

WORKSPACE GROUP PLC

ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2012

Company Number:
02041612

WEDNESDAY



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08/08/2012

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COMPANIES HOUSE

WORKSPACE UNDERSTANDS WORK SPACE

**ANNUAL REPORT
AND ACCOUNTS 2012**

Company Number:

02041612



WORKSPACE®

WEDNESDAY



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01/08/2012

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COMPANIES HOUSE

**OUR BUSINESS
MODEL**

What we do

Workspace provides business premises tailored to the needs of new and growing companies across London.

How we do it

Workspace is dynamic, understands and adapts to the changing needs of these companies and aims to be the best in class.

Where we do it

Workspace owns over 100 properties in London providing 5.4 million square feet of space and is home to some 4,000 businesses employing over 30,000 people.

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**How we generate value
Workspace, through its
market knowledge, operational
capability and customer
relationships, can grow.**

**Workspace can enhance both
core operational income and
capital values by repositioning
specific property assets.**

**Workspace provides the right
properties to attract its customers
and the right services to retain
them and help them grow.**

2012 HIGHLIGHTS

**A growing
business
Our talented
team and focused approach have
produced a robust set of results
clearly showing Workspace to be
a resilient and relevant business
in today's market.**

DANIEL KITCHEN
Chairman

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Property portfolio

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TRADING PERFORMANCE

+5%

Enquiries
Average number per month

Up 1.7%

Like-for-like occupancy
%

+5%

Like-for-like rent roll growth
%

+3%

Like-for-like rent
£ per sq ft

+13%

Trading profit (after interest)
£m

+10%

Dividend per share growth
%

CAPITAL PERFORMANCE

+5%

Property valuation surplus
%

+8%

EPRA Net Asset Value per share
£

13.4%

IPD performance (total return)
%

+11%

Capital value
£ per sq ft

+£53m

Headroom on facilities
£m

Reduced 9%

Loan to value
%

CHAIRMAN'S STATEMENT

Overview London is our market and remains our focus.

This is my first annual review as Chairman of Workspace and I am delighted to have joined at a time of such exciting opportunities for our Company and for London. I am pleased to report that we are delivering a strong operational and financial performance.

These results demonstrate the benefits of the Company's focus on driving occupancy and improvement in rental values at our properties and at the same time delivering value-added opportunities through change of use and redevelopment. All the metrics have improved over the last year.

We have achieved good revenue growth and trading profit. Group net rental income was £45m, an underlying increase of 4%, trading profit after interest (adjusted) was £16m, an increase of 13% and EPRA NAV per share was £3.08, an increase of 8%.

In addition to this, we refinanced £125m of our debt and raised £63m (net) through a Rights Issue. This provides Workspace with additional financial resources to accelerate the refurbishment programme across our existing portfolio and to take advantage of attractively priced property acquisition opportunities. During the year we completed three acquisitions through our joint venture with BlackRock.

Given the Company's performance and prospects the Board intends to recommend the payment of a final dividend of 5.86p (a total of 8.79p for the year) to be paid on 3 August 2012, an increase of 10% on the prior year. This is consistent with our progressive dividend policy.

In 2011, Harry Platt indicated that he wished to retire from his position as Chief Executive and in February 2012 it was announced that Jamie Hopkins would assume the role from 1 April 2012. I would like to take this opportunity on behalf of the Board, to wish Harry an enjoyable retirement and to thank him for his excellent leadership of Workspace over the last 20 years.

I would also like to welcome Jamie to his new role where he is already having an impact on our operations. Jamie has extensive experience and knowledge of the property industry and the leadership of various companies. The Board and I are confident that his energy and drive will be of huge benefit to Workspace stakeholders and staff.

We continue to focus on Board succession planning, monitoring its composition and Committees against our skills and experience. We expect to appoint new non-executive directors over the next year, and in this regard I was delighted to announce last month the appointment to the Board of Maria Moloney.

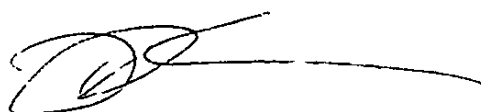
London is our market and remains our focus. Workspace has a clear strategy and a strong business model which enables us to capture the benefits of the London market whilst providing operational resilience when market conditions are more difficult.

More broadly, the UK continues to depend on the small business sector to promote economic growth and the team at Workspace is playing a part in promoting that growth whilst delivering good returns to our shareholders. Undoubtedly the economic prospects remain stronger in London than for most of the UK and indeed parts of Europe and we intend to support and capture that growth.

I am pleased to report that our Company takes its responsibility to the local communities, as well as the broader environment, in which it operates very seriously. We have a strong focus on health and safety and energy sustainability and our membership of the FTSE4Good index is an example of this commitment. We are working hard to do the right things for our customers, employees, communities and the environment.

Finally, on behalf of the Board I would like to extend our gratitude to all Workspace employees for delivering this year's strong financial performance. We have a strong team that is committed to driving our business forward.

DANIEL KITCHEN
Chairman



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CHIEF EXECUTIVE'S STATEMENT

Q&A A strategy to grow further and faster.

Despite a tough environment throughout the year, Workspace has reported a solid set of results in all of its operations, reflecting a strategy that continues to be effective in growing core operational income and the capital value of our assets

We benefit naturally from having our business in London, focusing all our energies on the new and growing companies that are at the heart of the capital's economy, providing them with the investment in relevant buildings improvements and services that they need. Understanding what helps them to be successful lies at the core of what we do and has led to our own growth.

During the last year new customer enquiries, lettings and rent all increased helping to drive up profits and allowing us to increase the dividend. But beyond this we saw the underlying valuation of our assets improve as the effects of our attention to building improvements and developments have filtered through.

We also grew our portfolio making use of our joint venture with BlackRock and the proceeds from our recent Rights Issue to acquire, reposition and redevelop properties with great potential.

All of this paints a picture of a business with a clear understanding of its customers and environment and one that is investing in a long-term strategy that is producing results for all of its stakeholders. This year's earnings are a fundamental endorsement of that approach.

As the recently-appointed Chief Executive I will be focused on ensuring that this trajectory is maintained. We are absolutely on the right course but we remain fully aware of the changeable external environment. Workspace is a company with an ability to grow further and faster with a strong management team and a talent pool of expertise that can move quickly on the opportunities we see.

I have already met many of our stakeholders and there are a number of recurring questions about how I see the Company and what will characterise my leadership.

Q - HOW DO YOU SEE WORKSPACE'S STRATEGY AND WHAT CHANGES WILL YOU BE MAKING TO IT?

Our strategy is the right one - we own properties our customers like and we manage them intensively to drive value. We reposition and redevelop buildings to improve rental streams and asset values. We ensure we keep our understanding of customers current and that we do

the right thing and limit our environmental impact. So no change to the strategy, just a renewal of our energy and focus to drive it.

Q - WHAT CHALLENGES DO YOU SEE AND WHERE ARE THE RISKS?

Like any business we face a multitude of challenges and risks - operational, environmental, economic and reputational. We take time to analyse and understand them and put in place processes and plans to mitigate them. As long as we stay relevant to our customers and intensely focused on our activities, we should be in good shape to address every challenge.

Q - DO YOU HAVE THE RIGHT TEAM TO GROW THE BUSINESS?

We have an immensely experienced group of leaders and talented individuals throughout the Company, all of whom understand our properties and customers. Everyone is very focused whether it is bringing our core competencies in customer service and letting into play, tightly controlling costs or visualising a new project. The team's capabilities are unmatched.

Q - HOW DO YOU VIEW YOUR WIDER SOCIAL AND ENVIRONMENTAL RESPONSIBILITIES?

Improving the social and environmental impact of the Company are core responsibilities and part of what we do every day. Having safe and sustainable operations makes sense for us, our customers and our local communities. We are all proud of what we already do to limit carbon emissions and waste and as we grow our footprint we will always act responsibly doing the right thing by any measure possible.

Q - WHAT ARE YOUR PRIORITIES FOR 2012/13?

We have the right strategy and the right team, so from my perspective I will be making sure that we align our resources not only with today's business but also with the many opportunities and new initiatives that we and our customers will generate. I want to keep us energised and alive to potential areas of growth, acting quickly and with purpose to exploit them. By doing that we will ensure that operating income continues to grow and that our assets grow in value. Already we are working on some very exciting new initiatives.

JAMIE HOPKINS
Chief Executive Officer



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OUR STRATEGY

Driving performance.

STRATEGIC PRIORITIES

PROGRESS IN 2011/12

OWNING THE RIGHT PROPERTIES THAT ARE TAILORED TO OUR CUSTOMERS' NEEDS AND INTENSIVELY MANAGING THESE PROPERTIES TO DRIVE OCCUPANCY AND RENTS.

- Like-for-like properties have seen both occupancy and rents improve over the year
- Occupancy growth has been particularly strong in the first half of the year
- The majority of our properties are now at or above 90% occupancy, the level at which we can effectively increase pricing
- A number of our business centres have achieved their highest rents ever this year

MAXIMISING THE VALUE OF OUR LONDON BASED PROPERTY PORTFOLIO AND ITS WIDER OPPORTUNITIES FOR REPOSITIONING AND REDEVELOPMENT.

- Two refurbishment schemes underway in the year, Canalot Studios in Kensington and Whitechapel Technology Centre
- Chester House refurbishment at Kennington Park completed and is now 70% occupied
- Six schemes have been progressing through detailed design and are due to commence on site in mid-2012
- Planning consents granted for refurbishment at 14 properties
- Mixed use redevelopment schemes underway at Wandsworth and Highbury Grove
- Two mixed used schemes with planning consent being marketed to redevelopment partners
- Four mixed use redevelopment schemes being progressed through planning

UNDERSTANDING OUR CUSTOMERS AND ENHANCING OUR BRAND BY RESPONDING TO THEIR NEEDS.

- Club Workspace business lounges launched at two locations
- Collaboration agreement signed with Excell Communications to provide IT and comms services to customers
- Inspiresme.co.uk entrepreneur website launched with support events held at various properties

WORKING SUSTAINABILITY AS PART OF EVERYDAY BUSINESS FOR US, OUR CUSTOMERS AND OUR PARTNERS.

- Refurbishment completed at Chester House originally built in 1916
- Refurbishment of Canalot Studios in Kensington underway
- Progress made on a number of schemes that will result in intensification of use and increased employment

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TRADING PROFIT AFTER INTEREST £m

**PERFORMANCE
IN 2011/12**

- Enquiries up 5% on the prior year.
- Like-for-like occupancy improved in the year by 1.7% to 87.8%.
- Like-for-like rent roll up 5% and rent per sq. ft. up 3% in the year.

- Property valuation up 5% in the year
- Total property return 13.4% compared to 6.4% for the IPD Universe.

- 250 Club Workspace subscribers with 2 sites opened in year.
- 46 social networking events attended by over 2,000 entrepreneurs.

- £300,000 of Landfill costs avoided.
- Annual customer satisfaction score 84%.

**PRIORITIES
FOR 2012/13**

- Owning properties that are tailored to our customers' needs**
 - Complete refurbishment of Canalot Studios
 - Commence a further six refurbishment schemes

- Repositioning and redevelopment**
 - Appoint developers for the mixed use redevelopment schemes at Grand Union in Kensington and Bow
 - Progress planning consent for mixed use schemes at a further four sites
 - Drive value from continued occupancy and rent roll growth

- Enhancing our brand (responding to customers' needs)**
 - Roll out the Club Workspace format at four additional centres
 - Continue the roll out of our 'Digital Programme' meeting the needs of our digital business customers
 - Develop Inspiresme as a valued platform for advice and support to new and growing businesses

- Sustainable Working**
 - Continue support of charities which promote entrepreneurship
 - Working with customers to lower our carbon footprint
 - Ensure that our development activities conform with the highest environmental and sustainability regulations and best practice

**KEY
RISKS**

- Demand for our accommodation declining as a result of social, economic or competitive factors
- Value of our properties declining as a result of macroeconomic environment, external market, or internal management factors
- Failure to meet customer space and service expectations

- Adverse planning rulings
- Construction cost and timing overrun
- Downturn in demand for residential development land

- Changes in the political, infrastructure and environmental dynamics of London
- Failure to meet customer service expectations

- Failure to meet regulatory environmental requirements
- Introduction of new requirements that inhibit our activities

**GENERATING
VALUE**

**Understanding
work space**

The following case studies demonstrate how we are able to enhance both core operational income and capital values as well as provide our customers with properties and services that help their businesses grow.

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STANSTED
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OLYMPIC
PARK

HEATHROW
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**PARKHALL BUSINESS CENTRE,
DULWICH, SE21**

DRIVING RENTAL GROWTH

WHAT WE DID

Our market knowledge allows us to adapt and refurbish our buildings in response to demand. Combining this with our marketing, letting and asset management skills, we are repositioning the Parkhall Trading Estate in Dulwich into a modern business centre.

HOW IT CREATED VALUE

By creating community space, upgrading our on site facilities including a cafe, and subdividing in response to the strong demand for small units we have grown rents from £750 per square feet to over £20 over the last year.

Our in-house lettings team negotiate in the full knowledge of occupancy, enquiries and viewings, and use this to drive our pricing.

**Rental income
increase**

**Capital value
increase**

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**CLUB WORKSPACE,
THE LEATHERMARKET, SE1
UNDERSTANDING
OUR CUSTOMERS**

WHAT WE DID

Listening to our customers helps us provide the services we know they need from high capacity, dependable secure internet connections and business information resources, to drop-in space and social interaction with other entrepreneurs

In response, we provide superior and resilient telecoms services across our portfolio and have introduced Club Workspace 'touchdown lounges' for those not requiring permanent space We have also launched Inspiresme.co.uk as a business information resource providing a competitive advantage for customers Our regular social networking events in our centres are providing opportunities for ideas generation and business referrals

HOW IT CREATED VALUE

Building closer links to customers through enhanced services and platforms such as these has helped to improve our revenue streams while attracting new fast-growing companies in the creative and TMT sectors Our social networking activities have helped to connect people, resulting in a high level of inter-trading between our customers We are truly helping them to grow faster, with a beneficial impact on the growth of our pricing

Revenue increase

Brand enhanced

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**EXMOUTH HOUSE,
CLERKENWELL, EC1**

REPOSITIONING

WHAT WE DID

To ensure that Exmouth House is fully aligned with the future needs of our growing customer base, we have obtained planning consent for an additional floor. As part of the consent, we will create a new entrance atrium and refurbish the whole property.

HOW IT CREATED VALUE

By repositioning the building in this manner we anticipate a significant increase in rental income.

**Rental income
increase**

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**CHESTER HOUSE,
KENNINGTON PARK, SW9**

CORPORATE SOCIAL RESPONSIBILITY

WHAT WE DID

In refurbishing Chester House from an existing light industrial building into a new business centre, we put energy conservation as a top priority. As a result, the building features strong carbon management and enables us to work closely with our customers to improve recycling rates.

HOW IT CREATED VALUE

We have reduced both our energy costs and carbon dioxide emissions, while reducing the amount of waste sent to landfill to zero. For this we have been awarded a BREEAM 'very good' rating and expect to perform well against the CRC energy efficiency targets.

An independent study on the lifecycle carbon emissions of this "recycled" building demonstrated that our strategy of reusing the existing fabric is producing a significantly smaller carbon "footprint" than a new construction would.

Energy savings

Brand enhanced

GENERATING VALUE

continued

HIGHBURY GROVE ISLINGTON, N5 REDEVELOPMENT

WHAT WE DID

Having obtained planning consent for 72 apartments and a new business centre on a tired studio and light industrial site in Islington, we partnered with Taylor Wimpey who will develop the scheme. Workspace will retain full ownership of the newly developed fully-fitted business centre which has been designed to meet the demands of our customers.

HOW IT CREATED VALUE

For no capital outlay, we will have a new state-of-the-art facility, generating far higher rental streams than the existing buildings together with cash and an overage on sale of the apartments.

This is the second in a series of similar schemes we have planned over the next three years.

Rental income
increase

Capital value
increase

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GREENHEATH BUSINESS CENTRE, BETHNAL GREEN, E2 PLANNING GAIN

WHAT WE DID

This commercial building had a large and underutilised car park. Working with the local authority we received consent to build 73 apartments. We then sold the site to Peabody.

HOW IT CREATED VALUE

We realised significant cash with marginal loss of income.

We have realised £13m from this and similar sales during the year.

**Capital value
increase**

GENERATING VALUE

continued

CHANDELIER BUILDING, WILLESDEN, NW10

ACQUISITION

WHAT WE DID

Through our partnership with BlackRock, we acquired this high potential building in north-west London. At the time, the property was 78% occupied. By dividing up vacant space into accommodation that is now more suitable, and actively marketing this to a broader range of customers, we have driven occupancy up to 90%.

HOW IT CREATED VALUE

Growing the occupancy has increased rent roll and increased the asset value. Further minor refurbishment is planned.

The BlackRock Workspace Property Trust was set up to acquire £100m of property, of which £60m has been invested. We continue to seek properties where we can significantly improve occupancy and income.

Rental income
increase

Capital value
increase

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**BUSINESS
REVIEW**

2012 review
**Our aim is to
be the preferred choice
for new and growing
businesses looking for
space in London.**

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TRADING PERFORMANCE

ENQUIRIES AND LETTINGS

Average number per month

Our aim is to be the preferred choice for new and growing businesses looking for space in London. We have continued to attract strong levels of demand with enquiry levels up 5% on the prior year to an average of 1,009 per month, and new lettings running at an average of 82 per month

Average number per month	Quarter Ended			
	March 2012	Dec 2011	Sept 2011	June 2011
Enquiries	1,231	892	1,000	911
Lettings	84	78	88	77

Good levels of enquiries and lettings have continued during the first two months of the current financial year to the end of May 2012

The like-for-like property portfolio which excludes properties impacted by refurbishment or redevelopment, has seen both occupancy and rents improve over the year

Like-for-Like properties	31 March 2012	30 September 2011	31 March 2011
Occupancy	87.8%	87.7%	86.1%
Rent roll	£44.5m	£43.8m	£42.5m
Rent per sq. ft.	£12.61	£12.38	£12.20

Like-for-like occupancy growth was stronger in the first half of the year while pricing increases were more dominant in the second half. This reflects the increasing number of properties that are now at or above 90% occupancy the level at which we can typically push pricing on both new lettings and lease renewals. At March 2012, 42 of the 77 properties in the like-for-like category were at or above this 90% occupancy level (March 2011: 37 properties)

LIKE-FOR-LIKE OCCUPANCY & RENT ROLL

Overall occupancy improved to 85.3% at March 2012 (March 2011: 83.6%) and cash rent roll increased to £50.2m (March 2011: £48.9m). The contracted rent roll is £2.5m higher than the cash rent roll at £52.7m at March 2012. This relates primarily to stepped rent increases and rent free periods.

The improving levels of occupancy and rent roll have translated into a good growth in income and trading profit in the year.

TRADING PROFIT AFTER INTEREST

£m

	31 March 2012	31 March 2011
Net rental income - underlying	44.6	42.9
Net rental income - disposals	0.2	3.0
BlackRock joint venture income	0.5	0.1
Administrative expenses	(10.2)	(9.7)
Net finance costs	(19.1)	(22.1)
Trading Profit after Interest (adjusted)	16.0	14.2

BUSINESS REVIEW

continued

Underlying net rental income is up 4% (£17m) in the year. The growth in income at like-for-like properties of 5% (£19m) and new income from completed refurbishments has been offset by the income attrition at properties currently being refurbished and redeveloped as summarised below

	£m
Like-for-like income growth	19
Income uplift at completed refurbishments	02
Income lost at sites being refurbished	(01)
Income lost at sites being redeveloped	(03)
Net rental income increase - underlying	17

BlackRock joint venture (JV) income represents our 201% share of income from the 8 properties we sold to the JV in February 2011 together with the income from the 3 properties acquired by the JV during the second half of the financial year

Administrative expenses are up 5% (£0.5m) primarily due to inflationary cost and salary increases and higher bonus levels

Net finance costs fell by £3.0m with net bank debt reducing over the year from £367m to £314m as a result of the Rights Issue in July 2011, together with a reduction in the average interest cost to 5.1% from 5.3% in the previous year

Trading profit after interest (adjusted to include the rental income from our BlackRock JV) is up 13% to £16.0m in the year, benefiting from the growth in rental income and reduced interest cost. Based on this trading performance, we are proposing a 10% increase in the dividend for the year. The total cash cost of the dividend is £12.6m up 33% on the prior year due to the 25% increase in issued share capital following the Rights Issue. This total dividend is covered 1.3 times by trading profit after interest (adjusted)

£m	31 March 2012	31 March 2011
Trading Profit after Interest (adjusted)	16.0	14.2
Property Valuation Gain	35.6	30.8
Mark to Market - Interest Hedging	(4.6)	5.3
Other Items	1.5	2.5
Profit before Tax	48.5	52.8

Reported profit before tax has fallen by £4.3m in the year to £48.5m. The growth in trading profit and an increase of £4.8m in the property valuation surplus has been offset by an adverse movement of £9.9m in the mark to market value of our interest rate hedges. These hedges are structured to give stability to the interest cost over the medium-term to June 2015. The mark to market valuation represents the potential cost to the Company if these hedging contracts were cancelled, we intend however to hold these to maturity with the cost expensed as part of our reported interest cost over the period to June 2015.

VALUATION

At 31 March 2012 the wholly owned portfolio was independently valued by CBRE at £760m. The underlying valuation of our property portfolio increased by 3.0% (£21m) in the second half and 5.1% (£37m) over the year, excluding the impact of capital expenditure and disposals. The valuation movements are set out in detail below

	£m
Valuation at 31 March 2011	719
Property Disposals	(13)
Capital expenditure	18
Revaluation surpluses	
6 Months to September 2011	16
6 Months to March 2012	21
Other	(1)
Valuation at 31 March 2012	760

VALUATION AT 31 MARCH 2012

£m

The Group delivered a total property return over the year of 13.4% compared to 6.4% for the IPD Universe benchmark. This outperformance was driven by our efforts in driving rental income growth and capturing the redevelopment and alternative use potential at a number of our properties. There was no benefit from movement in valuation yields.

The valuation includes £94m (2011: £79m) of added value in relation to redevelopment potential for additional commercial space or other uses such as residential or student housing. The status of the properties where our valuers have included this added value are detailed below

ADDED VALUE

- Planning application in progress
- Planning consent obtained
- Redevelopment in progress

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	No of Properties	Added Value
Planning application in progress	7	£17m
Planning consent obtained	15	£37m
Redevelopment in progress	3	£40m
Total Added Value		£94m

A more detailed analysis of the property valuation is set out in Table 1

The total net initial yield of the portfolio as reported by our valuers CBRE is 71% compared to 6.8% at March 2011 with no movement in the reported equivalent yield over the year, steady at 8.4%

Total Estimated Rental Value (ERV) of the portfolio at March 2012 is £65.4m compared to cash rent roll £50.2m. ERV of the like-for-like portfolio is up 3.5% over the year to £52.9m (cash rent roll £44.5m). Capital value per sq. ft. is £152 up from £137 at March 2011.

During the year we realised £13m from the disposal of various low income producing (£0.3m) tracts of land comprising

- car park at Ewer Street on the Southbank for student housing for £3.9m
- small industrial estate near London Bridge for a 26 unit residential development for £1.7m,
- the Group's former head office and adjacent car park at Whitechapel for student housing for £3.9m, and
- car park at Greenheath Business Centre for a 76 unit residential development for £3.5m

In April 2012 we established a 50/50 joint venture partnership with Polar Group for the potential redevelopment of Enterprise House, Hayes. This is a 130,000 sq. ft. Grade II listed office building, formerly part of the EMI head office complex, well located adjacent to the proposed Hayes and Harlington Crossrail station. We sold this property into the joint venture at a valuation of £3.2m (a £0.9m valuation uplift from its value at March 2011). We will act as property manager while our partner will progress the planning for a mixed use redevelopment.

