixed dates and hyperflation                  | 1 July 2011                                          |
| Amendment: IAS 12          | Income taxes on deferred tax                                          | 1 January 2012                                       |
| Amendment: IAS 1           | Financial statement presentation regarding other comprehensive income | 1 July 2012                                          |

## 2. Analysis of net rental income and segmental information

|                                               | 6 months ended 30 September |                    |                            |                 |                    |                            | Year ended 31 March 2011 |                    |                            |
|-----------------------------------------------|-----------------------------|--------------------|----------------------------|-----------------|--------------------|----------------------------|--------------------------|--------------------|----------------------------|
|                                               | 2011                        |                    |                            | 2010 (restated) |                    |                            | Revenue<br>£m            | Direct costs<br>£m | Net rental<br>income<br>£m |
|                                               | Revenue<br>£m               | Direct costs<br>£m | Net rental<br>income<br>£m | Revenue<br>£m   | Direct costs<br>£m | Net rental<br>income<br>£m | Revenue<br>£m            | Direct costs<br>£m | Net rental<br>income<br>£m |
| Rental income                                 | 25.0                        | –                  | 25.0                       | 26.0            | (0.1)              | 25.9                       | 52.0                     | (0.2)              | 51.8                       |
| Service charges*                              | 6.9                         | (8.0)              | (1.1)                      | 7.0             | (8.7)              | (1.7)                      | 13.8                     | (17.2)             | (3.4)                      |
| Empty rates and other non-recoverables*       | 0.3                         | (2.1)              | (1.8)                      | 0.3             | (2.2)              | (1.9)                      | 0.5                      | (4.1)              | (3.6)                      |
| Services, fees, commissions and sundry income | 1.2                         | (0.7)              | 0.5                        | 1.1             | (0.5)              | 0.6                        | 2.5                      | (1.4)              | 1.1                        |
|                                               | 33.4                        | (10.8)             | 22.6                       | 34.4            | (11.5)             | 22.9                       | 68.8                     | (22.9)             | 45.9                       |

\* September 2010 comparatives have been represented to combine 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 and 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, 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.

## 3. Profit on disposal of investment properties

|                                                          | 6 months ended 30 September |            | Year ended 31 March 2011 |
|----------------------------------------------------------|-----------------------------|------------|--------------------------|
|                                                          | 2011<br>£m                  | 2010<br>£m | 2011<br>£m               |
| Gross proceeds from sale of investment properties        | 5.6                         | 4.2        | 44.3                     |
| Book value at time of sale plus sale costs               | (5.7)                       | (3.0)      | (41.1)                   |
|                                                          | (0.1)                       | 1.2        | 3.2                      |
| Unrealised profit on sale of properties to joint venture | –                           | –          | (0.4)                    |
| Revaluation of deferred consideration                    | (0.3)                       | –          | –                        |
| Pre-tax (loss)/profit on sale                            | (0.4)                       | 1.2        | 2.8                      |

## 4. Profit on disposal of property, plant and equipment

|                                                           | 6 months ended 30 September |            | Year ended 31 March 2011 |
|-----------------------------------------------------------|-----------------------------|------------|--------------------------|
|                                                           | 2011<br>£m                  | 2010<br>£m | 2011<br>£m               |
| Gross proceeds from sale of property, plant and equipment | 3.9                         | –          | –                        |
| Book value at time of sale plus sale costs                | (4.0)                       | –          | –                        |
| Pre-tax loss on sale                                      | (0.1)                       | –          | –                        |