**TABLE 1
PROPERTY VALUATION**

At 31 March 2012	No of Properties	Existing Value	Added Value	Total Value	Valuation Surplus	Net Initial Yield	Equivalent Yield
Like-for-like Properties	77	£569m	£15m	£584m	3.5%	7.2%	8.3%
Refurbishments	7	£64m	£14m	£78m	2.9%	4.8%	8.1%
Redevelopments	8	£33m	£65m	£98m	15.7%	10.0%	10.4%
Total	92	£666m	£94m	£760m	5.2%	7.1%	8.4%

NET ASSETS

EPRA net asset value per share at 31 March 2012 was £3.08 (2011: £2.86) an increase of 8% in the year with the main movements in net asset value per share highlighted below:

EPRA NET ASSET VALUE PER SHARE

	£
EPRA NAV per share	
At 31 March 2011 (restated)	2.86
Property valuation surplus	0.25
Dividends paid in year	(0.07)
Other	0.04
At 31 March 2012	3.08

The increase in net asset value was driven by the increase in the property valuation offset by dividends paid to shareholders in the year.

BUSINESS REVIEW

continued

TABLE 2
REFURBISHMENT ACTIVITY

	Estimated Cost	Expected Completion	Upgraded Area (sq ft)	New Area (sq ft)	Estimated ERV (psf)
Great Guildford Street, SE1	£14m	Q3 2014	82 000	20,000	£28
Greenheath, E2	£10m	Q3 2013	44 000	-	£22
Exmouth House EC1R	£4m	Q3 2013	52,000	5,000	£28
Leyton Industrial Village (Phase I), E10	£3m	Q3 2013	-	25,000	£12
Chester House (Phase II), SW9	£2m	Q2 2013	-	9,000	£30
Westminster (Phase I) SE11	£2m	Q2 2013	-	6 000	£30

REFURBISHMENT ACTIVITY

In line with the plans set out at the time of our Rights Issue last year we are now accelerating our refurbishment programme. In June 2011, we completed the first phase refurbishment of 28 000 sq ft at Chester House, Kennington (£4m) and we are on schedule to complete by September 2012 the

- 50 000 sq ft refurbishment and two storey roof extension at Canalot Studios (£5m), and
- 9,000 sq ft extension to Whitechapel Technology Centre (£2m)

We intend to commence on site at a further six properties over the next three months as detailed in Table 2. Given the current environment we will closely monitor our commitments at every stage of these projects.

We have a further nine schemes, which includes the second phases at Leyton and Westminster representing 374,000 sq ft of space with planning consent that we can progress during 2014 and 2015.

REDEVELOPMENT ACTIVITY

Our properties are in areas across London where there is strong demand for mixed use redevelopment. These schemes generally require demolition of an existing building to deliver new residential and commercial space.

Our business model on these schemes is to obtain the mixed use planning consent and then partner a residential developer to undertake the construction of both the residential and commercial buildings at no cost to Workspace. We receive back a new upgraded commercial building together with a combination of cash and overage on the residential component.

We have obtained planning consent on four of these mixed use schemes for 983 residential units and 219,000 sq ft of commercial space with redevelopment underway on two and the remaining two in solicitors' hands with potential redevelopment partners. Summary details are set out in Table 3.

A further four schemes are being progressed through planning. The most significant is at Tower Bridge where seven acres of the site has been re-designated for residential use and we hope to submit a planning application for 800 residential units shortly.

FINANCING

The Group continues to generate strong operating cash flow in line with trading profits. We are not seeing any noticeable signs of distress across our customer base with bad debts in the year at £0.4m (2011: £0.2m) and cash collection statistics strong.

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**TABLE 3:
REDEVELOPMENT ACTIVITY**

	Redevelopment Partner	Expected Completion	Commercial Area (sq ft)	Estimated ERV (psf)	Other Proceeds
Wandsworth, SW18	Mount Anvil	Q2 2014	53,000	£22	Overage
Highbury Grove, N5	Taylor Wimpey	Q1 2014	61,000	£22	Cash/Overage
Grand Union W10	In negotiation	2014	60,000	£22	-
Bow Enterprise, E3	In negotiation	2017	45,000	£12	-

Net bank debt has reduced by £53m in the year to £314m at March 2012 which includes £24m of cash on deposit. A summary of the movements in cash flow are set out below.

		£m
Trading		
Net cash from operations	17	
Dividends paid	(11)	→ 6
Rights Issue Proceeds (net)		→ 63
Other Property Related		
Capital expenditure	(19)	
BlackRock investment	(5)	→ (11)
Disposals	13	
Other		→ (5)
Net reduction in bank debt		53
Net bank debt at 31 March 2011		(367)
Net bank debt at 31 March 2012		(314)

The Group has £393m of committed bank facilities with an average period to maturity of 3.2 years and earliest maturity in December 2014. We have a good spread of lenders with a total of eight banks providing our facilities with no individual bank providing more than £62.5m.

Details of our facilities are set out below.

	Committed Facilities	Drawn Amount	Term	Margin Over LIBOR
RBS/HSBC	£125m	£70m	Jun 2015	2.50%/2.75%
Bayern Club	£200m	£200m	Jun 2015	2.25%
Lloyds Club	£68m	£68m	Dec 2014	1.25%
	£393m	£338m		

We have £55m of available facilities and £24m in cash deposits. Overall loan to value of our debt is 41% down from 50% at March 2011 and we have good headroom on all of our bank covenants.

Our interest rate hedging is structured to maintain a stable interest rate over the medium term. We currently have £260m of fixed rate hedges representing 77% (2011: 74%) of our drawn debt facilities at an average rate of 3.5% (2011: 3.8%).

BLACKROCK WORKSPACE PROPERTY TRUST (BLACKROCK JV)

We have a 201% interest in this JV for which we also act as property manager receiving management and performance fees. It was initially seeded with eight properties that we sold to the JV in February 2011 for £35m. Three acquisitions have been completed during the year for £21m and subsequent to the year-end we have exchanged on a property on City Road, EC1 for £73m with completion set for 20 June 2012. We expect the JV to have fully invested the £100m of equity committed by BlackRock and Workspace by August 2012.

DIVIDEND

The Board has proposed a final dividend of 5.86 pence per share (2011: 5.33 pence as restated for the Rights Issue in July 2011 and the share consolidation in August 2011) which will be paid on 3 August 2012 to shareholders on the register at 13 July 2012. 50% of this dividend will be paid as a Property Income Distribution (PID) in respect of the Group's tax exempt property rental business, with the balance as a normal dividend (non-PID).

BUSINESS REVIEW

continued

PRINCIPAL BUSINESS RISKS

Risk management is an integral part of our activities and day to day running of the business. Risks are assessed, discussed and taken into account when deciding upon future strategy, approving transactions and monitoring performance. The process of identifying risks, assessing their impact and monitoring their likelihood is considered at two levels.

1. Strategic Risks:

These are identified, assessed and managed by the Main Board and Audit Committee

2. Operational Risks:

These are identified, assessed and managed by Executive Committee Directors

This segregation ensures that risks related to our strategy and major decisions are considered at Main Board level and that our level of risk appetite remains appropriate. Day to day operational risks are more closely reviewed and managed by the Executive team and senior management, with linkage between the two managed as appropriate.

Risk registers are maintained by the Main Board for strategic risks and by the Executive Committee for operational risks. The absolute levels of risk, the net levels of risk taking into account mitigating controls and the appropriate level of risk appetite are reviewed regularly. High rated risks identified in the registers are regularly reviewed by the Board, Audit and Executive Committees.

Details of our principal strategic risks and the mitigating activities in place to reduce these risks are set out below. There have been no significant changes to the risk profile over the last year and the Board are satisfied that we continue to operate within our risk appetite.

RISK AREA: FINANCE RISK

DETAIL:

Reduced availability and cost of bank financing resulting in inability to meet business plans or satisfy liabilities

RISK AREA: VALUATION RISK

DETAIL:

Value of our properties declining as a result of macroeconomic environment, external market, or internal management factors

RISK AREA: OCCUPANCY RISK

DETAIL:

Demand by businesses for our accommodation declining as a result of social, economic or competitive factors

RISK AREA: LONDON

DETAIL:

Changes in the political, infrastructure and environmental dynamics of London lead to reduced demand for space from businesses

RISK AREA: DEVELOPMENT RISK

DETAIL:

Impact to underlying income and capital performance due to

- Adverse planning rulings
- Construction cost and timing overrun
- Lack of demand for developments

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Mitigating activities

Funding requirements for business plans are reviewed regularly and options for alternative sources of funding monitored

No Change

No Change

Range of banking relationships maintained, refinancing strategy reviewed regularly

Interest rate hedging policy in place to minimise exposure to short-term rate fluctuations

Mitigating activities

Investment market mood monitoring

Market yields and pricing of property transactions monitored closely across the London market

Alternative use opportunities pursued across the portfolio and planning consent progressed

Sufficient headroom on Loan to Value banking covenants is maintained and reviewed

No Change

Mitigating activities

Weekly monitoring of occupancy levels, pricing and reasons for customers vacating at each property and exit interviews conducted

On-site staff maintain regular contact with customers and local monitoring of competitors offering space

Extensive marketing using the 'Workspace' brand

Flexibility offered on deals by dedicated in-house marketing and letting teams

No Change

Mitigating activities

Regular monitoring of the London economy research reports and the commissioning of research

Regular meetings with the GLA and London Boroughs

No Change

Mitigating activities

Understanding of planning environment and use of appropriate advisers

Detailed development analysis and appraisal undertaken, sensitivity and risk scenarios considered

Board level discussion and approval prior to project commitment

Contract structuring to reduce/eliminate build risk

Construction project teams meet regularly discuss issues and resolve or escalate as appropriate

Management of development phasing to match demand Deferral to retain properties for existing rental use

Increased

BUSINESS REVIEW continued

PRINCIPAL BUSINESS RISKS continued

RISK AREA: INVESTMENT RISK

DETAIL:

Underperformance due to inappropriate strategy of

- Timing of disposal decisions
- Acquisitions timing
- Non achievement of expected returns

RISK AREA: TRANSACTIONAL RISK

DETAIL

Joint ventures or other ventures with third parties do not deliver the expected return

RISK AREA: REGULATORY RISK

DETAIL:

Failure to meet regulatory requirements leading to fines or penalties or the introduction of new requirements that inhibit activity

RISK AREA: BUSINESS INTERRUPTION RISK

DETAIL:

Major external events result in Workspace being unable to carry out its business for a sustained period

RISK AREA: REPUTATIONAL RISK

DETAIL.

Failure to meet customer and external stakeholder expectations

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Mitigating activities:

Regular monitoring of asset performance and positioning of portfolio

Acquisition due diligence appraisal and business plans analysis

Regular monitoring of acquisition performance against target returns

No Change

Mitigating activities:

Review and monitoring of potential joint ventures before agreed

Requirements for business plans are reviewed regularly

Regular review of performance of joint ventures throughout term

No Change

Mitigating activities:

REIT conditions monitored and tested on a regular basis and reported to the Board

Close working relationship maintained with appropriate authorities and all relevant issues openly disclosed

Advisers engaged to support best practice operation

No Change

Mitigating activities

Monitor security threat/target information

Business Continuity plans and procedures in place and regularly tested

No Change

Mitigating activities

Customer survey undertaken and results acted upon

Training and mystery shopper initiatives undertaken

Regular communication with stakeholders

No Change

BUSINESS REVIEW

continued

CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY IS CREATING VALUE FOR WORKSPACE GROUP

Corporate Social Responsibility is fully integrated into our business activities. We believe our Corporate Social Responsibility strategy drives occupancy by delivering cost savings for our properties and rents by helping to create a more attractive business environment for our customers.

Each year, we set targets, focused on increasing occupation and strengthening key stakeholder relationships. In 2011/12, we fully achieved eight targets and partially achieved two, highlights are shown below. Looking ahead, we will continue to focus on improving performance in our four priority areas (carbon management, waste management, customer satisfaction and community investment). We will seek to effectively communicate our strategy and actions in order to

- Engage our customers in delivering energy and waste efficiencies
- Strengthen relationships with customers, investors and employees
- Enhance our brand as a responsible landlord for small and medium enterprises

Jones Lang LaSalle has assessed our targets and key performance indicators and has carried out a review of our performance over the year.

COMMUNITY INVESTMENT

We engage with customers and local communities enabling employment, education and entrepreneurship.

Our E3 community strategy is bringing together entrepreneurship, education and employment working with a range of charities and businesses. The strategy is in full flow, having achieved good successes alongside our community partners. The Greater London Authority, London South Bank University and the Cricket Foundation

CARBON MANAGEMENT

We understand our energy use and identify improvements, so that we reduce costs and carbon dioxide emissions, and perform well in the CRC Energy Efficiency Scheme.

We installed real-time energy monitoring at 12 high consumption sites, audited energy efficiency opportunities at six sites and have a full-time energy management executive. We completed a whole life carbon analysis of the Workspace Group 'recycling buildings' model.

WASTE MANAGEMENT

We work to improve our recycling rates and send zero waste to landfill, so that we cut landfill tax costs.

We have negotiated a new waste management contract including customer education and recycling targets. Recycling bins and waste management strategy is now provided to customers at all centres.

CUSTOMER SATISFACTION

We aim to meet our customers' needs and help them improve their Corporate Social Responsibility, so that we retain our customers and maximise rental income.

Customer satisfaction and loyalty are key to the sustainability of our income stream. We target a customer experience score of 80% on our annual survey.

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RECYCLING BUILDINGS SAVES CARBON EMISSIONS

Workspace commissioned the whole lifecycle carbon analysis by Jones Lang LaSalle to determine whether our business model of recycling older buildings is inherently more carbon efficient than continually demolishing and rebuilding office space in London

Over a 60-year lifespan, Workspace Group's recent refurbishment of Chester House delivers

- 25% lower emissions than a new build central London benchmark building
- Saving over 9 500 tonnes of CO₂
- 12% lower emissions than a new build regional benchmark building
- Saving more than 4 000 tonnes of CO₂

INDUSTRY INITIATIVES

Total value of community investment, £138,650

Fifty young people provided with Work Inspirations during Global Entrepreneurial Week

Fully achieved 12 of 17 community performance targets with three in progress for delivery in 2012/13

Real time energy consumption live at 12 sites, representing CO₂ emissions of 9,000, approximately half of Workspace Group's total CO₂ emissions

7% of properties have had an energy audit

Landfill cost avoided - £300 000

Waste diverted from landfill through recycling/waste to energy - 5,600 tonnes

41% recycling rate plus 43% waste to energy, 84% diverted from landfill

Average customer experience score in annual customer survey 84%

Zero Health & Safety RIDDORs for customers

Continue delivery of Workspace's E3 community strategy.

Continue Club Workspace start up and entrepreneurial events.

Knowledge transfer partnership with London South Bank University.

20 Work Inspiration placements.

Workspace Urban 20 cricket sponsorship, a vocational skills outreach for 200 school children.

Reduce carbon emissions (CO₂) by 10% compared to 2011, across the 12 assets with digital energy monitoring (adjusted for occupancy)

Reduce carbon emissions (CO₂) by 5% compared to 2011, across the whole portfolio (adjusted for occupancy).

Achieve a recycling rate average across all centres of 55%, and achieve zero waste to landfill by October 2013.

Actively integrate Corporate Social Responsibility into Workspace's communication strategy

KEY PROPERTY STATISTICS

	Quarter ending 31 March 2012	Quarter ending 31 December 2011	Quarter ending 30 September 2011	Quarter ending 30 June 2011	Quarter ending 31 March 2011
Workspace Group Portfolio					
Property valuation	£760m	£750m	£733m	£727m	£719m
Number of estates	92	94	94	95	96
Lettable floorspace (million sq ft)*	5.0	5.0	5.1	5.1	5.1
Number of lettable units	4,668	4,781	4,899	4,885	4,856
ERV	£65.4m	£64.9m	£65.2m	£62.8m	£61.4m
Cash rent roll of occupied units	£50.2m	£49.8m	£50.0m	£49.6m	£48.9m
Average rent per sq ft	£11.79	£11.58	£11.52	£11.63	£11.47
Overall occupancy	85.3%	85.6%	85.2%	84.0%	83.6%
Like-for-like lettable floor space (million sq ft)	4.0	4.0	4.0	4.0	4.0
Like-for-like cash rent roll	£44.5m	£43.9m	£43.8m	£43.3m	£42.5m
Like-for-like average rent per sq ft	£12.61	£12.48	£12.38	£12.41	£12.20
Like-for-like occupancy	87.8%	87.6%	87.7%	86.8%	86.1%
BlackRock Workspace Property Trust					
Property Valuation	£62m	£47m	£36m	£36m	£35m
Number of estates	11	10	8	8	8
Lettable floorspace (million sq ft)*	0.4	0.4	0.3	0.3	0.3
ERV	£5.5m	£4.7m	£3.6m	£3.5m	£3.4m
Cash rent roll of occupied units	£4.7m	£3.8m	£2.9m	£3.0m	£3.1m
Average rent per sq ft	£11.82	£10.66	£10.20	£10.58	£10.57
Overall occupancy	89.8%	88.7%	87.3%	87.9%	92.1%

* Excludes storage space

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Property portfolio

THE BOARD & EXECUTIVE COMMITTEE

THE BOARD

1 DANIEL KITCHEN

Appointment Non-Executive
Chairman

COMMITTEE MEMBERSHIPS:

Chairman of the Nominations
Committee and a member of the
Remuneration Committee

BACKGROUND AND RELEVANT EXPERIENCE:

Daniel Kitchen was appointed to
the Board on 6 June 2011 and
subsequently took on the role as
Chairman at the Annual General
Meeting on 28 July 2011. He was
previously Deputy Chief Executive at
Heron International plc and prior to
that was Finance Director at Green
Property for eight years. He retired
as Non-Executive Chairman of Irish
Nationwide Building Society in
July 2011 and as Non-Executive
Director of Kingspan Group PLC
in May 2012.

CURRENT EXTERNAL APPOINTMENTS:

He is currently Non-Executive
Chairman of Key Capital Real Estate
Ltd and a Non-Executive Director of
LXB Retail Properties PLC and Irish
Takeover Panel Limited.

2. JAMIE HOPKINS

Appointment Chief Executive

BACKGROUND AND RELEVANT EXPERIENCE:

Jamie Hopkins was appointed to the
Board as a Non-Executive Director
in June 2010 then subsequently took
on the role as Chief Executive on
1 April 2012. He was previously Chief
Executive and a Non-Executive
Director of Mapeley PLC and a Director
of Chester Properties. Prior to that
Jamie was a Director of Delancey
Estates and Savills.

CURRENT EXTERNAL APPOINTMENTS:

Jamie is a Member of the Corporate
Board of Great Ormond Street
Hospital Children's Charity.

3. GRAHAM CLEMETT BSC ACA

Appointment Group Finance Director

BACKGROUND AND RELEVANT EXPERIENCE:

Graham Clemett joined the Board
as Finance Director in July 2007.
Previously he was Finance Director for
UK Corporate Banking at RBS Group
PLC where he worked for a period of
five years. Prior to that Graham spent
eight years at Reuters Group PLC
latterly as Group Financial Controller.

4. MARIA MOLONEY PHD, B LEG.SCI, D UNIV, M.PHIL (LAW)

Appointment Non-Executive Director

COMMITTEE MEMBERSHIPS:

Member of the Audit, Remuneration
and Nominations Committees

BACKGROUND AND RELEVANT EXPERIENCE:

Maria Maloney was appointed to the
Board in May 2012. She was previously
on the Board of the Belfast Harbour
Commissioners, the Industrial
Development Board and Northern
Ireland Transport Holdings. She also
served on the UK's Independent
Television Commission in London
and on the Board of the University
of Ulster Foundation.

CURRENT EXTERNAL APPOINTMENTS

Maria a lawyer, is currently a
Non-Executive Director of the
Broadcasting Authority of Ireland
in Dublin and a Trustee of the
N Ireland Cancer Centre in Belfast.

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5. JOHN BYWATER FRICS

Appointment Non-Executive Director

COMMITTEE MEMBERSHIPS:

Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees

BACKGROUND AND RELEVANT EXPERIENCE

John Bywater was appointed to the Board in June 2004. He was previously an Executive Director of Hammerson PLC and retired in March 2007.

CURRENT EXTERNAL APPOINTMENTS:

He is Managing Director of Caddick Developments Ltd, a Non-Executive Director of British Waterways and Realis Estates a private property company, a Non-Executive of Low Carbon Workspace Limited and a Trustee of Opera North

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6. BERNARD CRAGG BSC ACA

Appointment Senior Independent Non-Executive Director

COMMITTEE MEMBERSHIPS

Chairman of the Audit Committee and a member of the Remuneration and Nominations Committees

BACKGROUND AND RELEVANT EXPERIENCE.

Bernard Cragg was appointed to the Board in June 2003. He was previously Chairman of Datamonitor PLC and i-mate PLC and a non-executive director of Bristol & West PLC. He was formerly Group Finance Director and Chief Financial Officer of Carlton Communications PLC and a non-executive director of Arcadia PLC.

CURRENT EXTERNAL APPOINTMENTS

He is a non-executive director of Astro Overseas Limited and Astro Malaysia Holdings SDN BHD and the Senior Independent Director of Mothercare PLC and Progressive Digital Media PLC.

7. CARMELINA CARFORA FCIS

Appointment Company Secretary

BACKGROUND AND RELEVANT EXPERIENCE

Carmelina Carfora was appointed Company Secretary in March 2010. She was previously Group Company Secretary of Electrocomponents Plc. She has also worked in the construction industry and for a consultancy firm offering company secretarial services.

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EXECUTIVE COMMITTEE

8. ANGUS BOAG MSC CENG MICE

Appointment Development Director

BACKGROUND AND RELEVANT EXPERIENCE

Angus Boag joined the Group in June 2007 as Development Director. Prior to joining the Group he was at Manhattan Loft Corporation for 12 years joining as Development Director and then being appointed as Managing Director in 2001.

9. CHRIS PIERONI BA (HONS) MSC (ECON) PHD (CANTAB) ACSI

Appointment Operations Director

BACKGROUND AND RELEVANT EXPERIENCE

Chris Pieroni joined the Group as Operations Director in October 2007. Chris is responsible for asset management, marketing, lettings, and professional services. Prior to joining Workspace he worked at KPMG specialising in real estate and infrastructure finance. He began his professional career teaching economics at Cambridge University. Chris was a Non-Executive Director of the Group from 2000 until his retirement from the Board in August 2006.

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REPORT OF THE DIRECTORS

CARMELINA CARFORA
Company Secretary

The Directors present their report on the affairs of the Group together with the audited financial statements for the year ended 31 March 2012. The Business Review and all other sections of the annual report, to which cross reference is made, are incorporated into the Report of the Directors by reference.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The Group is engaged in property investment in the form of letting of business accommodation to small and medium sized enterprises located in and around London. At 31 March 2012 the Company had 11 active subsidiaries, six of which are property investment companies owning properties in Greater London. The other five companies include Workspace Management Limited which acts as manager for all the Group's property investment companies and the BlackRock Workspace Property Trust, LI Property Services Limited which procures insurance on behalf of the Group, and Anyspacedirect.co.uk Limited which operates a web-based service for businesses in search of commercial space to rent in the UK. Workspace Holdings Limited and Workspace Glebe Limited are intermediate holding companies. A full list of the Company's trading subsidiaries appears on page 98.

Significant events which occurred during the year are detailed in the Chairman's Statement on page 4, the Chief Executive's Statement on page 6 and the Business Review on pages 26 to 31.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The Business Review requires a detailed review of the business of the Group, the development and performance of the Company during the year and at the year end and of its strategy and prospects, including an analysis using key performance indicators.

This information, together with a description of the principal risks and uncertainties facing the Company, details of the Company's health and safety policies and its environmental and corporate responsibility activities can be found on pages 1 to 38 and page 44.

CORPORATE GOVERNANCE

The Company and the Group are committed to high standards of corporate governance, details of which are given in the Chairman's Governance Statement and Corporate Governance Report on pages 45 to 56 and in the Directors' Remuneration Report on pages 57 to 68.

PROFIT AND DIVIDENDS

The Group's profit after tax for the year attributable to shareholders amounted to £49.0m (2011: £53.5m).

The interim dividend of 2.93p (2011: 2.66p restated for the Rights Issue and share consolidation) was paid in February 2012 and the Board is proposing to recommend the payment of the final dividend of 5.86p (2011: 5.33p restated) per share to be paid on 3 August 2012 to shareholders whose names are on the Register of Members at the close of business on 13 July 2012. This makes a total dividend of 8.79p (2011: 7.99p restated) for the year.

GOING CONCERN

The Group's activities, strategy and performance are explained in the Chief Executive's Statement and Our Strategy on pages 6 to 9 and the Business Review on pages 26 to 31.

Further detail on the financial performance and financial position of the Group is provided in the financial statements on pages 71 to 98.

The Directors, having made appropriate enquiries, have a reasonable expectation that the Group and the Company have adequate resources and sufficient headroom on the Group's bank loan facilities to continue in operational existence for the foreseeable future. For this reason, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the Group's accounts.

LAND AND BUILDINGS

The Group's fixed assets include investment properties of £759.3m (2011: £713.4m) and owner occupied property of £nil (2011: £3.9m). The Group's investment properties have been independently valued by CBRE Limited, Chartered Surveyors, at 31 March 2012 at open market value.

DIRECTORS

With the exception of Mr Kitchen and Dr Moloney who were appointed as Directors on 6 June 2011 and 22 May 2012 respectively and Mr Hales who retired as Chairman on 28 July 2011, the Directors of the Company all held office throughout the year. The current Directors are shown on pages 40 and 41.

Mr Platt retired from the Board on 31 March 2012 and Mr Hopkins was appointed as Chief Executive on 1 April 2012.

All the Directors will retire at the Annual General Meeting and, being eligible, will offer themselves up for re-election.

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DIRECTORS' INDEMNITIES

As permitted under the Companies Act 2006 and the Company's Articles of Association, the Company has executed a Deed Poll under which it will indemnify its Directors, subject to certain limitations and as permitted by law, for liabilities incurred in connection with their appointment as a Director and in certain circumstances fund a Director's expenditure on defending criminal or civil proceedings brought against the Director in connection with his position as a Director of the Company or of any Group Company

The indemnity provision was in force during the year and at the date of approval of the financial statements

DIRECTORS' CONFLICT OF INTEREST

No Director had during the year any beneficial interest in any contract significant to the Company's business, other than a contract of employment

Details of the Directors' shareholdings and options over shares are provided on pages 66 to 68

The Company has procedures in place for managing conflicts of interest. Should a Director become aware that they or their connected parties have an interest in an existing or proposed transaction with Workspace Group PLC they are required to notify the Board in writing or at the next Board Meeting

EMPLOYMENT POLICIES

The Group values highly the commitment of its employees and has maintained its practice of communicating business developments to them in a variety of formats. The Company has a Group intranet, which contains stories of interest and success around the Group. Furthermore, the Group has implemented a series of Director-led staff briefings designed to keep employees well informed of the performance and objectives of the Group. These briefings are held quarterly and serve as an informal forum for employees to ask questions about the Company

Employees are appraised regularly. The appraisal process has been designed to link closely with the business planning process and provides employees with a clear set of business and personal objectives

Share Schemes are a long-established and successful part of our total reward package, encouraging and supporting employee share ownership. In particular, all employees are invited to participate in the Company's Savings Related Share Option Scheme (SAYE)

The Group is committed to an active Equal Opportunities Policy from recruitment and selection, through training and development, performance reviews and promotion. All decisions relating to employment practices are objective, free from bias and based solely upon work criteria and individual merit. The Company is responsive to the needs of its employees, customers and the community at large. We are an organisation which uses everyone's talents and abilities where diversity is valued

The Group remains supportive of the employment and advancement of disabled persons and ensures its promotion and recruitment practices are fair and objective

SHARE CAPITAL AND CONTROL

Full details of share options and awards under the terms of the Company's share incentive plans can be found on pages 93 to 96

Other relevant requirements from the takeover directive are included elsewhere in the Report of the Directors, the Corporate Governance Report, the Directors' Remuneration Report and the notes to the Group and Company financial statements. There are no agreements in place between the Group and its employees or Directors for compensation for loss of office or employment that occur because of a takeover bid

As at 31 March 2012, the Company's issued share capital comprised of a single class of 144,091,418 ordinary shares of £1.00 each. Details of the Company's issued share capital are set out on page 92

SUBSTANTIAL SHAREHOLDINGS IN THE COMPANY

As at 31 May 2012, the Company has been notified in accordance with the FSA Disclosure and Transparency Rules of the following interests in the voting rights of the Company

Fund Manager	Number of Shares	Percentage Held
Mr S N Roditi	38,872,927	26.98%
BlackRock Inc	13,683,995	9.50%
F&C Asset Management Plc	10,177,867	7.06%
Legal & General		
Investment Management	7,681,731	5.33%
Aberforth Partners	6,926,283	4.81%
Columbia Wanger Asset Management	6,086,112	4.22%
Invesco Perpetual	5,765,305	4.00%

* Mr Roditi's shareholding is held via a number of different trusts and legal entities

REPORT OF THE DIRECTORS

continued

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Group made no political contributions during the year (2011 £nil). Charitable contributions within the UK amounted to £43,824 (2011 £85,604) principally through rental concessions.

HEALTH AND SAFETY

We are committed to health and safety best practice as an integral part of our business activities and our drive for high performance. The Group's policy is to provide and maintain safe and healthy working conditions, equipment and systems of work for all its employees and to provide such information, training and supervision as they need for this purpose.

Whilst all employees of the Group have a responsibility in relation to health and safety matters, certain staff have been designated 'workplace' responsibilities or other co-ordinating responsibilities throughout the Group, and ultimately, at Board level, the Chief Executive has overall responsibility.

PURCHASING POLICIES AND PAYMENTS

The Group tries, wherever possible, to procure from within its own customer base providing customers are competitive on price and quality. The Group's policy is that, unless agreed otherwise at the time of the transaction, its own payments to others for goods and services received are made on average within a month of the date of invoice.

During the year to 31 March 2012 the Group's average payment term from the date of invoice was 33 days (2011 34 days). The Parent Company has made no trade purchases.

FINANCIAL RISK MANAGEMENT

The financial risk management objectives and policies of the Company are set out in note 18 to the financial statements and in the Corporate Governance section of this report on pages 55 and 56.

DISCLOSURE OF INFORMATION TO AUDITORS

The Directors who held office at the date of approval of this Report of the Directors confirm that, so far as they are each aware there is no relevant information of which the Group's auditors are unaware, and each Director has taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP ('PwC'), have indicated their willingness to continue in office and a resolution that they will be reappointed will be included as ordinary business at the Annual General Meeting.

ANNUAL GENERAL MEETING

The 26th Annual General Meeting of the Company will be held at Chester House, Kennington Park, 1-3 Brixton Road, London SW9 6DE on Thursday 26 July 2012 at 11.00am. Accompanying this report is the Notice of the Annual General Meeting which sets out the resolutions to be considered and approved at the meeting.

By order of the Board



CARMELINA CARFORA

Company Secretary
11 June 2012

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CHAIRMAN'S GOVERNANCE STATEMENT

DANIEL KITCHEN
Chairman

The Board of Workspace is committed to maintaining a high standard of corporate governance in respect of leadership remuneration matters accountability and in our relationship with our shareholders as identified by the UK Corporate Governance Code

We are committed to reporting on our corporate governance framework in an open and transparent way

BOARD COMPOSITION AND SUCCESSION PLANNING

In order to implement our strategy the Board will monitor and review the succession planning and development requirements for key executives and senior managers across the Company

During the year, the Board had the important job of identifying and appointing a new Chief Executive to succeed Harry Platt, who, after successfully leading the Company for 20 years, confirmed his intention to retire in 2012 This resulted in the appointment of Jamie Hopkins The succession process, which was led by me with the full involvement of the Nominations Committee was critical in ensuring that we have the right leadership in place to deliver our strategy

Following our AGM this year, Bernard Cragg will have served as a Board Director for nine years The Board recognises that his tenure will have reached a threshold at which his independence could be called into question

Considering the radical changes to the Board which have occurred over the past year the Board is mindful of ensuring that a certain level of continuity is maintained Indeed, if Bernard were to retire we would have only one Non-Executive Director with more than one year's experience of the Company With this in mind and given the importance of the experience and skills required to perform the role of Chair of the Audit Committee and Senior Independent Director, Bernard will remain as a Board Director until the Annual General Meeting in 2014

We continue to review and monitor Board and Board Committee composition against our skills and experience requirements and so we will be considering potential candidates, as Non-Executive Directors to join our Board over the next 12 months

In accordance with the UK Corporate Governance Code for the first time in 2011 all of the Directors submitted themselves for re-election at the Annual General Meeting This practice will continue at the Annual General Meeting in 2012

BOARD AND COMMITTEE PERFORMANCE

The Board agreed last year that we should appoint independent consultants to facilitate an external Board effectiveness review so that we could consider the way in which we carry out our role and conduct ourselves, as well as our structure and processes The process covered the Board its Committees and personal performance and the output was reviewed at the April 2012 Board Meeting

I am pleased to report that the thorough exercise conducted by Wickland Westcott, who provide no other services to the Group concluded that the Board operated in an efficient and effective manner Discussion within the Board is open, positive and all feel able to contribute and that there is an appropriate level of challenge in the boardroom

As would be expected, a small number of themes arose from the evaluation where more focus was recommended and these will form the basis of an action plan for 2012 Details of the key themes can be found on page 53 of the Corporate Governance Report

DIVERSITY

The Board recognises the benefits of diversity of skills, knowledge and independence as well as gender diversity As part of the recruitment process, the composition of the Board has been kept under review to ensure that the best balance of skills and experience is maintained This was also reviewed as part of the external Board evaluation process We will continue to review candidates from a wide range of backgrounds to ensure that the best candidates are selected with our foremost priority being to ensure that we appoint the most appropriate candidates and maintain our merit-based approach to recruitment At Workspace we have a good record of promoting and appointing women to senior positions within the Company

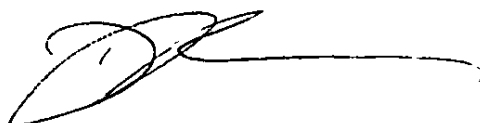
Further details of our policy on diversity can be found on page 55 of the Corporate Governance Report

COMMUNICATION WITH SHAREHOLDERS

Communication with shareholders is given a high priority by the Board

When the Company announces its annual and half year results, the Chief Executive and Executive Directors make presentations to institutional investors and analysts and hold one to one briefings with key shareholders The Board also receives regular reports from its corporate advisers on shareholder meetings As Chairman I have also met with a number of shareholders since my appointment in July 2011 in order to encourage an open dialogue on any matters of concern to them

DANIEL KITCHEN
Chairman



CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRINCIPLES AND COMPLIANCE STATEMENT

The Board is committed to maintaining high standards of corporate governance and we support and apply the principles of good governance advocated by the UK Corporate Governance Code (the Code). The Board works with honesty and integrity which it considers is vital to building a sustainable business for all of our stakeholders.

The Board believes that implementing a robust governance and corporate social responsibility framework in which appropriate management structures, processes and safeguards are adopted and are transparently communicated to shareholders is essential in aiding sustainable long-term economic performance.

During the year the Board considered a number of best practice provisions which would benefit the Group and as a result adopted and implemented certain provisions of the Code intended for larger companies such as the annual

re-election of its Directors and the undertaking of an externally facilitated evaluation of the Board and its Committees.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

It is the Board's view that the Group has been fully compliant with the Code throughout the year ended 31 March 2012. The application of the principles contained in the Code is described below. Detailed reports on Directors' remuneration and the Audit Committee can be found on pages 57 to 68 and pages 51 and 52.

CORPORATE GOVERNANCE STRUCTURE

The Board is responsible to shareholders for the strategic direction of the Group and the stewardship of its activities.

The Board has a number of standing committees to which specific responsibilities have been delegated and for which written terms of reference have been agreed.

CORPORATE GOVERNANCE STRUCTURE

THE BOARD

- Establish the core values and standards which are implemented by Workspace's governance framework and operational activities
- Set Workspace's business strategy and business objectives in order to create long-term value for shareholders
- Ensure that the necessary resources are available to fulfil Workspace's strategic objectives
- Review and monitor performance against its business objectives and consider any associated risk factors which may adversely impact the business at large

EXECUTIVE COMMITTEE

- Address Group-wide issues and initiatives.
- Review and approve capital expenditure, disposals and certain acquisitions within established levels of authority.
- Monitor the operating and financial results against plans and budgets.
- Review the effectiveness of risk management and control procedures.

CITY COMMITTEE

- Review the quarterly, interim and annual reports and associated announcements prior to their review by the Audit Committee and the Board.

NOMINATIONS COMMITTEE

- Assess what new skills, knowledge and experience are required on the Board.
- Recommend to the Board candidates for appointment as Executive and Non-Executive Directors (NEDs) of the Group.
- Consider succession policies and talent management.

REMUNERATION COMMITTEE

- Oversee all aspects of remuneration for Executive Directors.
- Recommend Chairman's remuneration.
- Consider remuneration policy and practices of the workforce.

AUDIT COMMITTEE

- Ensure the integrity of financial reporting and audit processes.
- Ensure maintenance of a sound internal control and risk management system.
- Review and monitor the external auditors' independence, objectivity and effectiveness of audit process.
- Establish and implement policy on non-audit services.

SENIOR MANAGEMENT

- Assist the Executive Committee in the running of day-to-day operations in line with Group strategy.
- Review and track major initiatives.
- Attend regular meetings with the Executive Committee to review performance and operational activity.

INVESTMENT COMMITTEE

- Approve any acquisition or disposal of investment property assets.
- Review and monitor integration plans for acquisitions.
- Approve and monitor development contracts.
- Approve and monitor asset management property improvements.
- Make recommendations to the Board for its approval of any business initiative with a value of more than £2m.

FINANCE

- Produce the interim and annual financial reports and associated announcements.
- Establish and monitor financial processes of control and cash management.

EXTERNAL RECRUITMENT

- Advise and assist the Committee in the search for appropriate candidates.
- Advise and assist the Nominations Committee in increasing the effectiveness of the Board and ensure that diversity continues to be a major factor in profiling candidates.

ADVISORS

- Advise on all aspects of executive remuneration and aspects associated with the LTIP.
- Advise on administration and the tax treatment of share option schemes and deferred share awards.

EXTERNAL AUDITOR

- Audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland).

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THE BOARD

The Board has collective responsibility to the Group's shareholders and is accountable to them for creating long-term value and safeguarding their interests by establishing a robust governance framework which is applied to all aspects of its business

The Board is collectively responsible for the performance of the Group. The Board discusses and agrees strategic plans and reviews budgets, business plans and business performance

The Board has a formal schedule of matters reserved for its approval. The Board has ultimate responsibility for the Group's

- overall business and financial strategy,
- overall management of its operations,
- risk management
- major investment proposals
- significant capital projects, and
- disposals and acquisitions of more than £2m

Other day-to-day operational decisions are delegated by the Board to the Executive Committee

The Chairman promotes open discussion among the Board members and encourages the NEDs to constructively challenge strategic and other business related debate in order to ensure that the decisions adopted by the Board have been vigorously tested

To assist the Board in effectively discharging its duties, Directors receive relevant supporting information, which include but is not limited to the Group's financial results performance reports and risk assessment reports. The governance framework implemented by the Group ensures

that open communication channels exist between the Board its principal committees and from within the organisation. Copies of committee minutes are distributed to all Directors. Furthermore, the Board routinely considers environmental, ethical and reputational issues in order to ensure that they are fully reflected in the risk management process

KEY ACTIVITIES DURING THE YEAR

During the past financial year, the Board has met for scheduled Board meetings 11 times. Key matters reserved for the Board include

- reviewing performance and implementation of the strategy by the Executive Committee,
- setting and monitoring of strategy including the dividend policy,
- reviewing the Group's property valuation
- considering additional financial resources for the purpose of accelerating the redevelopment programme across the Group's property portfolio,
- approval of redevelopment activity,
- quarterly, half year and annual reporting to shareholders
- review of the Group's risk and related controls
- Board appointments and
- corporate governance matters and external Board evaluation

BACKGROUND AND EXPERIENCE OF THE BOARD

The Board currently has six Directors that bring considerable and diverse experience which enables them to make a valuable contribution to the Group

The following table illustrates the collective business experience held by Board Directors, outside that acquired at Workspace Group PLC

INDUSTRY EXPERIENCE OF THE BOARD

CORPORATE GOVERNANCE REPORT continued

The Board is actively considering diversity and believes this to be an important factor when considering appointments to the Board. As part of the recruitment process the composition of the Board will be kept under review to ensure the best balance of skills and experience is maintained. Further details on our diversity policy can be found on page 55.

Biographical details of the Directors at the date of this report are set out on pages 40 and 41.

BOARD STRUCTURE AND COMPOSITION

The Board has undergone a number of changes in its membership during the year. At our 2011 AGM, Tony Hales retired from the Board and was replaced by Daniel Kitchen who was appointed to the Board to assume the role of Non-Executive Chairman.

As was announced in 2011 Harry Platt had indicated his desire to retire in 2012. At that time, the Board delegated its authority to the Nominations Committee to prepare for an orderly succession and undertake a formal process to identify a suitable successor. Further details of the process are provided in the Nominations Committee section.

After considering a number of internal and external candidates, the Board unanimously agreed that Jamie Hopkins had the required skills and experience to lead the Group going forward. Harry Platt retired as CEO and stepped down from the Board on 31 March 2012 and Jamie Hopkins was appointed his successor on 1 April 2012.

Harry Platt has been retained by the Group in an advisory capacity for a three month period ending 30 June 2012 to ensure an orderly and effective handover to Jamie Hopkins.

Dr Maria Moloney was appointed as a Non-Executive Director on 22 May 2012 and she brings extensive knowledge and experience within marketing, business development and law.

During the year, the Board of Directors comprised

Position	Directors (1 April 2011)	Directors (1 April 2012)	Directors (2012 AGM)
Non-Executive Chairman	Tony Hales	Daniel Kitchen	Daniel Kitchen
Chief Executive	Harry Platt	Jamie Hopkins	Jamie Hopkins
Finance Director	Graham Clemett	Graham Clemett	Graham Clemett
Senior Independent Non-Executive Director	Bernard Cragg	Bernard Cragg	Bernard Cragg
Independent Non-Executive Director	John Bywater	John Bywater	John Bywater
Independent Non-Executive	Jamie Hopkins	-	Maria Moloney

Notes

- Tony Hales (former Non-Executive Chairman) retired from the Board on 28 July 2011.
- Harry Platt retired from the Board on 31 March 2012.
- Jamie Hopkins assumed the role of CEO on 1 April 2012.
- Daniel Kitchen joined the Board on 6 June 2011 and was appointed Chairman on 28 July 2011.
- Maria Moloney was appointed a Non-Executive Director on 22 May 2012.

The Nominations Committee is considering the appointment of additional Non-Executive Directors and details of this can be found in the Nominations Committee section.

BOARD ATTENDANCE

The Board normally meets at regular intervals during the year. Supplementary meetings are also held as and when necessary.

During the year ended 31 March 2012, the attendance of Directors at board meetings was as follows:

	Scheduled Board Meetings	Director Attendance
Daniel Kitchen ³	11	6
Tony Hales ¹	11	7
Harry Platt ²	11	11
Graham Clemett	11	11
Bernard Cragg	11	11
John Bywater	11	11
Jamie Hopkins	11	10

Notes

- 1 Tony Hales (former Non-Executive Chairman) retired from the Board on 28 July 2011. His attendance is based on the number of meetings held in which he was eligible to attend prior to his retirement.
- 2 Harry Platt retired from the Board on 31 March 2012.
- 3 Daniel Kitchen was appointed to the Board on 6 June 2011. Since his appointment Mr Kitchen has attended all Board meetings that he was eligible to attend.

During the year, the Board held an annual strategy meeting at which it considered the future strategy of the Group.

BALANCE OF THE BOARD

The Board considers there to be an appropriate balance between Executive and Non-Executive Directors required to lead the business and safeguarding the interest of shareholders.

During the year ended 31 March 2012 the Board comprised of six directors including a Non-Executive Chairman, two Executive Directors and three independent Non-Executive Directors. The Non-Executive Chairman was considered by the Board to be independent upon his appointment. Jamie Hopkins became an Executive Director on 12 March 2012.

Due to Jamie Hopkins succeeding Harry Platt as CEO the Board temporarily comprised five members, three of which, including the Chairman, are considered independent.

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For the purpose of compliance with the Code during the 2011/12 reporting year, the Board comprised a majority of independent Non-Executive Directors, excluding the Chairman. Despite the temporary decrease in the number of Non-Executive Directors following Jamie Hopkins' appointment as CEO, the Board continues to fulfil the Code's requirement for companies of Workspace's size

On 22 May 2012 Maria Moloney was appointed to the Board to re-establish a majority of Non-Executive Directors on the Board

The following illustrates the balance of Non-Executive Directors to Executive Directors, excluding the Chairman, on the Board during past year

BALANCE OF NON-EXECUTIVE AND EXECUTIVE DIRECTORS

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

Following the 2012 AGM Bernard Cragg will have served as a Board Director for nine years. The Board recognises that his tenure will have reached a threshold at which his independence could be called into question by some shareholders under the criteria set by the UK Corporate Governance Code

The Board has considered the independence of all of the Non-Executive Directors, and in particular that of Bernard Cragg during the board effectiveness review conducted during the year. The review concluded that the Non-Executive Directors, including Bernard Cragg, act in a robustly independent manner and bring constructive challenge to board discussions and independent decision-making to their Board and Committee duties

The Board believes that no long-standing relationship which may be deemed to compromise independence has been formed with any of the Executive Directors or senior executives at Workspace. Furthermore following the retirement of Harry Platt earlier in the year the longest-standing professional relationship between Bernard Cragg and any existing Executive Directors is no more than five years

The Board accepts that some shareholders take a robust view of independence, in particular the tenure of Non-Executive Directors. The Board is committed to actively refresh its membership and that of its committees in line with its succession planning process which has been evident in recent years by the retirement of Mr Hales as Non-Executive Chairman and Mr Platt as Chief Executive

and the appointment of Mr Kitchen as Non-Executive Chairman, Dr Moloney as a Non-Executive Director and Mr Hopkins as Chief Executive

Considering the changes to the Board which have occurred over the past year, the Board is mindful of ensuring that a certain level of continuity is maintained

With this in mind and given the importance of the experience and skills required to perform the role of Chair of the Audit Committee and Senior Independent Director, Bernard Cragg will remain as a Board Director until the Annual General Meeting in 2014

We continue to review and monitor Board and Board Committee composition against our skills and experience requirements and so we will be considering potential candidates, as Non-Executive Directors to join our Board over the next 12 months

ROLE AND RESPONSIBILITIES OF DIRECTORS CHAIRMAN, CHIEF EXECUTIVE AND SENIOR INDEPENDENT DIRECTOR

The roles and responsibilities of the Chairman and the Chief Executive are separate and the division of responsibilities has been clearly established

The Chairman is responsible for leadership of the Board, ensuring its effectiveness and that it operates in the interests of shareholders. The Chairman facilitates the effective contribution of the Non-Executive Directors and ensures all Directors receive accurate, timely and clear information. The Chairman is not involved in an executive capacity in any of the Group's activities. He is also responsible for effective communication between the Board and shareholders

During the year the Chairman held a number of meetings with the Non-Executive Directors, without the Executive Directors. The discussions largely revolved around succession planning

The Chief Executive has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group and the determination of the strategy and achievement of its objectives

Bernard Cragg, as the Senior Independent Director, is responsible for chairing the meeting of the Non-Executive Directors for the purpose of evaluating the Chairman's performance and to provide an alternative communication channel for shareholders if required

COMPANY SECRETARY

Carmelina Carfora is the Company Secretary to the Board of Workspace. Her biography can be found on page 41. Carmelina is responsible for ensuring good information flows within the Board and its committees and between senior management and Non-Executive Directors. She is also responsible for advising the Board, through the Chairman on all governance matters

CORPORATE GOVERNANCE REPORT

continued

BOARD COMMITTEES

The Board has a number of standing committees, namely the Remuneration, Audit, Nominations, City and Executive Committees to which specific responsibilities have been delegated and for which written terms of reference have been agreed. The terms of reference for the Remuneration, Audit and Nominations Committee are available for inspection on the Group's website. Board members receive minutes of meetings of all the Board's committees and can request presentations or reports on areas of interest.