# Notes to the Half Year Report

continued

## 5. Finance income and costs

|                                                                            | 6 months ended<br>30 September |            | Year ended<br>31 March<br>2011<br>£m |
|----------------------------------------------------------------------------|--------------------------------|------------|--------------------------------------|
|                                                                            | 2011<br>£m                     | 2010<br>£m |                                      |
| Interest income on bank deposits                                           | 0.1                            | –          | –                                    |
| Interest income on tax refunds                                             | –                              | 0.1        | 0.1                                  |
| Finance income                                                             | 0.1                            | 0.1        | 0.1                                  |
| Interest payable on bank loans and overdrafts                              | (9.4)                          | (11.0)     | (21.4)                               |
| Amortisation of issue costs of bank loans                                  | (0.6)                          | (0.3)      | (0.8)                                |
| Interest payable on finance leases                                         | (0.1)                          | (0.1)      | (0.2)                                |
| Interest capitalised on property refurbishments                            | 0.2                            | 0.1        | 0.2                                  |
| Finance costs                                                              | (9.9)                          | (11.3)     | (22.2)                               |
| Change in fair value of financial instruments through the income statement | (6.9)                          | (3.9)      | 5.3                                  |
| Net finance costs                                                          | (16.7)                         | (15.1)     | (16.8)                               |

## 6. Taxation

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. The tax charge of £0.2m for the six months is payable on the taxable 'residual' business which consists of ancillary services, fees and commissions.

## 7. Dividends paid

|                                                 | Payment<br>Date | Per share<br>restated* | 6 months ended<br>30 September |            | Year ended<br>31 March<br>2011<br>£m |
|-------------------------------------------------|-----------------|------------------------|--------------------------------|------------|--------------------------------------|
|                                                 |                 |                        | 2011<br>£m                     | 2010<br>£m |                                      |
| For the year ended 31 March 2010:               |                 |                        |                                |            |                                      |
| Final dividend                                  | August 2010     | 4.85p                  | –                              | –          | 5.7                                  |
| For the year ended 31 March 2011:               |                 |                        |                                |            |                                      |
| Interim dividend                                | February 2011   | 2.66p                  | –                              | –          | 3.2                                  |
| Final dividend                                  | August 2011     | 5.33p                  | 6.3                            | 5.7        | –                                    |
|                                                 |                 |                        | 6.3                            | 5.7        | 8.9                                  |
| Less dividends settled in shares                |                 |                        | –                              | (0.7)      | (0.7)                                |
| Timing difference on payment of withholding tax |                 |                        | (0.2)                          | 0.4        | –                                    |
| Dividends cash paid                             |                 |                        | 6.1                            | 5.4        | 8.2                                  |

\* The comparative dividends per share figures have been divided by 1.0319 to take account of the bonus element of the rights issue and by 0.1 to take account of the 1 for 10 share consolidation.

£0.7m of the final dividend in August 2010 was settled via a scrip issue of shares.

The directors intend to pay an interim dividend in respect of the financial year ended 31 March 2012 of 2.93p per Ordinary Share which will absorb an estimated £4.2m of shareholders' funds. It will be paid on 7 February 2012 to shareholders who are on the register of members on 13 January 2012. It is intended that the full amount of this dividend will be paid as a REIT Property Income Distribution (PID) net of withholding tax where appropriate.

## 8. Earnings per share

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

|                                                             | 6 months ended<br>30 September |            | Year ended<br>31 March<br>2011 |
|-------------------------------------------------------------|--------------------------------|------------|--------------------------------|
|                                                             | 2011<br>£m                     | 2010<br>£m | 2011<br>£m                     |
| <b>Earnings used for calculation of earnings per share:</b> |                                |            |                                |
| Profit used for basic and diluted earnings                  | 16.7                           | 18.0       | 53.5                           |
| Change in fair value of investment property                 | (16.2)                         | (14.1)     | (30.8)                         |
| Loss/(profit) on disposal of properties                     | 0.5                            | (1.2)      | (2.8)                          |
| Movement in fair value of derivative financial instruments  | 6.9                            | 3.9        | (5.3)                          |
| Group's share of EPRA adjustments of joint venture          | (0.2)                          | –          | 0.3                            |
| EPRA adjusted earnings                                      | 7.7                            | 6.6        | 14.9                           |