NOMINATIONS COMMITTEE

DANIEL KITCHEN
Chairman

Number of meetings during the year	Scheduled	Attended
Daniel Kitchen (Chairman) ¹	5	4
John Bywater	5	5
Bernard Cragg	5	5
Jamie Hopkins ²	5	3
Tony Hales (former Chairman) ³	5	1

Notes

- 1 Daniel Kitchen, who was independent upon appointment, was appointed as Chairman of the Committee on 28 July 2011. His attendance is based on the number of meetings held in which he was eligible to attend following him becoming a formal member.
- 2 Jamie Hopkins attended all meetings which he was eligible to attend prior to stepping down from the Committee.
- 3 Tony Hales retired from the Board on 28 July 2011. His attendance is based on the number of meetings held in which he was eligible to attend prior to him retiring from the Board.

During the year, the Nominations Committee was chaired by Daniel Kitchen and comprised all of the Non-Executive Directors. The names of the members of the Committee are shown in the table above, together with attendance at meetings. Jamie Hopkins stepped down as a member of the Nominations Committee in November 2011 once he had expressed an interest in the role of CEO.

Maria Moloney has been appointed to the Committee increasing the membership to four.

The Committee meets as required and makes proposals on the size, structure, composition and appointments to the Board. It periodically assesses what new skills, knowledge and experience are required and then recommends a candidate profile. It carries out the selection process and an external search agency is ordinarily used to assist in the identification of suitable candidates for Board appointments. The Nominations Committee then meets and decides which candidates, if any, will be recommended to join the Board.

In the 2011 Annual Report, the Committee reported on the process of succession undertaken for the appointment of the Chairman.

During the year, the main task of the Committee was the recruitment of a new CEO, as in early 2011 Harry Platt announced his desire to retire in 2012. Subsequently, the Committee was asked by the Board to prepare for an orderly succession and undertake a formal process to identify a suitable successor.

The Committee appointed Spencer Stuart, an external search consultancy to assist it in identifying a diverse list of internal and external candidates qualified for the role.

The Committee met with a number of candidates and following several meetings and discussions the Nominations Committee duly recommended to the Board that Jamie Hopkins be appointed as CEO. The Board unanimously agreed that Jamie Hopkins had the required skills and experience to lead the Group going forward and he was formally appointed as CEO with effect from 1 April 2012.

As would be expected, the Executive Directors took no part in the recruitment process of the new CEO.

In addition, following the vacancy of an NED role due to the appointment of Jamie Hopkins as CEO, the Nominations Committee duly recommended to the Board that Dr Maria Moloney be appointed as a Non-Executive Director.

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REMUNERATION COMMITTEE

JOHN BYWATER FRICS
Non-Executive Director

Number of meetings during the year	Scheduled	Attended
John Bywater (Chairman)	9	9
Bernard Cragg	9	9
Daniel Kitchen ¹	9	1
Jamie Hopkins ²	9	7
Tony Hales ³	9	3

Notes

- Daniel Kitchen was appointed as a member of the Committee on 1 February 2012. His attendance is based on the number of meetings held in which he was eligible to attend following him becoming a formal member.
- Jamie Hopkins stepped down as a member of the Committee in March 2012.
- Tony Hales retired from the Board on 28 July 2011. His attendance is based on the number of meetings held in which he was eligible to attend prior to his retirement from the Board.

During the year ended 31 March 2012, the Remuneration Committee was chaired by John Bywater and comprises all of the Non-Executive Directors. The names of the members of the Committee are shown in the table above, together with attendance at meetings. Daniel Kitchen, the Group Chairman, was appointed as a Committee member on 1 February 2012. Jamie Hopkins stepped down as a formal member of the Committee on 1 March 2012. The Committee comprises two independent Non-Executive Directors and the Board Chairman, who was independent upon appointment.

Maria Moloney has been appointed to the Committee increasing the membership to four.

The Chief Executive is, other than discussions in respect of his own position, invited to attend and contribute towards meetings.

Under its terms of reference the Committee meets at least twice a year. During the year under review the Committee met nine times. It is responsible for all aspects of the remuneration of the Executive Directors. The Committee is also responsible for recommending the Chairman's remuneration to the Board in compliance with the UK Corporate Governance Code.

Further details of the Remuneration Committee remuneration policy and of the remuneration of each Director are set out in the Remuneration Report.

AUDIT COMMITTEE

BERNARD CRAGG BSC ACA
Senior Independent
Non-Executive Director

Number of meetings during the year	Scheduled	Attended
Bernard Cragg (Chairman)	3	3
John Bywater	3	3
Jamie Hopkins ¹	3	3

Notes

- Jamie Hopkins stepped down as a member of the Committee in March 2012.

The Audit Committee ensures the integrity of financial reporting and audit processes and the maintenance of a sound internal control and risk management systems details of which are described below.

The Committee comprises all the Non-Executive Directors except the Chairman and is chaired by Bernard Cragg. Jamie Hopkins stepped down as a formal member of the Committee on 1 March 2012. The Committee then comprised two independent Non-Executive Directors. Maria Moloney, who was appointed to the Board on 22 May 2012, has also joined the Committee thereby maintaining its membership to three independent Non-Executive Directors.

In addition the Company intends to recruit an additional Non-Executive Director who will be appointed to the Committee and will bring the necessary skills and experience required.

Bernard Cragg, the Chairman of the Audit Committee, is a Chartered Accountant and the Board is satisfied that he has the required and relevant financial experience. The Audit Committee collectively has the skills and experience required to fully discharge its duties, and it has access to independent advice at the Group's expense.

The Group Chairman, the Chief Executive, the Group Finance Director, and other senior finance personnel and, when necessary, operational management together with senior representatives of the external auditors may attend meetings by invitation.

Meetings of the Audit Committee coincide with key dates in the financial reporting and audit cycle. The Committee Chairman reports the outcome of meetings to the Board. During the year under review the Committee met three times.

CORPORATE GOVERNANCE REPORT continued

During the year, the Committee met in private sessions with its external auditors PricewaterhouseCoopers LLP ('PwC'), in the absence of management at least twice

During the year the Committee was responsible for reviewing, and reporting to the Board, on a range of matters including

- the interim and annual financial statements
- the appropriateness of the Group's accounting policies and practices
- the valuations of the Group's property portfolio,
- the review of the Group's internal control and risk management systems
- the external auditor's management letter
- the Group's compliance with REIT legislation,
- the need and use for an internal audit function and
- the review of fraud risk

Due to its size and structure the Group does not have an internal audit function, a matter which is kept under review by the Committee. However the Group does undertake a programme of financial, operational and health and safety audits at its estates. These are carried out by qualified senior Head Office personnel on a rotational basis.

The Committee has a rolling agenda that ensures that the Committee receives appropriate information far enough in advance to enable it to fulfil its responsibilities. This includes not only information from management but also detailed reports from the external auditor.

EXTERNAL AUDITORS

The Audit Committee recognises that the independence of the Group's external auditor is of paramount importance to shareholders and the Audit Committee terms of reference establish a process for monitoring and approving the nature and the level of related fees for non-audit services (e.g. accounting, tax or due diligence work) paid to the Group external auditors.

The Group uses the external auditor for relevant financial work for a variety of reasons, including their knowledge of the Group, the audit-related nature of the work and the need to maintain confidentiality.

At each meeting, the Committee will be advised of any significant non-audit work awarded to the external auditor since the previous meeting and the related fees. At the annual May meeting, the Committee receive a report of fees, both audit and non-audit from PwC for the past financial year. The Committee has considered in detail the nature and level of non-audit services provided by PwC and the related fees. The Committee may challenge and in some instances refuse proposals in respect of non-audit work to be performed by the external auditor.

In addition, the Committee will assess the threats of self review by the external auditors, self interest, advocacy and familiarity - these are set out below and considered in relation to PwC's services.

1 A self review threat - this is where, in providing a service, the PwC audit team could potentially evaluate the results of a previous PwC service

The Committee specifically will not allow the auditors to

- Do anything that is a management responsibility (e.g. such as setting performance targets or determining employees' actual compensation)
- Provide accounting or book-keeping services
- Prepare financial statement disclosure items

2 A self interest threat - where a financial or other interest (of an individual or PwC) will inappropriately influence an individual's judgement or behaviour

The Committee will specifically perform the following

- If the external auditor is to be considered for the provision of non-audit services, their scope of work and fees must be approved in advance by the CFO and the Committee Secretary and, in the case of fees in excess of £50,000 for a single project, by the Committee (or if approval is required before the next meeting, by the Committee Chairman). For larger assignments in excess of £100,000 this would involve a competitive tender process unless there are compelling commercial or timescale reasons to use the external auditor or another specific accountancy firm.
- It does not accept significant contingent fee arrangements with the external auditors.

3 An advocacy threat - this is where PwC or PwC personnel promote an audit client's position to the extent where PwC's objectivity as auditor is compromised

- The Group will not use PwC in an advocacy role.

4 A familiarity threat - this is where, because of a too long or too close a relationship, the external auditor's independence is affected

- The Committee will prohibit the hiring of former employees of the external auditor associated with the Group's audit into management roles with significant influence within the Group within two years following their association with the audit, unless the Chairman of the Audit Committee gives prior consent. Annually, the Committee will be advised of any new hires caught by this policy. However, there have been no instances of this occurring. In addition, PwC will rotate their audit partner every five years.
- The Committee will monitor on an ongoing basis the relationship with the external auditor to ensure its continuing independence, objectivity and effectiveness. By reference to the external auditor's litigation record, financial assets, structure of the firm and the level of its professional indemnity insurance cover, the Committee will determine the external auditor's financial stability and assess the likelihood of its being able to meet any liabilities arising from the audit engagement.

Further details of the Audit Committee and its activities are set out in the Audit Committee Report.

Fees paid to PwC can be found in note 3 on page 79.

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**BOARD EFFECTIVENESS AND SUCCESSION PLANNING
BOARD EFFECTIVENESS REVIEW**

Each year the Board carries out a formal internal evaluation of its own performance. The process comprises the Company Secretary issuing a detailed questionnaire covering the Board and its Committees to Board members

PROCESS

The responses to the questionnaire are collated by the Company Secretary, who then prepares reports for each of the chairmen of the Board and relevant committees. The responses are discussed at the Board and the relevant committees taking follow up actions where considered necessary

The review includes the assessment of individual Directors' performance, which in the case of the Executive Directors is undertaken as part of the wider performance appraisal process applied to staff across the Group

The review of the Chairman's performance is undertaken by the Non-Executive Directors led by Bernard Cragg in his capacity as the Senior Independent Director, taking into

EXTERNAL EVALUATION

During the past year the Board engaged an external party Wickland Westcott to undertake formal evaluation of its performance, and that of the committees and the Directors. The evaluation process took the form of questionnaires completed by Directors and key executives, followed by structured interviews with representatives from Wickland Westcott

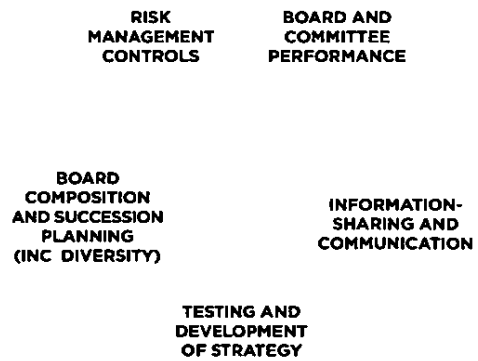
The review focused on a number of areas in which several specific matters were considered and a number of actions were determined

The key themes arising from the evaluation and which will form the basis of the action plan for 2012 are

ACTION POINTS

- Develop further the process by which the Board engages in the development of strategy
- Continuing to develop an appropriate process for succession planning for Board and senior executive positions

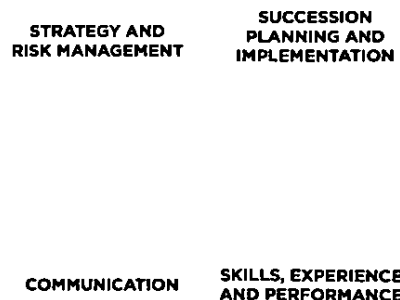
THE QUESTIONNAIRE COVERS A VARIETY OF ISSUES SUCH AS THE EFFECTIVENESS OF:



account the views of the Executive Directors. Following the review, Bernard Cragg meets with the Chairman to discuss his performance

During the year an internal review was not undertaken as an external evaluation of the Board was conducted by Wickland Westcott

BOARD PERFORMANCE - 2012 OBJECTIVES



- Ensuring that the Board continues to have an appropriate range and balance of skills, experience and diversity
- The Board will continue to enhance their interaction with Executive Committee members to gain an enhanced understanding of the challenges and opportunities they face in the business environment

CORPORATE GOVERNANCE REPORT continued

THE CITY COMMITTEE

The City Committee comprises the Chairman, the Chief Executive, the Senior Independent Director and the Finance Director. The City Committee reviews the quarterly interim and annual reports and associated announcements prior to their review by the Audit Committee and the Board.

THE EXECUTIVE COMMITTEE

The Executive Committee consists of the Executive Directors together with the Operations Director and Development Director. It is chaired by the Chief Executive. The Committee facilitates and assists the Chief Executive in managing the day-to-day activities of the Group and addressing group-wide issues and initiatives. The Executive Committee is responsible for reviewing and approving capital expenditure, disposals and acquisitions at certain levels as determined by the Board, the monitoring of the operating and financial results against plans and budgets and to ensure the effectiveness of risk management and control procedures.

The Committee has met 11 times during the year ended 31 March 2012.

The Group also operates a Development Board and an Operations Board which comprise various members of the Executive Committee and the senior management team.

The responsibilities of the Executive Committee members include:

Jamie Hopkins, Chief Executive

Strategic management, investor relations, acquisitions and disposals, health and safety, staff, equal opportunities, remuneration, and training and development.

Graham Clemett, Group Finance Director

Finance, treasury, company secretarial, investor relations, and the Group's IT strategy.

Chris Pieroni, Operations Director

Portfolio performance, asset management, lettings and marketing, rent reviews and renewals.

Angus Boag, Development Director

Planning consents, development of assets, valuations, acquisitions and disposals, sustainability, and environmental strategy.

RE-ELECTION OF DIRECTORS

The Articles of Association of the Group require that Directors should submit themselves for election at the first opportunity after their appointment and thereafter for re-election at least every three years. However, at the 2011 AGM the Group had adopted the requirements of the UK Corporate Governance Code (June 2010) in relation to Directors' appointments and in particular the annual re-election of all Directors. Therefore, in accordance with provision B.71 of the UK Corporate Governance Code, all the Directors will retire at the AGM and being eligible, offer themselves up for re-election.

The Board considers that all of the Directors have the necessary skills and experience needed to effectively lead the business. In addition, the NEDs are considered to bring independent objectivity in order to safeguard and promote the interest of shareholders.

The Board has considered the outcome of the external board effectiveness review as well as the performance of each individual Director, including how they operate as a collective in fulfilling their duties on the Board or as members of the Board's Committees. The Board has accepted the recommendations provided by the Nominations Committee and is of the opinion that the directors seeking re-election at the AGM have continued to give effective counsel and commitment to the Company and accordingly should be reappointed by the Group's shareholders at the upcoming AGM.

Mr Hopkins and Mr Clemett have service contracts and details can be found on page 64.

None of the Non-Executive Directors have service contracts.

The appointment of Mr Kitchen may be terminated by either he or the Group giving six months' notice in writing.

The appointment of Mr Bywater and Mr Cragg may be terminated by any one of them or the Group giving six months' notice in writing.

Dr Moloney was appointed as a Non-Executive Director with effect from 22 May 2012. Dr Moloney therefore stands for election at the forthcoming Annual General Meeting. Dr Moloney's appointment may be terminated by either the Company or by her giving three months' notice in writing. Dr Moloney has been invited to join the Remuneration, Audit and Nominations Committees.

Biographies for the Directors can be found on pages 40 and 41.

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CORPORATE GOVERNANCE POLICIES TRAINING AND DEVELOPMENT

A tailored induction programme is provided for each new Director. Overall, the aim of the induction programme is to introduce new Directors to the Group's business and its governance arrangements. Such inductions typically include meetings with senior management, site visits and presentations of key business areas and other relevant documentation. In addition, Directors are encouraged to update their skills, knowledge and familiarity with the Group by attending external seminars and briefings, through participation at meetings and through visits to estates, meetings with senior management and advisers. The Directors are regularly updated on new legislation and corporate governance issues as they arise. Directors are given access to independent professional advice at the Group's expense if they deem it necessary in order for them to carry out their responsibilities. This is in addition to the access that every Director has to the Company Secretary. The Group has continued to secure appropriate insurance cover for its Directors and its Officers.

DIVERSITY

Workspace employs enthusiastic, committed and well-trained people, whose diversity reflects that of London itself. The Board is fully committed to an active Equal Opportunities Policy from recruitment and selection, through training and development, performance reviews and promotion. All decisions relating to employment practices are objective, free from bias and based solely upon work criteria and individual merit. At Workspace we have had a good record of promoting and appointing women to senior positions. Our employee gender profile is fairly evenly split with a total of 43% female and 57% male employees.

The Board recognises the benefits of diversity of skills, knowledge and independence, as well as gender diversity. During the year the Board formally discussed and reviewed its policy regarding diversity, including gender on the Board and within the Group as a whole. As a result the Board requested that going forward, diversity becomes a formal area for consideration in board effectiveness reviews and in its succession planning. Consequently diversity will form part of considerations afforded to the search and selection process for Directors and staff.

The Board does not consider it appropriate at this time to set quotas for board representation but will monitor developments in best practice.

ACCOUNTABILITY AND AUDIT

In its financial reporting to shareholders and other interested parties, by means of Annual and Half-Yearly Financial Reports, Interim Management Statements and other periodic statements, the Board aims to present a balanced and understandable assessment of the Group's position and prospects.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has ultimate responsibility for the Group's system of internal control and for reviewing its effectiveness. The Board has reviewed the Group's system of controls including financial, operational, compliance and risk management on a regular basis throughout the year. However, any such system can only provide reasonable and not absolute assurance against any material misstatement or loss.

The Group has established a risk management framework and procedures necessary to enable the Directors to report on internal controls in compliance with the Code. The risk management procedures involve the analysis, evaluation and management of the key risks to the Group.

The other key elements of the Group's system of internal control include:

- a comprehensive system of financial reporting,
- an organisational and management Board structure with clearly defined levels of authority and division of responsibilities,
- a Risk Committee, which is chaired by the Operations Director and attended by representatives from senior management. The Risk Committee meets on a regular basis and formally reports to the Audit Committee twice a year.
- a programme of site audit visits, covering a significant proportion of the sites each year. Although the Group does not have a dedicated internal audit function an operational, finance and health and safety audit are carried out at the estates by qualified Head Office personnel. The results of the audits are reported to and reviewed by the Risk and Audit Committees and appropriate action taken as required.

The Risk Committee reviews and identifies risks facing the Group and ensures that appropriate controls are in place to review each issue raised. Each identified risk is assigned a 'Risk Owner'. PKF are appointed by the Risk Committee to undertake specific projects to review particular areas of the business.

CORPORATE GOVERNANCE REPORT

continued

The Group has 'whistleblowing procedures' under which staff may report any suspicion of fraud, financial irregularity or other malpractice. There is also a process in place for staff to report operational risks and issues to the Risk Committee.

The Group has continued to develop its risk management and has reappraised its risks in the light of the changes in the external environment during the last year.

The Group has also considered the requirements of the Bribery Act 2010 and taken steps to ensure that it has adequate procedures as set out by the Act.

The Group continues to strengthen its risk management processes to ensure these are embedded as part of the Group's culture. The Turnbull Guidance sets out best practice on internal control to assist companies in applying the Codes principles with regards to internal control. The Board, with advice from the Audit Committee, has completed its review of the effectiveness of internal control with no significant failings or weaknesses identified.

Further information on the Group's risks is detailed on pages 32 to 35.

TAKEOVER DIRECTIVE

Share capital structures are included in the Directors' Report on page 43.

GOING CONCERN

Going Concern disclosures are included in the Directors' Report on page 42.

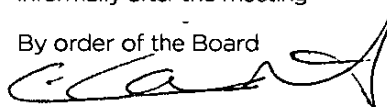
RELATIONS WITH SHAREHOLDERS

A copy of the Annual Report and Accounts is sent to shareholders and is also available on the Group's website, which additionally contains up-to-date information on the Group's activities and published financial results and presentations.

Executive Directors have frequent discussions with institutional shareholders on a range of issues throughout the year affecting the Group's performance, which include meetings following the announcements of the annual and interim results. Meetings are also held with analysts and the financial press. The Group's stockbrokers also discuss the outcome of meetings with shareholders and report their findings to the Board. Other ad hoc meetings, presentations and site visits are arranged for shareholders throughout the year.

The Group's Annual General Meeting is used as an opportunity to communicate with private investors. Shareholders attending the Annual General Meeting are invited to ask questions and to meet with the Directors informally after the meeting.

By order of the Board



CARMELINA CARFORA
Company Secretary
11 June 2012

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DIRECTORS' REMUNERATION REPORT

This Remuneration Report has been prepared on behalf of the Board by the Remuneration Committee (the 'Committee'). The Committee adopts the principles of good governance as set out in the UK Corporate Governance Code and complies with the UKLA Listing Rules and relevant requirements of Section 421 to the Companies Act 2006. The Company's auditors are required to report on the 'Audited Information' in the report and to state that this section has been properly prepared in accordance with regulations. Therefore, the Remuneration Report has been divided into two parts: the first containing information which is unaudited and the second containing information which is audited.

The following report of the Committee provides an explanation of the Committee's work and of the remuneration arrangements for Directors. It is divided into the following sections:

- Overview from the Chairman,
- Membership and role of the Remuneration Committee
- Principles of Executive Remuneration Policy,
- Overview of Executive Remuneration Structure for 2012,
- Remuneration Components for Executives
- Service Agreements of Executive Directors,
- Retirement of Harry Platt

OVERVIEW FROM JOHN BYWATER, CHAIRMAN OF THE REMUNERATION COMMITTEE

JOHN BYWATER
Chairman of the Remuneration Committee

"Our commitment remains to align pay with performance"

During the last financial year Workspace has performed well against an uncertain economic background despite the ongoing uncertainty in the global economy generally. Despite these difficult conditions, the Company has delivered good growth in trading profit after interest, rental income, dividends and net asset value. Our full trading results are discussed in more detail in the Business Review on pages 26 to 31.

We continue to identify other value creation opportunities, focusing our efforts on increasing rental income and investing in our development programme, the Remuneration Committee is committed to ensuring that the remuneration structures in place remain appropriate to support our business strategy and reinforce success.

The Committee believes that remuneration plays an important role in fostering the long-term growth and success of the business and we aim to do this in a way that promotes good corporate governance and effective risk management. The Committee aims to ensure its decisions on remuneration have regard to pay and conditions across the Group, are fair and reasonable in light of current market practice and are in the best interests of shareholders as a whole.

This report explains the principles and details of the Company's remuneration arrangements and how they are aligned with these objectives.

The Committee strives to ensure that shareholders' interests are served by ensuring that a significant part of Executive Directors' remuneration is linked to the Company's success. This is achieved through bonus deferral, strong encouragement to voluntarily invest in the Company's shares and setting stretching performance targets.

During this year's review, the Committee concluded that the structure of remuneration remained broadly appropriate. The Annual Bonus continues to focus on the annual business priorities and the LTIP continues to align the interests of participants with those of our shareholders. Details of these schemes are set out later in this report.

In recognition of his value to the business, the Committee decided to increase Mr Clemett's base salary closer to market median. During the year the Committee also agreed terms of engagement of the Company's new CEO Jamie Hopkins (see pages 60 and 61), and retirement arrangements for Harry Platt (see page 65). The Committee will continue to monitor the remuneration policy during the forthcoming year to ensure it continues to reinforce the Company's goals, align executive and shareholder interests and motivate and retain talent.