|                                                                                      | 6 months ended<br>30 September |                             | Year ended<br>31 March<br>2011 |
|--------------------------------------------------------------------------------------|--------------------------------|-----------------------------|--------------------------------|
|                                                                                      | 2011<br>Number                 | 2010<br>Number<br>restated* | 2011<br>Number<br>restated*    |
| <b>Weighted average number of shares used for calculation of earnings per share:</b> |                                |                             |                                |
| Weighted average number of shares (excluding shares held in the ESOT)                | 126,932,337                    | 117,981,502                 | 117,962,202                    |
| Dilution due to share option schemes                                                 | 3,041,724                      | 2,185,351                   | 2,607,785                      |
| Shares for diluted earnings per share                                                | 129,974,061                    | 120,166,853                 | 120,569,987                    |

|                            | 6 months ended<br>30 September |                   | Year ended<br>31 March<br>2011 |
|----------------------------|--------------------------------|-------------------|--------------------------------|
|                            | 2011                           | 2010<br>restated* | 2011<br>restated*              |
| <b>In pence:</b>           |                                |                   |                                |
| Basic earnings per share   | 13.2p                          | 15.3p             | 45.4p                          |
| Diluted earnings per share | 12.8p                          | 15.0p             | 44.4p                          |
| EPRA earnings per share    | 5.9p                           | 5.5p              | 12.4p                          |

\* The comparative number of shares and EPS figures have been restated to take account of the bonus element of the rights issue (adjustment factor of 1.0319) and the 1 for 10 share consolidation. See note 15 for further details of the rights issue and share consolidation.

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

## 9. Net assets per share

|                                                                 | 30 September<br>2011<br>£m | 31 March<br>2011<br>£m | 30 September<br>2010<br>£m |
|-----------------------------------------------------------------|----------------------------|------------------------|----------------------------|
| <b>Net assets used for calculation of net assets per share:</b> |                            |                        |                            |
| Net assets at end of period (basic)                             | 406.9                      | 333.8                  | 300.3                      |
| Derivative financial instruments at fair value                  | 16.5                       | 10.9                   | 22.1                       |
| EPRA net assets                                                 | 423.4                      | 344.7                  | 322.4                      |

|                                                                        | 30 September<br>2011<br>Number | 31 March<br>2011<br>Number<br>restated* | 30 September<br>2010<br>Number<br>restated* |
|------------------------------------------------------------------------|--------------------------------|-----------------------------------------|---------------------------------------------|
| <b>Number of shares used for calculating net assets per share:</b>     |                                |                                         |                                             |
| Shares in issue at period end                                          | 144,091,418                    | 118,946,481                             | 118,946,486                                 |
| Less ESOT shares                                                       | (1,218,790)                    | (1,006,103)                             | (997,730)                                   |
| Number of shares for calculating basic net assets per share            | 142,872,628                    | 117,940,378                             | 117,948,756                                 |
| Dilution due to share option schemes                                   | 3,279,310                      | 2,781,890                               | 2,461,677                                   |
| Number of shares for calculating diluted adjusted net assets per share | 146,151,938                    | 120,722,268                             | 120,410,433                                 |

|                           | 30 September<br>2011 | 31 March<br>2011<br>restated* | 30 September<br>2010<br>restated* |
|---------------------------|----------------------|-------------------------------|-----------------------------------|
| EPRA net assets per share | £2.90                | £2.86                         | £2.68                             |

\* The comparative number of shares and NAV figures have been restated to take account of the bonus element of the rights issue (adjustment factor of 1.0319) and the 1 for 10 share consolidation. See note 15 for further details of the rights issue and share consolidation.

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

# Notes to the Half Year Report

continued

## 10. Investment properties

|                                             | 30 September<br>2011<br>£m | 31 March<br>2011<br>£m | 30 September<br>2010<br>£m |
|---------------------------------------------|----------------------------|------------------------|----------------------------|
| Balance at beginning of period              | 713.4                      | 713.2                  | 713.2                      |
| Capital expenditure                         | 7.6                        | 10.0                   | 3.1                        |
| Capitalised interest on refurbishments      | 0.2                        | 0.2                    | 0.1                        |
| Disposals during the period                 | (5.6)                      | (40.7)                 | (2.9)                      |
| Depreciation on finance leases              | –                          | (0.1)                  | (0.1)                      |
| Change in fair value of investment property | 16.2                       | 30.8                   | 14.1                       |
| Balance at end of period                    | 731.8                      | 713.4                  | 727.5                      |

### Valuation

The Group's investment properties were revalued at 30 September 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.