ACTUAL PERFORMANCE OF STRATEGIC AND FINANCIAL MEASURES

+13%

Trading Profit after interest (adjusted)
Up 13% to £16.0m

+8%

Net Asset Value per share
Up 8% to £3.08

Capital Return vs IPD Comparator
Index Total Property return of 13.4%
vs 6.4% for IPD quarterly Universe

+10%

Dividend per share for full year
Up 10% to 8.79p

84%

Customer Satisfaction

SUMMARY OF REMUNERATION FOR YEAR ENDED 31 MARCH 2012

	Harry Platt	Graham Clemett
Base Salary	£337,400	£221,646
Annual Bonus Scheme ¹ (Maximum bonus of 120% of salary)	£303,660	£249,351
	90% of salary Performance Award	112.5% of salary Performance Award
Long Term Incentive Plan (LTIP)	90% of salary Matching Award	90% of salary Matching Award
Maximum Awards	90% of salary	90% of salary
Other benefits	£75,600	£17,800

¹ For the financial year ended 31 March 2012, the Remuneration Committee set a minimum deferral requirement of 25% of bonus earned.

DIRECTORS' REMUNERATION REPORT

continued

1. UNAUDITED INFORMATION MEMBERSHIP AND ROLE OF THE REMUNERATION COMMITTEE

The members of the Remuneration Committee

In the reporting year the Committee consisted of the following Non-Executive Directors

John Bywater (Chairman)

Bernard Cragg

Tony Hales (until 28 July 2011)

Jamie Hopkins (until 1 March 2012)

Daniel Kitchen (from 1 February 2012)

PURPOSE AND ROLE OF THE REMUNERATION COMMITTEE

The Remuneration Committee's responsibilities are set out in its terms of reference which are available in the Investor section of the Company's website www.workspacegroupplc.co.uk

ROLE OF THE REMUNERATION COMMITTEE

Responsibilities of the Committee include

- Recommending the Company policy on remuneration for the Executives and senior managers
- Setting and reviewing the composition and level of remuneration of Executives and senior managers including terms and conditions of employment and any changes. In doing so the Committee has regard for reward levels and practices across the Group
- Reviewing incentive plans annually to ensure they remain appropriate to the Company's current circumstances and prospects and that in particular, the policies adopted are aligned and based on the creation of value for shareholders and provide appropriate incentives for management to achieve this objective
- Reviewing the Chairman's fees
- The Committee also reviews and approves the overall remuneration levels of employees beneath senior management level (but does not review individual remuneration amounts for such employees)

AGENDA DURING 2011/12

- Reviewed executive remuneration arrangements in relation to the Company's needs, market practice and best practice
- Agreed terms of engagement of the new CEO
- Benchmarked salaries and total remuneration against a comparator group of other UK-listed property companies and companies of similar market capitalisation
- Determined annual bonus outcomes and 2009 LTIP vesting and set performance conditions for 2011/12 awards under these plans
- Reviewed developments in Corporate Governance and the proposals issued by the Business Secretary to the UK Government

Workspace operates a number of share schemes available to all employees the details of which are provided on pages 93 to 96

The Committee met nine times during the year under review. Attendance by individual Committee members at meetings is detailed in the Corporate Governance Report on page 51.

At the invitation of the Chairman, the Chief Executive and Finance Director have attended parts of meetings to advise on specific questions raised by the Committee and on matters relating to the performance and remuneration of senior managers. The Company Chairman, Chief Executive and Finance Director are excluded from discussions regarding their own remuneration. The Company Secretary attends each meeting as Secretary to the Committee.

ADVISERS

For the year under review, the Committee continued to retain the services of Kepler Associates as independent external advisers. Kepler Associates provided advice on executive remuneration matters and aspects associated with the LTIP and provides no other services to the Company. Advice was also sought from PricewaterhouseCoopers LLP (PwC) who provided limited advice pertaining to administrative matters and the tax treatment of share option schemes and deferred share awards. The Company continually assesses ongoing advice provided by its advisers on remuneration matters.

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PRINCIPLES OF OUR EXECUTIVE REMUNERATION POLICY

It is intended that the remuneration policy framework as set out below which has applied throughout the reporting year, will continue to apply for FY 2013

REMUNERATION POLICY

The Company's remuneration policy reinforces the Company's goals, providing effective incentives for exceptional Company and individual performance

REMUNERATION PACKAGE DESIGN

Remuneration packages are designed to attract, retain and motivate Executives of the highest calibre who have the experience, skills and talents to manage and develop the business successfully

PERFORMANCE LINKED

A significant part of executive remuneration is variable and is determined by the Group's success and directly links reward with Group and individual performance

COMPONENT OF PACKAGE

Basic salary	Benefit	Pension	Annual Bonus	Long-term incentive
PURPOSE Reflect market value of the role and of the individual's skills experience and individual contribution in order to provide a competitive package			Drive and reward the annual performance of the Company and individuals against corporate objectives and KPIs	Drive and reward the delivery of a sustained long-term sector out-performance aligned to the interests of shareholders
ALIGNMENT WITH STRATEGY Provide market competitive level of remuneration set with due consideration of objective benchmarking against a comparator group of similar companies within the sector			Provides direct link with strategically-aligned operational and individual KPIs	Focus on growth in NAV and TSR over the medium to long term

SHAREHOLDERS' INTERESTS

The Committee strives to ensure that shareholders' interests are served by creating an appropriate balance between fixed and performance-related pay. A considerable part of the reward package is linked to share price performance, is delivered in shares that have to be retained until minimum shareholding requirements have been met, and requires Executives to invest their own funds in Company shares. Executives are encouraged to build up a shareholding equal to at least one time's basic salary.

The chart opposite shows the 2012 pay mix for Executives on a fair-value basis. The fair value of performance shares and matching shares incorporates an estimate of the probability that the performance conditions are achieved, takes into account that dividends are accrued and includes a discount for the risk of forfeiture.

EXECUTIVE DIRECTOR PAY MIX (% OF TOTAL REMUNERATION BY FAIR VALUE)

DIRECTORS' REMUNERATION REPORT

continued

OVERVIEW OF EXECUTIVE REMUNERATION STRUCTURE FOR 2012

ELEMENT	PURPOSE	DELIVERY	SUMMARY DETAILS	DATE OF AWARD OR RECEIPT
BASE SALARY	To reflect market value of the role and individual's performance and contribution	Payable in cash Pensionable	Reviewed annually with any increases effective from 1 April	Paid on a four weekly basis
ANNUAL BONUS	To encourage and reward the achievement of Group financial and corporate targets and strategic business objectives	Maximum bonus of 120% of salary The Remuneration Committee may vary the mix of cash and deferred bonus from year to year For 2012 the minimum deferral requirement has been set at 25% of bonus earned Non Pensionable	The performance targets are aligned to four distinct elements Trading profit before tax (50%) Capital return from the portfolio versus a defined comparator index compiled by IPD (30%) Customer satisfaction which is based on survey results (10%) achievement of personal objectives (factor in the range of 0.67 to 1.33) The Committee retains the discretion to mandate deferral of a percentage of bonus earned (which will normally vest after two years subject to continued employment) or allow Executives to make an equivalent investment in the LTIP	Normally paid in June following the reporting year end
LTIP	To align the interests of participants with those of shareholders	Annual award of nominal priced options which vest after three years subject to performance conditions Non pensionable	Discretionary award whereby executives receive (i) annual awards of performance shares of up to 100% of salary (200% in exceptional circumstances) and (ii) matching share awards of up to 2 for 1 on investments of up to 50% of net salary Vesting of awards is subject to satisfaction of challenging targets relating to growth in Net Asset Value (1/3 of awards) and Total Shareholder Return (2/3 of awards)	Normally awarded in June following the reporting financial year end
OTHER BENEFITS	To provide market competitive benefits	Benefits in kind or cash allowance	Benefits include a car allowance private health insurance death in service cover and pension contribution. Executives may also join the SAYE scheme	Received during the year

WIDER GROUP REMUNERATION POLICY

The Group's wider people policies are reported separately on page 43. Following probationary periods, all staff in the Company are eligible to participate in the Company's bonus scheme, SAYE, pension scheme, life assurance arrangements and medical insurance benefits and some senior staff have share option awards. Some senior staff are also eligible to participate in the Company's long-term incentive plan together with all members of the Executive Committee.

OVERVIEW OF THE TERMS OF ENGAGEMENT FOR JAMIE HOPKINS

Mr Hopkins was appointed as an Executive Director on 12 March 2012 and as Chief Executive with effect from 1 April 2012. His base salary is £400,000 p.a. which is around median and was necessary to attract an individual with his previous experience. He is entitled to a maximum annual bonus opportunity of 120% of salary (from 1 April 2012).

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In connection with the recruitment of Mr Hopkins and conditional on the purchase by him of Workspace shares up to 100% of salary the Company intends to grant a one-off award of 1x the amount invested (up to 100% of salary) in restricted shares, vesting subject to the achievement of an absolute TSR underpin of 4% p.a. The Company also intends to grant under the current LTIP an award of up to 125% of salary in performance shares, which will vest subject to the same performance conditions as for other executives i.e. 1/3 1/3 1/3 on 3-year relative NAV, relative TSR and absolute TSR (subject to a relative TSR underpin)

The performance period is the three years to 31 March 2015, and the awards may vest three years after grant subject to continuous employment, the retention of his acquired shares and the performance conditions being satisfied

These awards were necessary to secure the services of the new CEO, and have been structured to require the new CEO to make a substantial investment in Workspace shares, as well as provide alignment with shareholder interests from the outset

As an Executive Director, Mr Hopkins will be eligible going forward to receive annual LTIP awards (subject to shareholder approved limits). The proportion of these shares released after a three-year performance period would depend on the extent to which relative NAV, relative TSR and absolute TSR performance conditions are met. Further details can be found on pages 62 and 63 of this report

Mr Hopkins will also receive pension and other benefits consistent with standard Workspace terms and conditions for senior Executives

REMUNERATION COMPONENTS FOR EXECUTIVES BASE SALARY AND BENEFITS

The Committee reviews base salaries annually with any changes normally taking effect from 1 April. Individual pay levels are determined by reference to the external economic environment, individual performance, experience and rates of salary for similar jobs in companies of a similar sector and size. Consideration is also given to salary increases across the Company

In April 2012, the Committee reviewed the base salary of the Finance Director and it was agreed that the salary for Mr Clemett be increased by £28,000 to £250,000 in recognition of his strong performance over the year and his value to the business. Since 2008 his salary had increased by only 2%, and the proposed increase on a cumulative basis since 2008 is in line with the year-on-year percentage increase provided for the average employee. His resultant salary is closer to, although still below median relative to other UK-listed property comparators and companies of similar size. Given the change in Chief Executive Officer neither Mr Platt's nor Mr Hopkins' salaries were subject to review. The next salary review date for Executives will be 1 April 2013

All Executive Directors are provided with a Company mobile phone, a car allowance, private health insurance, death in service cover and an employer's contribution to a defined contribution (money purchase) scheme. Executives may also join the SAYE scheme

Mr Hopkins and Mr Clemett receive an employer's pension contribution equal to 15% and 16.5% of basic salary respectively which is made to a defined contribution (money purchase) scheme

ANNUAL BONUS SCHEME

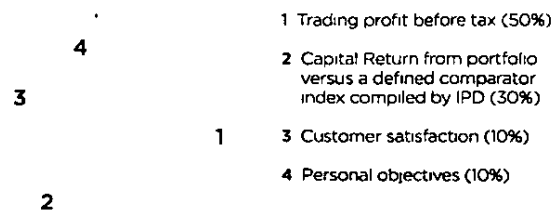
Policy and award levels

The Group operates an annual bonus scheme which provides for a capped variable (performance related) bonus. The maximum bonus potential for the Executive Directors is set at 120% of basic annual salary

The Committee sets a minimum deferral or investment each year into Workspace shares. For 2011/12 the Committee set a minimum deferral requirement of 25% of the bonus earned

The preferred mechanism for meeting this requirement is participant investment in the LTIP. However, the Committee will retain the discretion to mandate deferral of 25% of bonus earned (which will vest after two years, subject to continued employment) or allow executives to make an equivalent investment in the LTIP. For 2011/12 the Committee will allow Executives to make an equivalent investment in the LTIP

The Corporate performance measures and their weightings for 2011/12 Executive Director annual bonuses are illustrated by the following diagram



DIRECTORS' REMUNERATION REPORT continued

The performance measures applicable for the year ended 31 March 2012 and performance against them are detailed below

Measure	Proportion	Bonus Performance Targets	Performance Achieved (% of bonus earned)	
			Harry Platt	Graham Clemett
Corporate	50%	Trading profit before tax	50%	50%
	30%	Capital return from the portfolio versus a defined comparator index compiled by IPD	30%	30%
	10%	Customer satisfaction (based on survey results)	10%	10%
Personal		Corporate performance bonus may be adjusted by a factor in the range of 0.67 to 1.33 (with factors greater than 1.0 reflecting superior performance)	100	125
Maximum Bonus (% of salary)	120%		Total Bonus Earned (% of salary)	90% 112.5%

Against each measure the bonus starts to be paid on the achievement of a threshold performance, increasing on a straight line basis until stretch performance is achieved, at which point the full bonus potential for that measure is earned.

The Committee assessed performance and was pleased to note that during the year the Company outperformed on every measure. The results of the quantitative measures were:

FINANCIAL AND CORPORATE

- Trading profit after interest (adjusted) up 13% to £16m
- Over the financial year the Company delivered return of 13%, significantly outperforming the relevant IPD benchmark which had a capital return of 6.4%
- Customer satisfaction survey confirming 84%

The Committee considered performance during the year against personal and strategic objectives and noted the following achievements in particular:

- Refinancing of the new £125m RBS debt facility in June 2011
- Successful execution of targeted acquisitions and disposals: £21m invested (Workspace share £4.2m) in acquisitions for the BlackRock Workspace joint venture; £13m generated from cash disposals with minimal income loss
- Good progress made on development projects with £18m invested on capital expenditure projects for significant income and capital growth
- Good performance against key operational and financial metrics

Rental Income growth: Underlying net rental income, excluding disposals, up 4% to £44.6m

Underlying property valuation excluding disposals and capital expenditure up 5% to £760m

Dividend for year up 10% to 8.79p per share

Net asset value per share up 8% to £3.08

Following consideration of the above, the Committee awarded Mr Platt a bonus of 90% of salary and Mr Clemett a bonus of 112.5% of salary.

For 2012/13, the structure of the Annual Bonus will remain as described above.

LONG-TERM EQUITY INCENTIVE PLAN ('LTIP')

The Plan provides for annual awards of performance shares of up to 100% of salary (200% in exceptional circumstances) and matching share awards of up to 2 for 1 on investments in Workspace of up to 50% of (net) salary. The maximum matching share award that may be granted to the Executive Directors is 100% of their annual basic salary. The Company awards matching shares in respect of an amount equivalent to two times the grossed up (for income tax and National Insurance) amount invested by the participant in Invested Shares.

Vesting of performance shares and matching shares is based 1/3, 1/3, 1/3 on three-year relative NAV growth, relative TSR and absolute TSR. Relative performance is measured against the constituents of the FTSE 350 Real Estate Index. In addition, for any shares to vest on TSR, the Committee must satisfy itself that the recorded TSR is a genuine reflection of the underlying business performance of Workspace. For awards granted since 2010, for any shares to vest on absolute TSR, the Company's TSR must exceed the median TSR of the Comparator group by over +1.5% p.a. over the performance period.

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The TSR and NAV performance conditions have been selected to ensure a balanced portfolio of measures which are well aligned with shareholder interests. The Committee believes a blend of relative and absolute performance is most appropriate for Workspace and that use of absolute TSR underpinned by relative TSR provides transparency for executives and shareholder alignment (as this element will only vest if there is outperformance of sector peers).

In the event of a change of control, LTIP awards would normally be pro-rated for time and performance, in line with best practice.

Participation in the Plan extends to members of the Executive Committee and the Group's senior managers. Full details of the awards made to the Executive Directors under the Plan are shown on page 67.

Performance condition.	One-third		One-third		One-third	
	Growth in Net Asset Value relative to companies in the FTSE 350 Real Estate index		TSR (share price growth plus re-invested dividends) relative to companies in the FTSE 350 Real Estate index		Absolute TSR ¹	
Level of performance	Company's rank	% of award vesting	Company's performance	% of award vesting	Company's performance	% of award vesting
Awards made in June 2009* 1,2						
Threshold	51st percentile	20%	Median	20%	241.7 pence	20%
Maximum	75th percentile	100%	Median + 7.5% p.a.	100%	290 pence	100%
Awards made in June 2010* 1,3						
Threshold	51st percentile	20%	Median	20%	11% p.a.	20%
Maximum	75th percentile	100%	Median + 7.5% p.a.	100%	20% p.a.	100%
Awards made in June 2011* 1,3						
Threshold	51st percentile	20%	Median	20%	11% p.a.	20%
Maximum	75th percentile	100%	Median + 7.5% p.a.	100%	20% p.a.	100%

*1 There will be a pro-rata vesting of awards between the threshold and maximum performance levels.

*2 Absolute TSR targets of 241.7p and 290p for Threshold and Maximum respectively. These are TERP (theoretical ex rights price) adjusted for the Rights Issue in July 2011 and for the share consolidation in August 2011.

*3 For the 2010 and 2011 LTIP awards, for any shares to vest on absolute TSR, the Company's TSR must exceed the median TSR of the comparator group by +15% p.a. over the performance period.

2012 LTIP AWARD

For the Finance Director, the Committee intends to make the awards following the release of the Company's preliminary results announcement on 12 June 2012 and the anticipated size of awards is detailed below.

Director	Performance Award	Maximum potential Matching Award
Finance Director	90%	90%

In order to participate in the matching element of the plan, the Director must use his own funds to purchase ordinary shares, up to a maximum of 45% of net annual basic salary.

The Remuneration Committee has reviewed the performance criteria for the grant of LTIP awards in 2012 and has set equivalent conditions as those attached to 2011 LTIP awards. It believes these are appropriately stretching but achievable.

The 2012 LTIP grant will be subject to the following performance conditions:

Performance condition.	One-third		One-third		One-third	
	Growth in Net Asset Value plus dividends relative to companies in the FTSE 350 Real Estate index		Relative TSR (share price growth plus reinvested dividends) relative to companies in the FTSE 350 Real Estate index		Absolute TSR ¹	
Level of performance	Company's percentile rank	% of award vesting	Company's performance	% of award vesting	Company's performance	% of award vesting
Awards made in June 2012						
Threshold	51st percentile	20%	Median	20%	11%	20%
Maximum	75th percentile	100%	Median + 7.5% p.a.	100%	20%	100%

¹ For any shares to vest on absolute TSR, the Company's TSR must exceed the median TSR of the comparator group by +15% p.a. over the performance period.

DIRECTORS' REMUNERATION REPORT

continued

2009 LTIP VESTING

The three year performance period of 2009 LTIP awards ended on 31 March 2012. Workspace's three-year NAV growth (plus dividends) of 9.7% p.a. was 66.7th percentile against the FTSE350 Real Estate which warranted 72.3% of this element vesting (equivalent to 24.1% of LTIP shares awarded). Over the three years from 1 April 2009 to 31 March 2012, Workspace's TSR outperformed the median TSR of the FTSE350 Real Estate by 5.25% p.a. which warranted 76% of this element vesting (equivalent to 25.3% of LTIP shares awarded). Workspace's average share price over the final quartile of the performance period, plus dividends reinvested, of 260.6p, warranted 51.3% of the absolute TSR element vesting (equivalent to 17.1% of LTIP shares awarded).

The Committee considered this together with the underlying business performance of Workspace, and concluded that 66.5% of the LTIP shares awarded to Executives would vest.

JOINTLY HELD LTIP AWARDS

In 2009 the Company offered participants the opportunity to restructure their 2009 LTIP awards and future awards so that they acquired shares jointly with the Company's Employee Share Ownership Trust ('ESOT') with the effect that the growth in value of the shares creates a capital gain (taxed currently at 18%). Individuals were required to pay appropriate income tax and National Insurance as part of their upfront acquisition. If the awards vest, the participants keep their part-interest in the shares and the ESOT also transfers its part-interest to the participant at that stage so that they receive the full value of the shares as intended under the terms of the Plan. This restructuring has generated ongoing savings for the Company and participants.

For the 2009 awards Messrs Platt and Clemett accepted the joint ownership awards as part of their total awards, each taking half of their awards as joint ownership awards, with the remainder in the original conditional shares structure.

For the 2010 awards Messrs Platt and Clemett accepted the joint ownership awards as part of their total awards, each taking half of their awards as joint ownership awards with the remainder in the original conditional shares structure.

For the 2011 awards the Executive Directors did not participate in joint ownership awards.

EXECUTIVE SHARE OPTIONS

Details of outstanding grants made to the Executive Directors under the Executive Share Option Scheme and the performance targets that have to be satisfied for the options to become exercisable are shown on pages 67 and 68. No grants of options were made during the year under the Executive Share Option Scheme and no further grants will be made.

SAVINGS RELATED SHARE OPTION SCHEME

Executive Directors can participate in the Savings Related Share Option Scheme. Performance conditions have not been imposed, as they are not permissible under UK HM Revenue and Customs rules for this type of scheme.

Under the rules of the Savings Related Share Option Scheme, a requirement exists to renew the terms of the scheme every 10 years.

Given that it was last tabled to shareholders in 2003 shareholders will be asked to renew the Scheme at the Annual General Meeting in July 2012 and full details of the resolution can be found in the Notice of the 2012 Annual General Meeting.

SHARE-BASED AWARDS AND DILUTION

The Company's share schemes are funded through a combination of shares purchased in the market and new-issue shares as appropriate. Funding of awards through new-issue shares is subject to an overall dilution limit of 10% of issued share capital in any 10-year period. Of this 5% may be in connection with the Company's executive share schemes.

As of 31 March 2012 around 3.7m (2.6%) and 3.2m (2.2%) shares have been, or may be issued to settle awards made in the previous 10 years in connection with all share schemes and executive share schemes respectively. Awards that are made but then lapse or are forfeited, are excluded from the calculations.

SERVICE AGREEMENTS OF EXECUTIVE DIRECTORS

All current Executive Directors have service agreements that are on a 12-month rolling basis. These agreements provide for 12 months' notice by the Company. The agreements provide for 12 months' notice by all the Executive Directors with the exception of Mr Platt whose agreement provides for 12 months' notice which was reduced to three months if notice was served by him during the period from 30 December 2011 to 27 April 2012 (inclusive). Mr Platt advised the Board of his intention to retire and Mr Hopkins was appointed Chief Executive Officer from 1 April 2012.

As with existing Executive Directors, the Service Agreement with Mr Hopkins is on a rolling 12-month basis and provides for 12 months' notice by the Company and by Mr Hopkins.

Termination payments are limited to the Directors' normal compensation, including basic salary, annual incentives and benefits for the unexpired portion of the notice period subject to performance and Committee discretion. The Committee will aim to minimise the level of payments to that Director, however, having regard to all circumstances, including the Company's contractual obligations to the Director, the reason for the departure, and the Company's policy to apply mitigation in the case of severance.

The Company entered into a service agreement with Graham Clemett on 31 July 2007 and an updated service agreement was entered into with Mr Platt on 25 May 2010 and amended on 12 May 2011. The Company entered into a service agreement with Mr Hopkins on 3 February 2012.

In the event of termination of any Director the Company reserves the right to make phased payments which are paid in monthly instalments and subject to mitigation.

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RETIREMENT OF HARRY PLATT

Mr Platt retired from office as Chief Executive on 31 March 2012 and will remain employed by the Company until the end of June 2012 to facilitate an orderly handover. He will be paid his salary and other benefits (cash in lieu of pension, private health insurance, death in service insurance and use of mobile phone) until the end of June. He received a bonus in respect of 2011/12 financial, corporate and personal performance and 25% of this will be deferred in the Company's shares and will be released two years after grant. He will receive 2009 LTIP shares vesting in June 2012 subject to the achievement of the performance conditions. He will also retain an interest in the 2010 and 2011 LTIP grants, although awards will be pro-rated for time based on the proportion of the vesting period served and for performance to the end of the relevant three-year performance period.

During the year no further employer pension contributions were made to Mr Platt, who instead received a cash allowance in lieu of pension at no additional cost to the Company.

No termination payments were made to Mr Platt in respect of his notice period upon his retirement from the Board.

THE CHAIRMAN AND NON-EXECUTIVE DIRECTORS

Letters of appointment are provided to the Chairman and Non-Executive Directors. Dates of the Non-Executive Directors' letters of appointment and the unexpired period of their appointments (where appropriate after extension by re-election) are set out below.

Name	Date of Letter	Unexpired term as at June 2012	Date of Appointment/ Last reappointment at AGM	Notice Period
D Kitchen	6 June 2011	24 months	2011	6 months
B Cragg	22 May 2012	24 months	2011	6 months
J Bywater	27 July 2010	14 months	2011	6 months
M Moloney*	22 May 2012	36 months	2012	3 months

* Maria Moloney was appointed on 22 May 2012.

Fees for Non-Executive Directors are reviewed annually and determined by the Board in the light of market practice and surveys by Kepler Associates and with reference to the time commitment and responsibilities associated with the roles. Generally, the time commitment of the Chairman is expected to be 50 days a year and for other Non-Executives approximately 15 to 20 days a year. Non-Executive Directors do not participate in decisions about their own remuneration.

The current fees were reviewed, but not increased, in April 2012 and are currently at an annual base fee of £40,000 with additional annual fees of £5,000 for the role of Chairman of the Audit or Remuneration Committees. Non-Executive Directors receive no other pay or benefits (other than the reimbursement of expenses incurred in respect of their duties as Directors of the Company).

The fee payable to Mr Kitchen is £125,000.

EXTERNAL APPOINTMENTS

Executive Directors are permitted to take up one Non-Executive position on the Boards of other companies subject to the prior approval of the Board. Any fee earned in relation to outside appointments is retained by the Executive Director. No such fees were paid during the financial year.

PERFORMANCE REVIEW

Figure 1 Shareholder return on £100 invested on 31/3/2002

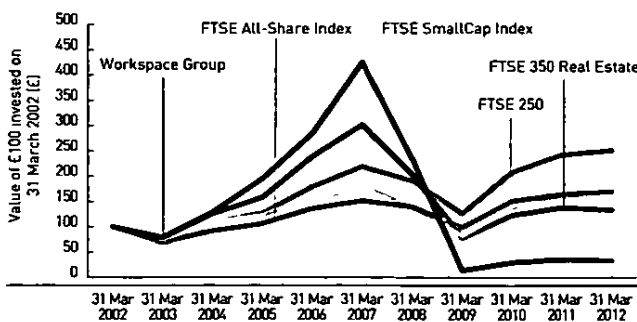


Figure 2 Shareholder return on £100 invested on 31/3/2009

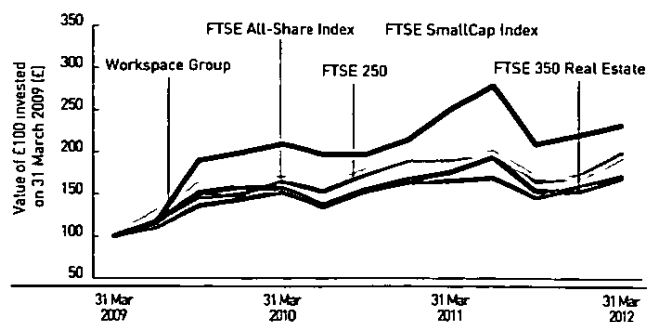


Figure 1 above compares the total shareholder return performance (TSR) of the Group with benchmark indices. Given the differing benchmarks used for such performance measurement your Board has decided to undertake this comparison against all of the FTSE 250, FTSE All Share, FTSE Small Cap and FTSE 350 Real Estate indices. In the opinion of the Directors these indices are the most appropriate against which the total shareholder return of Workspace Group PLC should be measured.

Figure 2 above compares the TSR performance of the Group against benchmark indices over the last three years.

DIRECTORS' REMUNERATION REPORT continued

2. AUDITED INFORMATION DIRECTORS' EMOLUMENTS (AUDITED)

	Fees 2012 £000	Base salary 2012 £000	Performance ⁶ bonus 2012 £000	Other benefits 2012 £000	Total emoluments 2012 £000	Pension scheme contributions 2012 £000	Total emoluments 2011 £000	Pension scheme contributions 2011 £000
Executive Directors								
H Platt ¹ (Chief Executive)	-	3374	3037	756	7167	-	6941	546
G Clemett (Finance Director)	-	2216	2494	178	4888	366	4671	359
J Hopkins (Executive Director) ²	-	231	-	09	240	34	-	-
	-	5821	5531	943	1,2295	400	1,1612	905
Non-Executive Directors								
D Kitchen ³ (Chairman)	988	-	-	-	988	-	-	-
A J Hales ⁴ (Chairman)	327	-	-	-	327	-	1000	-
B Cragg ⁵	450	-	-	-	450	-	450	-
J Bywater ⁵	450	-	-	-	450	-	450	-
J Hopkins ²	377	-	-	-	377	-	328	-
R Dickinson	-	-	-	-	-	-	129	-
	2592	-	-	-	2592	-	2357	-
	2592	5821	5531	943	1,4887	400	1,3969	905

Notes

- 1 No employer pension contributions were made to Mr Platt but he received instead a cash allowance of £55,600 per annum in lieu of pension at no additional cost to the Company
- 2 Mr Hopkins was appointed as an Executive Director with effect from 12 March 2012. Consequently he received a fee for services as a Non-Executive Director up to 12 March 2012 and then a salary from this date
- 3 Mr Kitchen was appointed a Director on 6 June 2011
- 4 Mr Hales retired from the Board at the AGM on 28 July 2011
- 5 Messrs Cragg and Bywater received a fee of £5,000 for acting as chairman of the Audit and Remuneration Committee respectively
- 6 For 2011/2012 the Committee set a minimum deferral requirement of 25% of the bonus earned. Equivalent to £62,337 for Mr Clemett and £75,915 for Mr Platt

Claims were brought against the Company by Patrick Marples, a former Director, for loss of office. In July 2011, the sum of £40,522 was paid to Patrick Marples without admission of liability in settlement of his claims and £119,478 (inclusive of VAT) was made towards his legal fees.

DIRECTORS' INTERESTS IN SHARES

The beneficial interests of the Directors in the shares of the Company are set out below

	31 March 2012	31 March 2011 ⁵
A J Hales ¹	975,689	7805,555
Mr Kitchen ^{2,3}	37,500	Nil
H Platt ^{3,4}	503,490	4,027,919
G Clemett ³	99,464	795,715
J Bywater ³	3,899	31,190
B Cragg ³	66,590	646,316
J Hopkins ³	4,889	39,110

Notes

- 1 Interest in shares for Mr Hales as at the date of his retirement on 28 July 2011 and adjusted for the impact of the share consolidation in August 2011
- 2 Mr Kitchen was appointed to the Board on 6 June 2011. He acquired shares on 26 July 2011 as part of the Rights Issue
- 3 The shareholdings for each Director as at 31 March 2012 have been adjusted for impact of the Rights Issue and share consolidation in July and August 2011
- 4 Mr Platt retired as a Director of the Company on 31 March 2012
- 5 Not restated for the Rights Issue and share consolidation.

Directors' interests in Incentive Plans and Share Options are disclosed on pages 67 and 68

There have been no changes in the interests in the period between 31 March 2012 and 11 June 2012 although the interest in shares for Mr Hales is shown at the date of his retirement on 28 July 2011

SUPPLEMENTARY INFORMATION ON DIRECTORS' REMUNERATION LONG-TERM EQUITY INCENTIVE PLAN 2008 (AUDITED)

Details of current awards outstanding to the Executive Directors are as follows

	Date awarded	Interests in shares as at 1 April 2011 ⁹ (post Rights-Issue adjustment)			Lapsed during the year		Interests in shares as at 31 March 2012		
		Performance ²	Invested ^{3,5}	Matching ⁴	Performance	Matching	Performance	Invested	Matching
H Platt	13/06/2008 ⁸	55,251	5,750	26,766	(55,251)	(26,766)	-	5,750	-
	12/06/2009 ⁶	213,306	60,982	213,306	-	-	213,306	60,982	213,306
	06/07/2010 ⁷	149,252	35,438	149,252	-	-	149,252	35,438	149,252
	04/08/2011	-	-	-	-	-	112,455	26,989	112,455
G Clemett	13/06/2008 ⁸	35,957	3,778	17,419	(35,957)	(17,419)	-	3,778	-
	12/06/2009 ⁶	175,175	40,064	140,139	-	-	175,175	40,064	140,139
	06/07/2010 ⁷	98,057	23,282	98,057	-	-	98,057	23,282	98,057
	04/08/2011	-	-	-	-	-	73,882	17,732	73,882

Notes

- Awards will vest subject to the satisfaction of performance conditions detailed on page 63 over the three-year performance period
- Performance Awards were made to the Executive Directors. In June 2008 in respect of 200% of their annual salary based on a share price at date of award of £1.644. In June 2009 in respect of 100% and 125% of annual salary for Harry Platt and Graham Clemett respectively based on a share price at date of award of 16 pence. In July 2010 in respect of 90% of annual salary based on a share price at date of award of 20.58 pence. In July 2011 in respect of 90% of annual salary based on a share price at date of award of 27 pence.
- The Executive Directors invested an amount equal to 50% of their net annual basic salary to purchase Invested Shares in June 2008. Any shares purchased by the Executive Directors during and since the Rights Issue were allowed to count towards investments for the Invested Shares subject to the normal cap on individual participation of 50% of net salary. The reference share price for determining this cap was 16 pence being the average share price for the three days preceding the date of grant of Matching Awards.
- Matching Awards were granted to participants who purchased Invested Shares or who used shares acquired during and since the Rights Issue as Invested Shares. The number of shares comprised in a matching award for Harry Platt and Graham Clemett, who pledged the maximum number of shares as Invested Shares, was calculated by dividing the participant's gross salary by 16 pence. In 2010 and 2011 Executive Directors invested an amount equal to 45% of their net annual basic salary in invested shares. Matching awards were granted to participants who purchased invested shares.
- Participants are entitled to dividends payable on the Invested Shares. The Invested Shares which are beneficially owned by participants are included in the table detailing Ordinary Shares held by Directors on page 66 of this Report.
- 2009 awards were initially granted as conditional award of shares. On 8 December 2009 the Executive Directors elected to convert part of the awards into a combination of interest in shares beneficially held and linked options over the same total value.
- For the 2010 awards, the Executive Directors elected to convert part of the awards into a combination of interest in shares beneficially held and linked options over the same total value.
- The three year performance period of 2008 LTIP awards ended on 31 March 2011. The Remuneration Committee concluded that the performance conditions had not been satisfied and that the awards should therefore not vest and the awards therefore lapsed.
- The number of shares at 1 April 2011 has been adjusted for the effect of the Rights Issue in July 2011 and share consolidation in August 2011.

SHARE OPTIONS (AUDITED)

Outstanding Options for the Directors of the Company as at 31 March 2012, granted pursuant to the Company's 2000 Share Option Scheme

Director	At 01/04/2011 ⁶	Granted during the year	Lapsed during the year	At 31/03/2012	Exercise price ⁴	Normal exercise date		Exercise terms (see table following)
						From	To	
H Platt	24,030 ¹	-	(24,030)	-	£7.95	24/07/2004	24/07/2011	A
	56,299 ¹	-	-	56,299	£8.66	29/07/2005	29/07/2012	B
	37,486 ¹	-	-	37,486	£8.25	30/06/2006	30/06/2013	C
	18,949 ¹	-	-	18,949	£13.16	30/06/2007	30/06/2014	C
	11,277 ²	-	-	11,277	£17.81	17/06/2008	17/06/2015	E
	7,869 ³	-	-	7,869	£11.5	01/09/2012	01/03/2013	D
G Clemett	7,869 ³	-	-	7,869	£11.5	01/09/2012	01/03/2013	D
Total⁵	163,779	-	(24,030)	139,749				

Notes

- Options which have fully satisfied their performance criteria and vested
- Options granted in 2005 did not satisfy the performance condition in full and 25% of options have lapsed in previous years
- Options obtained under the Rules of the Group's SAYE Scheme. All other options have been granted under the Rules of the Company's Executive Share Option Schemes.
- The exercise price has been adjusted for the effect of the Rights Issue in July 2011 and share consolidation in August 2011.
- The exercise price of all options that are currently exercisable is greater than the mid-market closing share price of Workspace ordinary shares on 31 March 2012 and no profit would therefore arise upon exercise of any of these options.
- The number of shares at 1 April 2011 has been adjusted for the effect of the Rights Issue in July 2011 and share consolidation in August 2011.

DIRECTORS' REMUNERATION REPORT

continued

The closing mid-market price of Workspace Group PLC ordinary shares at 31 March 2012 was £2.35. During the year, the price of the Company's shares varied between £2.10 and £2.91 (adjusted for share consolidation)

DETAILS OF THE BASIS OF GRANT AND THE PERFORMANCE TESTS FOR EXERCISE OF OPTIONS ARE:

	Basis of grant	Terms for exercise
A	1 times total earnings	EPS growth of RPI plus 3% p a compound
B	2 times total earnings	1 times earnings at EPS growth of RPI plus 5% p a compound plus 1 times earnings at EPS growth of RPI plus 12% p a compound (pro rata)
C	1 times salary	EPS growth of RPI plus 5% p a compound
D	Per Inland Revenue Rules	SAYE options with no terms for exercise
E	2 times salary for Mr Clemett 1 times salary for Mr Platt	NAV growth over three years in top quartile of listed real estate companies with market cap exceeding £300m

Where the performance test is not fulfilled or is only partly achieved no retesting in future periods is allowed

There have been no changes in Directors' interests over options in the period between the balance sheet date and 11 June 2012

DEFERRED BONUS AWARDS

As part of the bonus arrangements, share awards (conditional on continuous employment for a period of two years from grant) were made to the Executive Directors on 12 June 2009. Prior to the vesting date, 12 June 2011, these were converted into nil cost options. The period in which the option may normally be exercised will start on the vesting date, 12 June 2011 and end on 12 June 2019 which is 10 years after the date of the original award.

Nil cost options as detailed below were awarded to Mr Platt and Mr Clemett

Name	Number of nil cost options awarded
Harry Platt	22,877*
Graham Clemett	17,080*

* Adjusted for Rights Issue and share consolidation

ESOT (AUDITED)

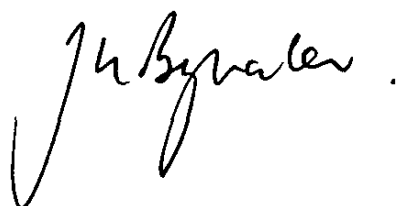
In implementing its remuneration strategy, the Board established in 1999 an Employee Share Ownership Trust (ESOT). The trust is used to purchase shares in the Company to meet its obligations under share plans. In July 2011 the trust took up its full rights under the Rights Issue of 2,437,580 shares at a cost of £560,643. Following the 1 for 10 share consolidation in August 2011 the trust now holds 1,218,802 shares. The market value of the ESOT holding at 31 March 2012 was £2.9m compared with a book cost of £8.7m.

The ESOT also holds 208,442 shares as bare trustee.

By Order of the Board

JOHN BYWATER

Chairman of the Remuneration Committee
11 June 2012



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DIRECTORS' RESPONSIBILITIES

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Group and the Parent Company financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Parent Company financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Standards (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements respectively, and
- prepare financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the current Directors, whose names and functions are listed on pages 40 and 41 and 46 to 56 of the Annual Report, confirms that, to the best of their knowledge

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group, and
- the Business Review on pages 26 to 31 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that they face.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WORKSPACE GROUP PLC

We have audited the Group financial statements of Workspace Group PLC for the year ended 31 March 2012 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 69, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

OPINION ON FINANCIAL STATEMENTS

In our opinion the group financial statements

- give a true and fair view of the state of the group's affairs as at 31 March 2012 and of its profit and cash flows for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion

- the information given in the Report of the Directors for the financial year for which the group financial statements are prepared is consistent with the group financial statements

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following

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

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- a corporate governance statement has not been prepared by the parent company

Under the Listing Rules we are required to review

- the directors' statement, set out on page 42 in relation to going concern
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on directors' remuneration

OTHER MATTERS

We have reported separately on the parent company financial statements of Workspace Group PLC for the year ended 31 March 2012 and on the information in the Directors' Remuneration Report that is described as having been audited.


Bowker Andrews
(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
11 June 2012

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CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 MARCH

	Notes	2012 £m	2011 £m
Revenue	1	673	688
Direct costs	1	(225)	(229)
Net rental income	1	448	459
Administrative expenses	3	(102)	(97)
		346	362
Other income	2	-	01
Profit on disposal of investment properties	4(a)	09	28
Loss on disposal of property, plant and equipment	4(b)	(01)	-
Change in fair value of investment properties	11	356	308
Operating profit	3	710	699
Finance income	5	02	01
Finance costs	5	(193)	(222)
Change in fair value of derivative financial instruments	5	(46)	53
Gains/(losses) from share in joint venture	13	12	(03)
Profit before tax		485	528
Taxation	7	05	07
Profit for the year after tax and attributable to equity shareholders		490	535
Basic earnings per share (pence)*	9	363p	454p
Diluted earnings per share (pence)*	9	355p	444p
EPRA earnings per share (pence)*	9	119p	124p

* Comparative figures have been restated to reflect the Rights Issue and share consolidation as described in note 22

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH

	2012 £m	2011 £m
Profit for the financial year	490	535
Revaluation of owner occupied property	-	12
Total comprehensive income attributable to equity shareholders	490	547

The notes on pages 75 to 98 form part of these financial statements

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH

	Notes	2012 £m	2011 £m
Non-current assets			
Investment properties	11	759 3	713 4
Intangible assets		0 3	0 4
Property, plant and equipment	12	11	4 6
Investment in joint venture	13	12 3	6 7
Trade and other receivables	14	4 6	4 9
		777 6	730 0
Current assets			
Trade and other receivables	14	10 6	8 3
Cash and cash equivalents	15	26 5	2 3
Corporation tax asset		0 6	-
		37 7	10 6
Current liabilities			
Bank overdraft	17(a)	-	(3 2)
Derivative financial instruments	17(d) & (e)	(14 2)	(10 9)
Trade and other payables	16	(27 5)	(28 0)
		(41 7)	(42 1)
Net current liabilities			
		(4 0)	(31 5)
Non-current liabilities			
Borrowings	17(a)	(337 3)	(363 8)
Other non-current liabilities	21	(0 9)	(0 9)
		(338 2)	(364 7)
Net assets			
		435 4	333 8
Shareholders' equity			
Ordinary shares	22	144 1	115 3
Share premium		59 2	25 0
Investment in own shares	24	(8 7)	(8 0)
Other reserves	23	13 9	15 0
Retained earnings		226 9	186 5
Total shareholders' equity		435 4	333 8
EPRA net asset value per share†	10	£3 08	£2 86

† Comparative figures have been restated to reflect the Rights issue and share consolidation as described in note 22

The financial statements were approved and authorised for issue by the Board of Directors on 11 June 2012 and were signed on its behalf by

J Hopkins
G Clemett
Directors



The notes on pages 75 to 98 form part of these financial statements

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Attributable to owners of the Parent					Total £m
		Share capital £m	Share premium £m	Investment in own shares £m	Other reserves £m	Retained earnings £m	
Balance at 1 April 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	23	-	-	-	12	-	12
Total comprehensive income		-	-	-	12	53.5	54.7
Transactions with owners							
Share issues	22	0.4	0.3	-	-	-	0.7
ESOT shares net purchase	24	-	-	(0.8)	-	-	(0.8)
Dividends paid	8	-	-	-	-	(8.9)	(8.9)
Share based payments	25	-	-	-	0.8	-	0.8
Balance at 31 March 2011		115.3	25.0	(8.0)	15.0	186.5	333.8
Profit for the year		-	-	-	-	49.0	49.0
Release of revaluation of owner occupied property	23	-	-	-	(1.9)	1.9	-
Total comprehensive income		-	-	-	(1.9)	50.9	49.0
Transactions with owners							
Share issues	22	28.8	34.2	-	-	-	63.0
ESOT shares net purchase	24	-	-	(0.7)	-	-	(0.7)
Dividends paid	8	-	-	-	-	(10.5)	(10.5)
Share based payments	25	-	-	-	0.8	-	0.8
Balance at 31 March 2012		144.1	59.2	(8.7)	13.9	226.9	435.4

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH

	Notes	2012 £m	2011 £m
Cash flows from operating activities			
Cash generated from operations	19	35 8	37 9
Interest received		0 1	0 1
Interest paid		(18 5)	(21 9)
Tax paid		(0 1)	(2 1)
Net cash inflow from operating activities		17 3	14 0
Cash flows from investing activities			
Capital expenditure on investment properties		(18 3)	(9 4)
Net proceeds from disposal of investment properties		8 8	43 9
Purchase of intangible assets		(0 1)	(0 2)
Purchase of property, plant and equipment		(0 7)	(0 4)
Net proceeds from disposal of property, plant and equipment		3 8	-
Investment in and loan to joint venture	13	(4 8)	(7 4)
Movement in short-term funding balances with joint venture		(0 1)	0 6
Distributions received from joint venture	13	0 4	-
Net cash (outflow)/inflow from investing activities		(11 0)	27 1
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	22	66 3	-
Fees paid on share issue	22	(3 3)	-
Finance costs for new/amended borrowing facilities	20	(2 2)	(3 8)
Settlement and re-couponsing of derivative financial instruments		(1 3)	(6 5)
Repayment of bank borrowings	20	(25 5)	(17 3)
Movement on bank facility rental income accounts		(1 7)	(5 0)
ESOT shares purchase		(0 7)	(0 8)
Finance lease principal payments		-	(0 2)
Dividends paid	8	(10 5)	(8 2)
Net cash inflow/(outflow) from financing activities		21 1	(41 8)
Net increase/(decrease) in cash and cash equivalents		27 4	(0 7)
Cash and cash equivalents at start of year	19	(0 9)	(0 2)
Cash and cash equivalents at end of year	19	26 5	(0 9)

The notes on pages 75 to 98 form part of these financial statements

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NOTES TO THE FINANCIAL STATEMENTS

Workspace Group PLC ('the Company') and its subsidiaries (together 'the Group') are engaged in property investment in the form of letting of business accommodation to new and growing enterprises across London

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

The registered number of the Company is 2041612

BASIS OF PREPARATION

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

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

SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATES

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

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

INVESTMENT PROPERTY VALUATION

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

TRADE RECEIVABLES

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

COMPLIANCE WITH THE REAL ESTATE INVESTMENT TRUST (REIT) REGIME

The Group is a Real Estate Investment Trust (Group REIT). In order to achieve and retain Group REIT status, several entrance tests had to be met and certain ongoing criteria must be maintained. The main criteria are as follows

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

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

SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and all its subsidiary undertakings up to 31 March 2012. Subsidiaries are entities over which the Group has the power to govern the financial and operating policies. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences to the date control ceases

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

NOTES TO THE FINANCIAL STATEMENTS continued

INVESTMENT PROPERTIES

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

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

Investment property is measured initially at cost including related transaction costs. After initial recognition investment property is held at fair value based on a valuation by a professional external valuer at each reporting date. Changes in fair value of investment property at the reporting date are recorded in the income statement

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

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group, and the cost of each item can be reliably measured. Certain internal staff costs directly attributable to capital/redevelopment projects are capitalised. All other repairs and maintenance costs are charged to the income statement during the period in which they are incurred

Existing investment property which undergoes redevelopment for continued future use as investment property remains in investment property. Capitalised interest on the redevelopment expenditure is added to the asset's carrying amount. Borrowing costs capitalised are calculated by reference to the actual interest rate payable on borrowings, or if financed out of general borrowings by reference to the average rate payable on funding the assets employed by the Group and applied to the direct expenditure on the property undergoing redevelopment. Interest is capitalised from the date of commencement of the redevelopment activity until the date when substantially all the activities necessary to prepare the asset for its intended use are complete

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

Income for the sale of assets is recognised when the significant risks and returns have been transferred to the buyer. In the case of sales of properties this is generally taken on completion. Where any aspect of consideration is conditional then the revenue associated with that conditional item is valued and included as deferred consideration

INTANGIBLE ASSETS

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

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

PROPERTY, PLANT AND EQUIPMENT

Land and Buildings

Land and buildings within property, plant and equipment related to the owner occupied building of Magenta House which was sold during the year. The Group had adopted the revaluation model to show this asset category at fair value less subsequent depreciation for buildings

Equipment and Fixtures

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

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

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

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

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JOINT VENTURES

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

FINANCE LEASES

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the net present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. Each lease payment is allocated between liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement. The investment properties acquired under finance leases are subsequently carried at fair value.