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

|                                                    | 30 September<br>2011<br>£m | 31 March<br>2011<br>£m | 30 September<br>2010<br>£m |
|----------------------------------------------------|----------------------------|------------------------|----------------------------|
| Total per CB Richard Ellis valuation report        | 732.9                      | 718.7                  | 732.0                      |
| Deferred consideration on sale of property         | (4.6)                      | (4.9)                  | (4.9)                      |
| Owner occupied property                            | –                          | (3.9)                  | (3.0)                      |
| Head leases treated as finance leases under IAS 17 | 3.5                        | 3.5                    | 3.4                        |
| Total per balance sheet                            | 731.8                      | 713.4                  | 727.5                      |

## 11. Trade and other receivables

### Current trade and other receivables

|                                              | 30 September<br>2011<br>£m | 31 March<br>2011<br>£m | 30 September<br>2010<br>£m |
|----------------------------------------------|----------------------------|------------------------|----------------------------|
| Trade receivables                            | 3.0                        | 2.4                    | 2.9                        |
| Less provision for impairment of receivables | (0.6)                      | (0.5)                  | (0.6)                      |
|                                              | 2.4                        | 1.9                    | 2.3                        |
| Prepayments and accrued income               | 4.1                        | 1.4                    | 4.6                        |
| Bank facility ring fenced accounts           | 9.9                        | 5.0                    | 4.2                        |
|                                              | 16.4                       | 8.3                    | 11.1                       |

## 12. Financial liabilities – borrowings

### a) Net debt

|                                                                      | 30 September<br>2011<br>£m | 31 March<br>2011<br>£m | 30 September<br>2010<br>£m |
|----------------------------------------------------------------------|----------------------------|------------------------|----------------------------|
| <b>Current</b>                                                       |                            |                        |                            |
| Bank loans and overdrafts due within one year or on demand (secured) | 1.6                        | 3.2                    | –                          |
|                                                                      | 1.6                        | 3.2                    | –                          |
| <b>Non-current</b>                                                   |                            |                        |                            |
| Bank loans (secured)                                                 | 333.3                      | 360.3                  | 393.4                      |
| Finance lease obligations (part secured)                             | 3.5                        | 3.5                    | 3.4                        |
|                                                                      | 336.8                      | 363.8                  | 396.8                      |
| Total borrowings                                                     | 338.4                      | 367.0                  | 396.8                      |
| Cash at bank and in hand                                             | (30.0)                     | (0.2)                  | (0.3)                      |
| Net debt                                                             | 308.4                      | 366.8                  | 396.5                      |

In June 2011 the Group completed a new £125m loan facility with RBS repayable in June 2015. This replaced a £150m facility repayable in November 2012.

## 12. Financial liabilities – borrowings continued

### b) Maturity

|                                              | 30 September<br>2011<br>£m | 31 March<br>2011<br>£m | 30 September<br>2010<br>£m |
|----------------------------------------------|----------------------------|------------------------|----------------------------|
| <b>Secured (excluding finance leases)</b>    |                            |                        |                            |
| Repayable in less than one year              | 1.6                        | 3.2                    | –                          |
| Repayable between one year and two years     | –                          | 95.5                   | –                          |
| Repayable between two years and three years  | –                          | –                      | 129.0                      |
| Repayable between three years and four years | 338.0                      | 68.0                   | –                          |
| Repayable between four years and five years  | –                          | 200.0                  | 268.0                      |
|                                              | <b>339.6</b>               | <b>366.7</b>           | <b>397.0</b>               |
| Less cost of raising finance                 | (4.7)                      | (3.2)                  | (3.6)                      |
|                                              | <b>334.9</b>               | <b>363.5</b>           | <b>393.4</b>               |
| <b>Finance leases (part secured)</b>         |                            |                        |                            |
| Repayable in five years or more              | 3.5                        | 3.5                    | 3.4                        |
|                                              | <b>338.4</b>               | <b>367.0</b>           | <b>396.8</b>               |

### 13(a). Cash generated from operations

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

|                                                    | 6 months ended<br>30 September |             | Year ended 31<br>March |
|----------------------------------------------------|--------------------------------|-------------|------------------------|
|                                                    | 2011<br>£m                     | 2010<br>£m  | 2011<br>£m             |
| Profit for the period                              | 16.7                           | 18.0        | 53.5                   |
| Tax                                                | 0.2                            | –           | (0.7)                  |
| Depreciation                                       | 0.2                            | 0.4         | 0.5                    |
| Amortisation of intangibles                        | 0.1                            | 0.1         | 0.2                    |
| Loss/(profit) on disposal of properties            | 0.5                            | (1.2)       | (2.8)                  |
| Change in fair value of investment property        | (16.2)                         | (14.1)      | (30.8)                 |
| Share based payments                               | 0.4                            | 0.6         | 0.8                    |
| Change in fair value of financial instruments      | 6.9                            | 3.9         | (5.3)                  |
| Interest income                                    | (0.1)                          | (0.1)       | (0.1)                  |
| Interest expense                                   | 9.9                            | 11.3        | 22.2                   |
| (Gains)/losses from share in joint venture         | (0.5)                          | –           | 0.3                    |
| Changes in working capital:                        |                                |             |                        |
| (Increase)/decrease in trade and other receivables | (3.1)                          | (2.4)       | 1.3                    |
| Increase/(decrease) in trade and other payables    | 1.2                            | 1.1         | (1.2)                  |
| Cash generated from operations                     | <b>16.2</b>                    | <b>17.6</b> | <b>37.9</b>            |

### 13(b). Reconciliation of cash, cash equivalents and bank overdrafts

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

|                                          | 30 September<br>2011<br>£m | 31 March<br>2011<br>£m | 30 September<br>2010<br>£m |
|------------------------------------------|----------------------------|------------------------|----------------------------|
| Cash at bank and in hand                 | 30.0                       | 0.2                    | 0.3                        |
| Restricted cash – tenants' deposit deeds | 1.9                        | 2.1                    | 2.0                        |
|                                          | <b>31.9</b>                | <b>2.3</b>             | <b>2.3</b>                 |
| Bank overdrafts                          | (1.6)                      | (3.2)                  | –                          |
|                                          | <b>30.3</b>                | <b>(0.9)</b>           | <b>2.3</b>                 |

# Notes to the Half Year Report

continued

## 14. Joint venture

### 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.

|                                                           | 30 September<br>2011<br>£m | 31 March<br>2011<br>£m | 30 September<br>2010<br>£m |
|-----------------------------------------------------------|----------------------------|------------------------|----------------------------|
| <b>Investment in joint venture:</b>                       |                            |                        |                            |
| Balance at beginning of period                            | 6.7                        | –                      | –                          |
| Cash investment                                           | –                          | 7.4                    | –                          |
| Unrealised surplus on sale of properties to joint venture | –                          | (0.4)                  | –                          |
| Share of gains/(losses)                                   | 0.5                        | (0.3)                  | –                          |
| Distributions received                                    | (0.1)                      | –                      | –                          |
| Balance at end of period                                  | 7.1                        | 6.7                    | –                          |

## 15. Share capital

|                                                    | 30 September<br>2011<br>Number<br>million | 31 March<br>2011<br>Number<br>million | 30 September<br>2010<br>Number<br>million |
|----------------------------------------------------|-------------------------------------------|---------------------------------------|-------------------------------------------|
| <b>Movements in share capital were as follows:</b> |                                           |                                       |                                           |
| Balance at beginning of period                     | 1,152.7                                   | 1,149.4                               | 1,149.4                                   |
| Issue of shares                                    | 288.2                                     | 3.3                                   | 3.3                                       |
| Share consolidation (see below)                    | (1,296.8)                                 | –                                     | –                                         |
| Balance at end of period                           | 144.1                                     | 1,152.7                               | 1,152.7                                   |