TRADE AND OTHER RECEIVABLES

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

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

TRADE AND OTHER PAYABLES

Trade and other payables are stated at cost.

CASH AND CASH EQUIVALENTS

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

BORROWINGS

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, with any difference between the initial amount (net of transaction costs) and the redemption value being recognised in the income statement over the period of the borrowings, using the effective interest method, except for interest capitalised on redevelopments.

DERIVATIVE FINANCIAL INSTRUMENTS

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

SHARE CAPITAL

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

INVESTMENT IN OWN SHARES

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

OPERATING SEGMENTS

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

NOTES TO THE FINANCIAL STATEMENTS continued

REVENUE RECOGNITION

Revenue comprises rental income, service charges and other sums receivable from the Group's investment properties. Other sums comprise insurance charges, supplies of utilities, premia associated with surrender of tenancies, commissions, fees and other sundry income.

All the Group's properties are leased out under operating leases and are included in investment property in the balance sheet. Rental income from operating leases is recognised in the income statement on a straight line basis over the lease term. When the Group provides incentives to its customers, the incentives are recognised over the lease term on a straight line basis.

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

DIRECT COSTS

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

SHARE BASED PAYMENT

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

The fair value of the employee services received in exchange for the grant of options is recognised as an expense over the vesting period.

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

PENSIONS

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

INCOME TAX

Current income tax is tax payable on the taxable income for the year and any prior year adjustment, and is calculated using tax rates that have been substantively enacted by the balance sheet date.

DIVIDEND DISTRIBUTIONS

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

NEW ACCOUNTING STANDARDS, AMENDMENTS AND GUIDANCE

a) During the year to 31 March 2012 the Group adopted the following accounting standards and guidance. These either had no material impact on the Group's financial statements or resulted in changes to presentation and disclosure only.

Standard or interpretation	Content
IFRIC 19	Extinguishing financial liabilities with equity investments
Annual improvements 2010, Amendments to	
IFRS 3	Business combinations
IFRS 7	Financial instruments disclosure
IAS 1	Presentation of financial statements
IAS 24 (revised)	Related party disclosures
IAS 27	Separate financial statements
IAS 34	Interim financial reporting

b) The following standards and guidance are relevant to the Group but are not yet effective and are not expected to have a significant impact on the Group's financial statements once adopted.

Standard or interpretation	Content
IFRS 9	Financial instruments classification and measurement
Amendment IFRS 7	Financial instruments disclosures on transfers of financial assets
Amendment IAS 12	Income taxes on deferred tax
Amendment IAS 1	Financial statement presentation regarding other comprehensive income
IFRS 10	Consolidated financial statements
IFRS 11	Joint arrangements
IFRS 12	Disclosures of interest in other entities
IFRS 13	Fair value measurement
IAS 27 (revised)	Separate financial statements
IAS 28 (revised)	Associates and joint ventures
Amendment IFRS 7	Financial instruments disclosures, on offsetting financial assets and liabilities
Amendment IAS 32	Financial instruments presentation, on offsetting financial assets and liabilities

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH

1. ANALYSIS OF NET RENTAL INCOME AND SEGMENTAL INFORMATION

	2012			2011		
	Revenue £m	Direct costs £m	Net rental income £m	Revenue £m	Direct costs £m	Net rental income £m
Rental income	50.2	(0.1)	50.1	52.0	(0.2)	51.8
Service charges	13.7	(16.2)	(2.5)	13.8	(17.2)	(3.4)
Empty rates and other non recoverables	0.6	(4.1)	(3.5)	0.5	(4.1)	(3.6)
Services, fees, commissions and sundry income	2.8	(2.1)	0.7	2.5	(1.4)	1.1
	67.3	(22.5)	44.8	68.8	(22.9)	45.9

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.

2. OTHER INCOME

	2012 £m	2011 £m
Right of light and other damages compensation	-	0.1

3. OPERATING PROFIT

The following items have been charged in arriving at operating profit

	2012 £m	2011 £m
Depreciation ¹	0.4	0.5
Staff costs (including share based costs)	10.7	9.9
Repairs and maintenance expenditure on investment properties	3.2	3.6
Trade receivables impairment ¹	0.4	0.2
Amortisation of intangibles ²	0.1	0.2
Operating lease rentals payable	0.1	0.1
Audit fees payable to the Group's auditors ³	0.2	0.2

1 Charged to direct costs

2 Charged to administrative expenses

3 Services provided by the Group's Auditors - PricewaterhouseCoopers LLP

	2012 £000	2011 £000
Analysis of audit and non-audit services		
Audit services.		
Audit of Group and Company financial statements	125	123
Audit of subsidiary financial statements	28	28
	153	151
Non-audit services		
Group interim review	32	32
Rights issue	200	-
Taxation and legal services	158	123
Other services	70	4
	613	310

	2012 £m	2011 £m
Total administrative expenses are analysed below		
Staff costs	5.8	5.4
Cash settled share based costs	0.2	0.3
Equity settled share based costs	0.8	0.8
Other	3.4	3.2
	10.2	9.7

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH continued

4. PROFIT/LOSS ON DISPOSAL

(A). PROFIT ON DISPOSAL OF INVESTMENT PROPERTIES

	2012 £m	2011 £m
Gross proceeds from sale of investment properties	90	443
Book value at time of sale plus sale costs	(78)	(411)
	12	32
Unrealised profit on sale of properties to joint venture	-	(04)
Revaluation of deferred consideration	(03)	-
Pre-tax profit on sale	09	28

(B). LOSS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

	2012 £m	2011 £m
Gross proceeds from sale of the Group's former head office building	39	-
Book value at time of sale plus sale costs	(40)	-
	(01)	-

5. FINANCE INCOME AND COSTS

	2012 £m	2011 £m
Interest income on bank deposits	02	-
Interest income on corporation tax refunds	-	01
Finance income	02	01
Interest payable on bank loans and overdrafts	(183)	(214)
Amortisation of issue costs of bank loans	(12)	(08)
Interest payable on finance leases	(02)	(02)
Capitalised interest on property refurbishments	04	02
Finance costs	(193)	(222)
Change in fair value of financial instruments through the income statement	(46)	53
Net finance costs	(237)	(168)

6. EMPLOYEES AND DIRECTORS

Staff costs for the Group during the year were	2012 £m	2011 £m
Wages and salaries	83	75
Social security costs	10	08
Defined contribution pension plan costs (see note 30)	04	05
Cash settled share based costs	02	03
Equity settled share based costs	08	08
	107	99

The monthly average number of people (including Executive Directors) employed during the year was

	2012 Number	2011 Number
Executive Directors	2	2
Head office staff	66	67
Estates and property management staff	96	102
	164	171

The emoluments and pension benefits of the Executive Directors is determined by the Remuneration Committee of the Board and are set out in detail in the Directors' Remuneration Report on pages 57 to 68. These form part of the financial statements.

7. TAXATION

	2012 £m	2011 £m
Current tax:		
UK corporation tax	(05)	-
Adjustments to tax in respect of previous periods	-	(07)
Total taxation credit	(05)	(07)

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The tax on the Group's profit for the period differs from the standard applicable corporation tax rate in the UK (26%) The differences are explained below

	2012 £m	2011 £m
Profit on ordinary activities before taxation	48 5	52 8
Adjust (gains)/losses in joint ventures	(1 2)	0 3
	47 3	53 1
Tax at standard rate of corporation tax in the UK of 26% (2011 28%)	12 3	14 9
Effects of		
REIT exempt income	(3 8)	(4 5)
Changes in fair value not subject to tax as a REIT	(8 0)	(11 1)
Chargeable gains adjustments	0 8	-
Share scheme adjustments	0 2	0 2
Contaminated land relief	(0 5)	-
Adjustments to tax in respect of previous periods	-	(0 7)
Losses (brought forward)/carried forward	(1 5)	0 5
Total taxation credit	(0 5)	(0 7)

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 Group's other income is subject to corporation tax

The Group currently has £4 4m (2011 £6 0m) of tax losses carried forward calculated at a corporation tax rate of 24% (2011 26%) which is the rate substantively enacted at the Balance Sheet date following the March 2012 UK Budget Statement These have not been recognised as an asset as they are unlikely to be utilised in the foreseeable future Further reductions in the main rate of corporation tax to 22% by 1 April 2014 are expected to be enacted If this rate had been applied to tax losses at the Balance Sheet date it would have reduced losses by £0 4m

8. DIVIDENDS

	Payment date	Per share	2012 £m	2011 £m
Ordinary dividends paid				
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	-
For the year ended 31 March 2012				
Interim dividend	February 2012	2 93p	4 2	-
Dividends for the year			10 5	8 9
Less dividends settled in shares			-	(0 7)
Dividends - cash paid			10 5	8 2

* The comparative dividends per share figures have been divided by 10319 to take account of the bonus element of the Rights Issue and by 01 to take account of the 1 for 10 share consolidation.

In addition the Directors are proposing a final dividend in respect of the financial year ended 31 March 2012 of 5 86p per ordinary share which will absorb an estimated £8 4m of revenue reserves If approved by the shareholders at the AGM, it will be paid on 3 August 2012 to shareholders who are on the register of members on 13 July 2012 The dividend will be paid 50% as a Property Income Distribution (PID) and 50% normal dividend (non PID)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH continued

9. EARNINGS PER SHARE

	2012 £m	2011 £m
Earnings used for calculation of earnings per share		
Basic and diluted earnings	49 0	53 5
Change in fair value of investment property	(35 6)	(30 8)
Profit on disposal of investment properties	(0 9)	(2 8)
Loss on disposal of property, plant and equipment	0 1	-
Movement in fair value of derivative financial instruments	4 6	(5 3)
Group's share of EPRA adjustments of joint venture	(0 7)	0 3
EPRA adjusted earnings	16 5	14 9
Adjustment for non-recurring items	-	(0 8)
Adjusted underlying earnings	16 5	14 1

Earnings have been adjusted and calculated on a diluted basis to derive an earnings per share measure as defined by the European Public Real Estate Association (EPRA) and an underlying earnings measure, with additional Company adjustments for non-recurring items

	2012 Number	2011 Number restated*
Number of shares used for calculating earnings per share		
Weighted average number of shares (excluding shares held in the ESOT)	134,902,483	117,962,202
Dilution due to share option schemes	3,183,215	2,607,785
Weighted average number of shares for diluted earnings per share	138,085,698	120,569,987

	2012	2011 restated*
In pence		
Basic earnings per share	36 3p	45 4p
Diluted earnings per share	35 5p	44 4p
EPRA earnings per share	11 9p	12 4p
Underlying earnings per share	11 9p	11 7p

* The comparative number of shares and earnings per share 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 22 for further details of the Rights Issue and share consolidation

10. NET ASSETS PER SHARE

	2012 £m	2011 £m
Net assets used for calculating net assets per share		
Net assets at end of year (basic)	435 4	333 8
Derivative financial instruments at fair value	14 2	10 9
EPRA net assets	449 6	344 7

	2012 Number	2011 Number restated*
Number of shares used for calculating net assets per share:		
Shares in issue at year-end	144,091,418	118,946,481
Less ESOT shares at year-end	(1,218,802)	(1,006,103)
Number of shares for calculating basic net assets per share	142,872,616	117,940,378
Dilution due to share option schemes	3,304,176	2,781,890
Number of shares for calculating diluted adjusted net assets per share	146,176,792	120,722,268

	2012	2011 restated*
EPRA net assets per share	£3 08	£2 86

* 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 22 for further details of the rights issue and share consolidation

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

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11 INVESTMENT PROPERTIES

	2012 £m	2011 £m
Balance at 1 April	713.4	713.2
Capital expenditure	175	100
Capitalised interest on refurbishments	0.4	0.2
Disposals during the year	(76)	(40.7)
Depreciation on finance leases	-	(0.1)
Change in fair value of investment properties	35.6	30.8
Balance at 31 March	759.3	713.4

Capitalised interest is included at a rate of capitalisation of 5.2% (2011: 5.5%). The total amount of capitalised interest included in investment properties is £3.6m (2011: £3.2m).

Investment property includes buildings under finance leases of which the carrying amount is £3.5m (2011: £3.5m). Investment property finance lease commitment details are shown in note 17(f).

VALUATION

The Group's investment properties were revalued at 31 March 2012 by the external valuer, CBRE Limited, a firm of independent qualified valuers. The valuations were undertaken in accordance with the Royal Institution of Chartered Surveyors Valuation Professional Standards (2012).

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

	2012 £m	2011 £m
Total per CBRE valuation report	760.4	718.7
Deferred consideration on sale of property (note 14)	(4.6)	(4.9)
Owner occupied property	-	(3.9)
Head leases treated as finance leases under IAS 17	3.5	3.5
Total investment properties per balance sheet	759.3	713.4

12 PROPERTY, PLANT AND EQUIPMENT

	Owner occupied land £m	Owner occupied buildings £m	Equipment and fixtures £m	Total £m
Cost or valuation				
Balance at 1 April 2010	14	13	43	70
Additions during the year	-	-	0.4	0.4
Disposals during the year	-	-	(0.2)	(0.2)
Gain/(loss) on revaluation	15	(0.3)	-	12
Balance at 31 March 2011	29	10	45	84
Additions during the year	-	-	0.9	0.9
Disposals during the year	(29)	(10)	(0.1)	(40)
Balance at 31 March 2012	-	-	5.3	5.3
Accumulated depreciation				
Balance at 1 April 2010	-	-	36	36
Charge for the year	-	-	0.4	0.4
Disposals during the year	-	-	(0.2)	(0.2)
Balance at 31 March 2011	-	-	38	38
Charge for the year	-	-	0.4	0.4
Balance at 31 March 2012	-	-	4.2	4.2
Net book amount at 31 March 2012	-	-	1.1	1.1
Net book amount at 31 March 2011	29	10	0.7	46

As permitted by IAS 16 'Property, plant & equipment', the Group's owner occupied property (land and buildings) was included at valuation at 31 March 2011. The land and buildings were sold during the year (see note 4(b)).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH continued

13. JOINT VENTURES

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 201% 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 the property manager with significant delegated powers including responsibility for asset management and recommending acquisitions and disposals. Transactions between the Group and the joint venture are on an arm's length basis. This joint venture has been equity accounted for in the Group's consolidated financial statements.

The Group's investment in the joint venture represents

	31 March 2012 £m	31 March 2011 £m
Balance at 1 April	67	-
Cash investment	48	74
Unrealised surplus on sale of properties to joint venture	-	(04)
Share of gains/(losses)	12	(03)
Distributions received	(04)	-
Balance at 31 March	123	67

The Group's 201% share of the joint venture assets and liabilities is shown below

	31 March 2012 £m	31 March 2011 £m
Investment properties	124	71
Current assets	07	03
Current liabilities	(04)	(03)
Net assets	127	71
Unrealised surplus on sale of properties to joint venture	(04)	(04)
Investment in joint venture	123	67

The Group's 201% share of the joint venture revenues and expenses is shown below

	Year ended 31 March 2012 £m	Period ended 31 March 2011 £m
Revenue	09	01
Direct costs	(03)	-
Net rental income	06	01
Administrative expenses	(01)	-
Change in fair value of investment properties	07	(03)
Set up costs	-	(01)
Profit/(loss) before tax	12	(03)
Taxation	-	-
Profit/(loss) after tax	12	(03)

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14 TRADE AND OTHER RECEIVABLES

Non-current trade and other receivables	2012	2011
	£m	£m
Deferred consideration on sale of investment property	46	49

The non-current receivable relates to deferred consideration arising on the sale of the Thurston Road site in February 2010. The value of this receivable has been fair valued by CBRE Limited on the basis of market value as at 31 March 2012, using appropriate discount rates and will be revalued on a regular basis. The change in value is charged/credited to the income statement.

Current trade and other receivables	2012	2011
	£m	£m
Trade receivables	25	24
Less provision for impairment of receivables	(06)	(05)
Trade receivables - net	19	19
Prepayments and accrued income	20	14
Bank facility rental income accounts	67	50
	106	83

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

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

	2012	2011
	£m	£m
Balance at 1 April	05	05
Provision for receivables impairment	04	02
Receivables written off during the year	(03)	(02)
Balance at 31 March	06	05

As at 31 March 2012, the ageing of trade receivables past due but not impaired was as follows:

	Total 2012 £m	Impaired 2012 £m	Not impaired 2012 £m	Total 2011 £m	Impaired 2011 £m	Not impaired 2011 £m
Up to 3 months past due	18	(02)	16	16	(01)	15
3 to 6 months past due	03	(01)	02	02	(01)	01
Over 6 months past due	04	(03)	01	06	(03)	03
	25	(06)	19	24	(05)	19

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH continued

15. CASH AND CASH EQUIVALENTS

	2012 £m	2011 £m
Cash at bank and in hand	24 5	0 2
Restricted cash – tenants' deposit deeds	2 0	2 1
	26 5	2 3

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

Bank overdrafts are included within cash and cash equivalents for the purpose of the cash flow statement (see note 19)

16. TRADE AND OTHER PAYABLES

	2012 £m	2011 £m
Trade payables	19	19
Other tax and social security payable	15	14
Tenants' deposit deeds (see note 15)	20	21
Tenants' deposits	80	76
Accrued expenses and deferred income	10 4	11 2
Amounts due to related parties	0 5	0 6
Deferred income-rent and service charges	3 2	3 2
	27 5	28 0

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

17. BORROWINGS (A) BALANCES

	2012 £m	2011 £m
Current		
Bank loans and overdrafts due within one year or on demand (secured)	-	3 2
	-	3 2
Non-current		
Bank loans (secured)	333 8	360 3
Finance lease obligations (part secured)	3 5	3 5
	337 3	363 8
	337 3	367 0

The secured loans and overdraft facility are secured on investment properties with balance sheet values totalling £7411m (2011 £692 4m)

(B) MATURITY

	2012 £m	2011 £m
Secured (excluding finance leases)		
Repayable in less than one year	-	3 2
Repayable between one year and two years	-	95 5
Repayable between two years and three years	68 0	-
Repayable between three years and four years	270 0	68 0
Repayable between four years and five years	-	200 0
	338 0	366 7
Less cost of raising finance	(4 2)	(3 2)
	333 8	363 5
Finance leases (part secured)		
Repayable in five years or more	3 5	3 5
	337 3	367 0

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(C) INTEREST RATE AND REPAYMENT PROFILE

	Principal £m	Interest rate	Interest payable	Repayable
Current				
Bank overdraft due within one year or on demand	-	Base +2.25%	Variable	On demand
Non-current				
Loan - Bayern LB	200.0	LIBOR +2.25%	Quarterly	June 2015
Loan - Royal Bank of Scotland (RBS)	70.0	LIBOR +2.5%	Quarterly	June 2015
Loan - Bank of Scotland (BoS)	68.0	LIBOR +1.25%	Quarterly	December 2014

(D) DERIVATIVE FINANCIAL INSTRUMENTS

The following interest rate derivatives are held

	Amount hedged £m	Rate payable (or cap strike rate) %	Rate Receivable %	Term/expiry
Interest rate swap	100.0	3.23%	3 month LIBOR	to October 2012
Interest rate swap	70.0	4.00%	3 month LIBOR	to October 2012
Interest rate swap	50.0	5.16%	3 month LIBOR	to June 2013
Interest rate swap*	40.0	1.50%	3 month LIBOR	to October 2012
Interest rate swap*	140.0	3.23%	3 month LIBOR	October 2012 to June 2015
Interest rate swap	40.0	2.46%	3 month LIBOR	November 2012 to June 2015
Interest rate swap	30.0	2.03%	3 month LIBOR	November 2012 to June 2015
Interest rate cap	100.0	5.43%	-	to October 2012
Interest rate cap	15.5	5.00%	-	to October 2012
Interest rate cap	70.0	5.00%	-	November 2012 to June 2015

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

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

(E) FAIR VALUES OF FINANCIAL INSTRUMENTS

	2012 Book Value £m	2012 Fair Value £m	2011 Book Value £m	2011 Fair Value £m
Financial liabilities not at fair value through profit or loss				
Bank overdraft	-	-	3.2	3.2
Bank loans	333.8	333.8	360.3	360.3
Finance lease obligations	3.5	3.5	3.5	3.5
	337.3	337.3	367.0	367.0
Financial liabilities at fair value through profit or loss				
Derivative financial instruments				
Liabilities	14.2	14.2	10.9	10.9

The total change in fair value of derivative financial instruments recorded in the income statement was a loss of £4.6m (2011: £5.3m gain). This is net of £1.3m (2011: £6.5m) paid in the year to settle/re-coupon some instruments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH continued

17. BORROWINGS continued

The fair values of all the Group's financial derivatives has been determined by reference to market prices and discounted expected cash flows at prevailing interest rates and are Level 2 valuations as defined by IFRS 7

The different levels of valuation hierarchy as defined by IFRS 7 are set out below

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2 - Use of a model with inputs (other than quoted prices included in Level 1) that are directly or indirectly observable market data

Level 3 - Use of a model with inputs that are not based on observable market data

The total fair value calculated equates to 9.7p per share (31 March 2011 9.0p restated)

(F) FINANCE LEASES

Finance lease liabilities are in respect of leased investment property

Minimum lease payments under finance leases fall due as follows	2012 £m	2011 £m
Within one year	0.2	0.3
Between two and five years	0.9	0.8
Beyond five years	21.5	21.7
	22.6	22.8
Future finance charges on finance leases	(19.1)	(19.3)
Present value of finance lease liabilities	3.5	3.5

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICY

The Group has identified exposure to the following financial risks

Market risk
Credit risk
Liquidity risk
Capital risk

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

(A) MARKET RISK

Market risk is the risk that changes in market conditions will affect the Group's interest rates. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk.

The Group finances its operations through a mixture of retained profits and borrowings. The Group borrows at both fixed and floating rates of interest and then uses interest rate swaps and caps to generate the desired interest and risk profile. At 31 March 2012 77% (2011 74%) of Group borrowings were fixed through the use of interest rate swaps.

All transactions entered into are approved by the Board and are in accordance with the Group's treasury policy. The Board also monitors variances on interest rates to budget and forecast rates to ensure that the risk relating to interest rates is being sufficiently safeguarded against. Based upon year end variable rate loan balances, a reasonably possible interest rate movement of +/-0.5% would have increased or decreased net interest payable and equity by £0.4m (2011 £0.5m).

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(B) CREDIT RISK

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

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

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

The Group's credit risk in relation to tenants is further managed by requiring that tenants provide a deposit equivalent to three months rent on inception of lease as security against default. Total tenant deposits held are £10.0m (2011: £9.7m). The Group also monitors aged debt balances and any potential bad debts every week, the information being reported to the Executive Committee every month for part of the performance monitoring process. The Group's debtor recovery is consistently high and as such is deemed a low risk area.

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

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

	2012 £m	2011 £m
Cash and cash equivalents (note 15)	26.5	2.3
Trade receivables - current (note 14)	2.5	2.4
Other receivables - non current (note 14)	4.6	4.9
	33.6	9.6

(C) LIQUIDITY RISK

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

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

To ensure it can effectively manage its liquidity risk, the Group has an overdraft facility of £4m, a revolving loan facility of £55m and term loans. At 31 March 2012 headroom excluding overdraft was £55m (31 March 2011: £30m).

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH continued

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICY continued

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

	Carrying Amount £m	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total contracted cash flows £m
31 March 2012						
Financial Liabilities						
Bank overdraft	-	-	-	-	-	-
Secured bank loans (note 17b)	338 0	-	-	68 0	270 0	338 0
Interest payable on secured bank loans	-	10 7	10 7	10 7	2 8	34 9
Derivative financial instruments	14 2	7 2	7 1	5 5	3 5	23 3
Finance lease liabilities	3 5	0 2	0 4	0 5	2 15	22 6
Trade and other payables	24 3	24 3	-	-	-	24 3
Bank priority fee	0 9	-	-	0 9	-	0 9
	380 9	42 4	18 2	85 6	297 8	444 0
31 March 2011						
Financial Liabilities						
Bank overdraft	3 2	3 2	-	-	-	3 2
Secured bank loans (note 17b)	363 5	-	95 5	-	268 0	363 5
Interest payable on secured bank loans	-	10 8	9 6	7 4	8 0	35 8
Derivative financial instruments	10 9	8 3	7 3	3 9	3 8	23 3
Finance lease liabilities	3 5	0 3	0 4	0 4	2 17	22 8
Trade and other payables	24 8	24 8	-	-	-	24 8
Bank priority fee	0 9	-	-	-	0 9	0 9
	406 8	47 4	112 8	11 7	302 4	474 3

(D) CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and monitor an appropriate mix of debt and equity financing.