  

|                                | £m    | £m    | £m    |
|--------------------------------|-------|-------|-------|
| Balance at beginning of period | 115.3 | 114.9 | 114.9 |
| Issue of shares                | 28.8  | 0.4   | 0.4   |
| Balance at end of period       | 144.1 | 115.3 | 115.3 |

### Rights issue:

Under the terms of a fully underwritten rights issue, ordinary shareholders of the Company on the register at the close of business on 5 July 2011 were offered 288,182,835 new ordinary shares of 10p each at a price of 23p each on the basis of 1 new ordinary share for each existing 4 ordinary shares held. These shares were fully subscribed resulting in net proceeds of £63.0m, being gross proceeds on issue of £66.3m, less expenses of £3.3m. £28.8m is shown in share capital (above) with the balance of £34.2m taken to share premium account.

### Share consolidation:

Under the terms of a share consolidation resolution, ordinary shareholders of the Company on the register at the close of business on 7 August 2011 were offered 1 share with a nominal value of £1.00 for each 10 shares with a nominal value of 10p.

## 16. Contingent liability

Upon restructuring of the former joint venture with Glebe Limited, Workspace Group PLC entered into a proceeds sharing agreement with the joint venture'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 qualifying capital expenditure incurred. All disposals are at the option of Workspace Group. This gives rise to a contingent liability based upon the deemed value liable under this proceeds sharing arrangement if all properties were disposed of at current market valuation.

At 30 September 2011 the proceeds sharing contingent liability was calculated at £16.4m (31 March 2011: £15.8m). This is based on the 30 September 2011 valuation of the former joint venture portfolio at £122m (31 March 2011: £117m).

## 17. Related party transactions

The Executive Directors, as related parties, took up their full entitlement under the July 2011 rights issue.

There are no other material related party transactions to disclose since the last Annual Report.

## 18. Post balance sheet events

In October 2011 the Group completed the acquisition of Chandelier Building, NW10 for £4.7m through the BlackRock Workspace Property Trust; the Group's share of the investment being £0.9m.

## 19. Risks and uncertainties

The Board continuously assesses and monitors the key risks of the business. The key risks that could affect the Group's medium-term performance, and the factors which mitigate these risks, have not changed from those set in the Group's 2011 Annual Report. These are reproduced below:

| Risk category                     | Risk                                                                                                                                     | Mitigating activities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-----------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Finance Risk</b>               | Lack of funding resulting in inability to meet business plans, satisfy liabilities or breach of covenants.                               | <ul style="list-style-type: none"> <li>Funding requirements for business plans are reviewed regularly.</li> <li>Regular dialogue with main lenders.</li> <li>Options for alternative sources of funding monitored.</li> <li>Financial ratios and covenant headroom monitored and regularly reported to the Board.</li> <li>Working capital forecasts stress tested and regularly reported to the Board.</li> </ul>                                                                                                                                                                                                                       |
| <b>Valuation Risk</b>             | Value of our properties declining as a result of external market or internal management factors.                                         | <ul style="list-style-type: none"> <li>Independent valuations conducted quarterly by CB Richard Ellis.</li> <li>Alternative use opportunities pursued across the portfolio and planning consent progressed.</li> <li>Market yields and pricing of property transactions monitored closely across the London market.</li> <li>Headroom on Loan to Value banking covenants is maintained and reviewed.</li> </ul>                                                                                                                                                                                                                          |
| <b>Occupancy Risk</b>             | Demand by SMEs for our accommodation declining as a result of social, economic or competitive factors.                                   | <ul style="list-style-type: none"> <li>Weekly monitoring of occupancy levels and update of pricing at each estate.</li> <li>Quarterly customer satisfaction surveys.</li> <li>Weekly monitoring of reasons for customers vacating and exit interviews conducted.</li> <li>On-site staff maintain regular contact with customers and local monitoring of competitors offering space.</li> <li>Extensive marketing using the 'Workspace' brand.</li> <li>Flexibility offered on deals by dedicated in-house marketing and letting teams.</li> <li>External research conducted on the SME sector to understand trends in demand.</li> </ul> |
| <b>Development Risk</b>           | Plans being inhibited as a result of regulations. Risk of cost overrun.                                                                  | <ul style="list-style-type: none"> <li>Regular monitoring of Government announcements and active involvement in industry responses.</li> <li>Alignment of our regeneration proposals with the London Plan and local strategic plans.</li> <li>Timing of actual developments can be deferred with properties retained for existing rental use.</li> </ul>                                                                                                                                                                                                                                                                                 |
| <b>Property Investment</b>        | Acquisitions do not generate the expected valuations or rent roll resulting in losses.                                                   | <ul style="list-style-type: none"> <li>Thorough due diligence conducted ahead of any property acquisitions.</li> <li>Regular monitoring of acquisition performance against target returns.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Transactional Risk</b>         | Joint ventures or other ventures with third parties do not deliver the expected return.                                                  | <ul style="list-style-type: none"> <li>Potential joint ventures reviewed and monitored before agreed.</li> <li>Regular review of performance of joint ventures throughout term.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Regulatory Risk</b>            | Failure to meet regulatory requirements leading to fines or tax penalties or the introduction of new requirements that inhibit activity. | <ul style="list-style-type: none"> <li>REIT conditions monitored and tested on a regular basis and reported to the Board.</li> <li>Close working relationship maintained with HMRC and all relevant issues openly disclosed.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Business Interruption Risk</b> | Major events mean that Workspace is unable to carry out its business for a sustained period.                                             | <ul style="list-style-type: none"> <li>Business Continuity plans in place and tested.</li> <li>Back-up systems at remote locations and remote working capabilities.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>London</b>                     | Changes in the political, infrastructure and environmental dynamics of London lead to reduced demand from SMEs.                          | <ul style="list-style-type: none"> <li>Regular monitoring of the London economy, research reports and the commissioning of research.</li> <li>Regular meetings with the Greater London Authority.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Reputational Risk</b>          | Failure to meet customer and external stakeholder expectations.                                                                          | <ul style="list-style-type: none"> <li>Customer surveys undertaken and results acted upon.</li> <li>Training and mystery shopper initiatives undertaken.</li> <li>Regular communication with stakeholders.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Energy Risk</b>                | Reductions in energy usage are not achieved resulting in excessive costs under the carbon reduction commitment.                          | <ul style="list-style-type: none"> <li>Initiatives to encourage tenants to reduce energy consumption.</li> <li>Installation of energy meters to review and monitor energy consumption and ongoing upgrading of lighting and heating.</li> <li>Full compliance with CRC regulations.</li> </ul>                                                                                                                                                                                                                                                                                                                                           |

# Notes to the Half Year Report

continued

## 20. Half year report

Copies of this statement will be dispatched to shareholders on 16 November 2011 and will be available from the Group's registered office at Chester House, Kennington Park, 1-3 Brixton Road, London SW9 6DE and on the Group's website [www.workspacegroupplc.co.uk](http://www.workspacegroupplc.co.uk) from 10.00am on 14 November 2011.

## 21. Glossary of terms

A full glossary of terms used within this report is included in the Group's Annual Report and Accounts 2011, available on the Group's website [www.workspacegroupplc.co.uk](http://www.workspacegroupplc.co.uk).

# Statement of Directors' 'Interim Financial Reporting' responsibilities

The directors confirm that, this consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8 namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

The directors of Workspace Group PLC are listed in the Workspace Group PLC Annual Report for 31 March 2011. A list of current directors is maintained on the Workspace Group website: [www.workspacegroupplc.co.uk](http://www.workspacegroupplc.co.uk).

By order of the Board

**H Platt**

**Chief Executive**

11 November 2011

**G Clemett**

**Finance Director**

11 November 2011

# Independent review report to Workspace Group PLC

## Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2011, which comprises the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

## Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

## Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review. This report, including the conclusion, has been prepared for and only for the Company for

the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, 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 review

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

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

## PricewaterhouseCoopers LLP

### Chartered Accountants

London

11 November 2011

- a) The maintenance and integrity of the Workspace Group PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



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