Equity comprises issued share capital and retained earnings and debt comprises drawings against revolving and term loan facilities from banks.

Actions taken in the last few years in relation to borrowings and capital raising have enabled the Group to have sufficient headroom on financing and to ensure it is comfortably within all applicable loan to value covenants applied on borrowings which range between 65% to 85%.

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19. NOTES TO CASH FLOW STATEMENT

Reconciliation of profit for the period to cash generated from operations

	2012 £m	2011 £m
Profit before tax	48 5	52 8
Depreciation	0 4	0 5
Amortisation of intangibles	0 1	0 2
Profit on disposal of investment properties	(0 9)	(2 8)
Loss on disposal of property, plant and equipment	0 1	-
Net gain from change in fair value of investment property	(35 6)	(30 8)
Equity settled share based payments	0 8	0 8
Change in fair value of financial instruments	4 6	(5 3)
Interest income	(0 2)	(0 1)
Interest expense	19 3	22 2
(Gains)/losses from share in joint venture	(1 2)	0 3
Changes in working capital		
(Increase)/decrease in trade and other receivables	(0 7)	1 3
Increase/(decrease) in trade and other payables	0 6	(1 2)
Cash generated from operations	35 8	37 9

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

	2012 £m	2011 £m
Cash at bank and in hand	24 5	0 2
Restricted cash - tenants deposit deeds	2 0	2 1
Bank overdrafts	-	(3 2)
	26 5	(0 9)

20. ANALYSIS OF NET DEBT

	At 1 April 2011 £m	Cash flow £m	Non cash items £m	At 31 March 2012 £m
Cash at bank and in hand	0 2	24 3	-	24 5
Restricted cash - tenants deposit deeds	2 1	(0 1)	-	2 0
Bank overdrafts	(3 2)	3 2	-	-
	(0 9)	27 4	-	26 5
Bank loans	(363 5)	25 5	-	(338 0)
Less cost of raising finance	3 2	2 2	(1 2)	4 2
Finance lease obligations	(3 5)	-	-	(3 5)
	(363 8)	27 7	(1 2)	(337 3)
Total	(364 7)	55 1	(1 2)	(310 8)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH continued

21. OTHER NON-CURRENT LIABILITIES

	2012 £m	2011 £m
Bank priority fee	0.9	0.9

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

22. SHARE CAPITAL

	2012 Number	2011 Number
Issued Fully paid ordinary shares of £1 each	144,091,418	1,152,731,338

	2012 £m	2011 £m
Issued Fully paid ordinary shares of £1 each	144.1	115.3

Movements in share capital were as follows	2012 Number	2011 Number
Number of shares at 1 April	1,152,731,338	1149,459,056
Issue of shares ¹	288,182,842	3,272,282
Share consolidation ²	(1,296,822,762)	-
Number of shares at 31 March	144,091,418	1,152,731,338

	£m	£m
Balance at 1 April	115.3	114.9
Issue of shares	28.8	0.4
Balance at 31 March	144.1	115.3

1 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 288.2m 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.

2 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.

23. OTHER RESERVES

	Owner occupied property £m	Equity settled share based payments £m	Merger reserve £m	Total £m
Balance at 1 April 2010	0.7	3.6	8.7	13.0
Revaluation gain	12	-	-	12
Share based payments	-	0.8	-	0.8
Balance at 31 March 2011	19	4.4	8.7	15.0
Share based payments	-	0.8	-	0.8
Recycled to income statement	(19)	-	-	(19)
Balance at 31 March 2012	-	5.2	8.7	13.9

The revaluation gain on owner occupied property relates to the accounting policy to include owner occupied land and buildings at valuation rather than historic cost. This property was sold during the year and so the balance on the reserve has been recycled to the income statement.

The merger reserve was created in 2009 following the raising of equity through a cashbox share placing structure.

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24. INVESTMENT IN OWN SHARES

The Company has established an Employee Share Ownership Trust (ESOT) to purchase shares in the market for distribution at a later date in accordance with the terms of the 1993 and 2000 Executive Share Option Schemes, Co-Investment Plan and Long Term Equity Incentive Plan. The shares are held by an independent trustee and the rights to dividends on the shares have been waived except where the shares are beneficially owned by participants. During the year the Trust purchased 2,437,699 shares (before share consolidation) for a cash consideration of £0.7m. At 31 March 2012 the number of shares held by the Trust totalled 1,218,802 (2011: 975,321 - not restated for share consolidation). At 31 March 2012 the market value of these shares was £2.9m (2011: £2.7m) compared to a nominal value of £1.2m (2011: £1.0m).

	2012 £m	2011 £m
Balance at 1 April	80	72
Acquisition of ordinary shares	07	08
Balance at 31 March	87	80

25. SHARE-BASED PAYMENTS

The Group operates a number of share schemes:

I) LONG TERM EQUITY INCENTIVE PLAN (LTIP)

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

- Absolute TSR
- Relative TSR
- Relative NAV

Under the 2011 LTIP scheme 953,009 performance and matching shares were awarded in August 2011 to Directors and senior management (2010 LTIP scheme 1,146,644 as restated). The Directors' shares under these schemes are analysed in detail in the Directors' Remuneration Report on page 67.

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

Assumptions used in the model were as follows:

	2012	2011*
Share price at grant	270p	204p
Exercise price (pence)	Nil	Nil
Average expected life (years)	3	3
Risk free rate	2%	1%
Expected dividend yield	4%	4%
Average share price volatility	55%	59%
Fair value per option - Absolute TSR element	177p	116p
Fair value per option - Relative TSR element	183p	126p

* Restated where necessary for the effect of the Rights Issue and share consolidation in the year.

The relative NAV is a non-market based condition and the intrinsic value is therefore the share price at date of grant of 270p. At each balance sheet date, the Directors assess the likelihood of meeting the conditions under this element of the scheme. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity. The assessment at year end was that up to 50% of the relative NAV element will vest.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH continued

25. SHARE-BASED PAYMENTS continued

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

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

II) EMPLOYEE SHARE SCHEMES

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

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

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

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

	ESOS		SAYE	
	Number*	Weighted exercise price*	Number*	Weighted exercise price*
Options outstanding				
At 1 April 2010	519,234	£13.24	448,146	£1.18
Options granted	-	-	35,894	£1.66
Options lapsed	(213,062)	£17.22	(39,829)	£1.39
At 31 March 2011	306,172	£10.46	444,211	£1.20
Options granted	-	-	39,475	£1.91
Options lapsed	(115,001)	£9.49	(85)	£8.89
At 31 March 2012	191,171	£11.05	483,601	£1.26

* The number of shares and exercise prices have been adjusted where necessary for the effect of the Rights Issue and share consolidation in the year.

Of the outstanding ESOS options at 31 March 2012 191,171 (2011: 306,172 as restated) were exercisable immediately. None of the SAYE options outstanding were available to exercise.

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At 31 March 2012 in total there were 674,772 (2011 750,383 as restated) SAYE and ESOS share options exercisable on the Company's ordinary share capital. Of these 139,749 were Directors' share options and are disclosed in the Directors' Remuneration Report. 535,023 options are held by employees who are not Directors and these are analysed below.

Non-Director options Date of grant	Scheme	Exercise price*	Ordinary shares Number*	Exercisable between	
29 July 2002	ESOS	£8.66	8,925	29 07 2005	29 07 2012
30 June 2003	ESOS	£8.25	18,950	30 06 2006	30 06 2013
30 June 2004	ESOS	£13.16	14,624	30 06 2007	30 06 2014
17 June 2005	ESOS	£17.81	16,401	17 06 2008	17 06 2015
1 September 2005	ESOS	£19.37	8,260	01 09 2008	01 09 2015
Exercisable between					
22 July 2008	SAYE	£8.89	366	01 09 2013	01 03 2014
21 July 2009	SAYE	£1.15	304,216	01 09 2012	01 03 2013
21 July 2009	SAYE	£1.15	87,913	01 09 2014	01 03 2015
20 July 2010	SAYE	£1.66	32,910	01 09 2013	01 03 2014
20 July 2010	SAYE	£1.66	2,983	01 09 2015	01 03 2016
14 December 2011	SAYE	£1.91	39,475	01 02 2015	01 08 2015
Total			535,023		

* The number of shares and exercise prices have been adjusted where necessary for the effect of the Rights Issue and share consolidation in the year.

The exercise of all options, other than those obtained under the Group's Save As You Earn scheme, is dependent upon the Group achieving specified performance targets as disclosed in the Directors' Remuneration Report on page 68.

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

	2012 SAYE 3 year	2012 SAYE 5 year	2011* SAYE 3 year	2011 SAYE 5 year
Weighted average share price at grant	229p	-	204p	204p
Exercise price	191p	-	166p	166p
Expected volatility	58%	-	59%	54%
Average expected life (years)	3	-	3	5
Risk free rate	2%	-	1%	2%
Expected dividend yield	4%	-	4%	4%
Possibility of ceasing employment before vesting	25%	-	25%	25%

Restated where necessary for the effect of the Rights Issue and share consolidation in the year.

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

25. SHARE-BASED PAYMENTS continued

Fair values per share of these options were

	2012	2012	2011	2011*
	Grant date	Fair value of award	Grant date	Fair value of award
SAYE - 3 year	14 December 2011	85p	20 July 2010	74p
SAYE - 5 year	-	-	20 July 2010	79p

* Restated where necessary for the effect of the Rights Issue and share consolidation in the year

III) CASH SETTLED SHARE BASED PAYMENTS

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

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

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

	2012	2011*
Share price at 31 March	235p	262p
Exercise price	-	-
Expected volatility	58%	59%
Term of option remaining (years)	2.3	2.2
Risk free rate	2%	1%
Expected dividend yield	4%	4%
Possibility of ceasing employment	10%	10%
Fair value of cash based payment per share	209p	233p

* Restated where necessary for the effect of the Rights Issue and share consolidation in the year

IV) SHARE BASED PAYMENT CHARGES

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

	2012 £m	2011 £m
Equity settled share based payments	0.8	0.8
Cash settled share based payments	0.2	0.3
	1.0	1.1

The total liability at the end of the period in respect of cash-settled share based schemes was £0.6m (2011: £0.4m)

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26. RELATED PARTY TRANSACTIONS

	2012 £m	2011 £m
Transactions year ended 31 March		
Net investment into joint venture (note 13)	48	74
Fee income and recharges to joint venture	05	-
Distributions received from joint venture (note 13)	04	-
Balances with joint venture at 31 March		
Amounts payable to joint venture (note 16)	(05)	(06)

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

Key management compensation	2012 £m	2011 £m
Salaries and short-term employee benefits	25	23
Pensions and other post-employment benefits	01	02
Share-based payments	04	05
	30	30

27. CAPITAL COMMITMENTS

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

	2012 £m	2011 £m
Funding of joint venture	79	127
Purchases, construction or redevelopment of investment property	59	20
Repairs maintenance or enhancement of investment property	05	15
Property plant and equipment	-	04

28. CONTINGENT LIABILITY

Upon restructuring of the former joint venture (Workspace Glebe) the Group entered into a proceeds sharing agreement with Workspace Glebe Limited's lenders allowing the banks to share in any property disposal proceeds remaining after the repayment of the £68m debt and priority fee, and repayment to Workspace for the initial consideration of £15m, together with any qualifying capital expenditure incurred. All disposals are at the option of Workspace. 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 31 March 2012 the proceeds sharing contingent liability assuming all properties were sold was calculated at £21.5m (2011: £15.8m). This is based on 31 March 2012 valuation of the former joint venture portfolio of £136m (2011: £117m).

The impact of this on EPRA NAV per share if the entire Workspace Glebe portfolio were sold would be a decrease of 15p (2011: 13p). This liability will be reviewed at each six monthly valuation using the same basis to generate a contingent liability under this proceeds sharing arrangement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH continued

29. PRINCIPAL SUBSIDIARY UNDERTAKINGS

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

Name	Nature of business
Workspace 11 Ltd	Property Investment
Workspace 12 Ltd*	Property Investment
Workspace 13 Ltd	Property Investment
Workspace 14 Ltd*	Property Investment
Workspace 15 Ltd	Property Investment
Workspace 16 (Jersey) Ltd†	Investor in joint venture
Workspace Glebe Ltd	Property Investment
Glebe Three Ltd*	Property Investment
Workspace Holdings Ltd	Holding Company
LI Property Services Ltd	Insurance Agents
Workspace Management Ltd	Property Management
Anyspacedirect.co.uk Ltd	Website Service

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

† Company registered in Jersey

A full list of subsidiary undertakings at 31 March 2012 will be appended to the Company's next annual return

30. PENSION COMMITMENTS

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge for this scheme in the year was £0.4m (2011: £0.5m) representing contributions payable by the Group to the fund and is charged through operating profit.

The Group's commitment with regard to pension contributions range from 6% to 16.5% of an employee's salary and employee contributions range from 3% to 12%. The pension scheme is open to every employee after three months' qualifying service. The number of employees in the scheme at the year end was 98 (2011: 98).

31. OPERATING LEASES

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

	2012 £m	2011 £m
Motor vehicles and office equipment:		
Due within one year	0.1	0.1
Due between two and five years	0.1	0.1
	0.2	0.2

The Group has determined that all tenant leases are operating leases within the meaning of IAS 17. The majority of the Group's tenant leases are granted with a rolling three month tenant break clause. The future minimum non-cancellable rental receipts under operating leases granted to tenants are as follows:

	2012 £m	2011 £m
Within one year	18.0	20.3
Between two and five years	1.1	0.7
Beyond five years	0.9	0.7
	20.0	21.7

32. POST BALANCE SHEET EVENTS

In April 2012 the Group sold Enterprise House, Hayes for £3.2m into a joint venture of which the Group holds a 50% share. The other 50% is held by Polar Properties Limited and the partners intend to develop the property into residential and commercial space.

In May 2012 the BlackRock Workspace Property Trust exchanged contracts for the purchase of a property of which the Group's share is £1.5m.

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF WORKSPACE GROUP PLC (PARENT COMPANY)

We have audited the parent company financial statements of Workspace Group PLC for the year ended 31 March 2012 which comprise the Parent Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 69, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

OPINION ON FINANCIAL STATEMENTS

In our opinion the parent company financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2012,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

OTHER MATTER

We have reported separately on the group financial statements of Workspace Group PLC for the year ended 31 March 2012.

Bowker Andrews
Bowker Andrews
(Senior Statutory Auditor)

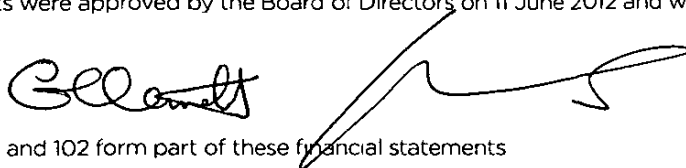
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
11 June 2012

PARENT COMPANY BALANCE SHEET AS AT 31 MARCH

	Notes	2012 £m	2011 £m
Fixed assets			
Investments in subsidiary undertakings	C	263 3	260 4
		263 3	260 4
Current assets			
Cash at bank and in hand		23 0	-
Debtors	D	142 0	125 6
		165 0	125 6
Creditors amounts falling due within one year	E	(89 2)	(102 2)
Net current assets		75 8	23 4
Total assets less current liabilities		339 1	283 8
Net assets		339 1	283 8
Capital and reserves			
Called up share capital	F	144 1	115 3
Share premium account	F	59 2	25 0
Investment in own shares	F	(8 7)	(8 0)
Merger reserve	F	8 7	8 7
Share based payment reserve	F	5 2	4 4
Profit and loss account	F	130 6	138 4
Total shareholders' funds		339 1	283 8

The financial statements were approved by the Board of Directors on 11 June 2012 and were signed on its behalf by

J Hopkins
G Clemett
Directors



The notes on pages 101 and 102 form part of these financial statements

Workspace Group PLC
Registered number 2041612

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NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

A. ACCOUNTING POLICIES

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

(A) BASIS OF ACCOUNTING

The financial statements are prepared on a going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the UK. FRS 29 Financial Instruments – Disclosure (the UK GAAP equivalent of IFRS 7 Financial Instruments – Disclosure) has been adopted by the Company but the disclosure requirements are met in note 18 of the Group financial statements.

(B) CASH FLOW STATEMENT

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

(C) INVESTMENT IN SUBSIDIARY UNDERTAKINGS

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

(D) SHARE BASED PAYMENT AND INVESTMENT IN OWN SHARES

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

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

B. PROFIT FOR THE YEAR

As permitted by the exemption in Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The profit attributable to shareholders, before dividend payments, dealt with in the financial statements of the Company was £2.7m (2011: £11m).

Auditors' remuneration of £10,000 (2011: £10,000) has been borne by a subsidiary undertaking.

Proposed dividends are disclosed in note 8 to the consolidated financial statements.

C. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

Cost	£m
Balance at 1 April 2011	307.5
Additions in the year	2.9
Balance at 31 March 2012	310.4

Impairment	£m
Balance at 31 March 2011 and 2012	471

Net book value at 31 March 2012	263.3
Net book value at 31 March 2011	260.4

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

Refer to note 29 to the consolidated financial statements for the list of subsidiary undertakings.

D. DEBTORS

	2012 £m	2011 £m
Amounts owed by subsidiary undertakings	141.5	125.6
Prepayments and accrued income	0.2	-
Corporation tax payments on account	0.3	-
	142.0	125.6

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

E. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012 £m	2011 £m
Amounts owed to subsidiary undertakings	88.8	101.8
Other taxation and social security payable	0.4	0.4
	89.2	102.2

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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS continued

F. CAPITAL AND RESERVES

Movements and notes applicable to share capital, share premium account, investment in own shares, merger reserve and share based payment reserve are shown in notes 22, 23, 24 and 25 of the consolidated financial statements

Profit and loss account	£m
Balance at 1 April 2011	138.4
Profit for the year	2.7
Dividends paid	(10.5)
Balance at 31 March 2012	130.6

G. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2012 £m	2011 £m
Profit for the financial year	2.7	1.1
Dividends paid	(10.5)	(8.9)
Issue of shares (net of costs)	63.0	0.7
Investment in own shares	(0.7)	(0.8)
Share based payments	0.8	0.8
Net movement in shareholders' funds	55.3	(7.1)
Opening shareholders' funds	283.8	290.9
Closing shareholders' funds	339.1	283.8

H. RELATED PARTY TRANSACTIONS

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

Related party transactions are the same for the Company as for the Group. For details refer to note 26 of the consolidated financial statements

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FIVE-YEAR PERFORMANCE 2008 - 2012

	31 March 2012 £m	31 March 2011 £m	31 March 2010 £m	31 March 2009 £m	31 March 2008 £m
Rents receivable	50.2	52.0	49.8	54.2	51.4
Service charges and other income	171	16.8	16.7	15.6	15.5
Revenue	673	68.8	66.5	69.8	66.9
Profit before interest including share of BWPT	351	36.3	35.3	38.4	37.0
Net interest payable [*]	(191)	(221)	(24.5)	(28.4)	(281)
Trading profit after interest (adjusted)	16.0	14.2	10.8	10.0	8.9
Profit/(loss) before taxation	48.5	52.8	26.0	(360.4)	(37.0)
Profit/(loss) after taxation	49.0	53.5	24.2	(360.4)	(34.7)
Basic earnings per share [*]	36.3p	45.4p	21.8p	(1,304.5)p	(147.4)p
Dividends per share [*]	8.79p	7.99p	7.27p	15.92p	33.21p
Dividends (total)	12.6	9.5	8.6	7.8	7.8
Investment properties	759.3	713.4	713.2	664.1	994.3
Less net liabilities	(111)	(12.8)	(39.5)	(54.1)	(161)
Less net borrowings	(312.8)	(366.8)	(386.4)	(358.1)	(441.4)
Net assets	435.4	333.8	287.3	251.9	536.8
Gearing	72%	110%	134%	142%	82%
Gearing on EPRA net assets	70%	106%	125%	129%	82%
Basic NAV per share [*]	£3.05	£2.83	£2.43	£2.34	£22.71
EPRA NAV per share [*]	£3.08	£2.86	£2.59	£2.58	£22.56

* Earnings per share, dividends per share and net assets per share have been restated to reflect adjustment for the Rights Issue in July 2011 and share consolidation in August 2011 and the Rights Issue in March 2009

[^] Excludes exceptional items

KEY PERFORMANCE INDICATORS

	31 March 2012	31 March 2011	31 March 2010	31 March 2009	31 March 2008
Workspace Group					
Number of estates ¹	92	96	105	106	106
Lettable floorspace (m sq ft) [■]	5.0	5.1	5.5	5.0	5.2
Number of lettable units ¹	4,668	4,856	5,156	4,546	4,611
Average unit size (sq ft) ¹	1,070	1,049	1,067	1,099	1,118
Rent roll of occupied units ¹	£50.2m	£48.9m	£50.7m	£50.8m	£52.6m
Average rent per sq ft ¹	£11.79	£11.47	£11.22	£12.64	£11.88
Overall occupancy ¹	85.3%	83.6%	81.9%	80.3%	85.8%
Enquiries (number) [*]	12,103	11,535	12,109	10,515	9,414
Lettings (number) [*]	981	1,051	1,203	1,035	1,007
BlackRock Workspace Property Trust (BWPT)					
Number of estates	11	8			
Lettable floorspace (m sq ft) [■]	0.4	0.3			
Number of lettable units	313	281			
Average unit size (sq ft)	1,407	1,147			
Rent roll of occupied units	£4.7m	£3.1m			
Average rent per sq ft	£11.82	£10.57			
Overall occupancy	89.8%	92.1%			

■ Excludes storage space

¹ Excluding BWPT which is shown separately

^{*} Including BWPT

INVESTOR INFORMATION

The report and financial statements, share price information, Company presentations Corporate Governance, contact details and other investor information on the Group are available at the investor website www.workspacegroupplc.co.uk

Registrar

All general enquiries concerning ordinary shares in Workspace Group PLC, should be addressed to

Computershare Services PLC

PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH
Telephone +44 (0) 870 707 1413

Alternatively, shareholders can contact Computershare online via their free Investor Centre facility. Shareholders have the ability to set up or amend bank details for direct credit of dividend payments, amend address details, view payment history and access information on the Company's share price. For more information or to register please visit www-uk.computershare.com/investor

Registered office and headquarters

Chester House,
Kennington Park
1-3 Brixton Road,
London, SW9 6DE

Registered number 2041612

Telephone +44 (0) 20 7138 3300
Facsimile +44 (0) 20 7247 0157
Web www.workspacegroupplc.co.uk
Email info@workspace.co.uk

Company Secretary

Carmelina Carfora

The Company's advisers include

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London WC2N 6RH

Joint Solicitors

Norton Rose
3 More London Riverside
London SE1 2AQ

Slaughter and May

One Bunhill Row
London EC1Y 8YY

Bankers

The Royal Bank of Scotland
Corporate and Institutional Banking
280 Bishopsgate
London EC2M 4RB

Financial Advisers

N M Rothschild
1 King William Street
London EC4N 7AR

Joint Stockbrokers

Espirito Santo Investment Bank
10 Paternoster Square
London EC4M 7AL

Investec

2 Gresham Street
London EC2V 7QP

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GLOSSARY OF TERMS

BWPT BlackRock Workspace Property Trust a joint venture property fund with the BlackRock UK Property Fund in which the Group holds a 201% interest

Cash rent roll is the current net rents receivable for occupied units

Earnings per share (EPS) is the profit after taxation divided by the weighted average number of shares in issue during the period

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

EPRA NAV is a definition of net asset value as set out by the European Public Real Estate Association. It represents net assets after excluding mark to market adjustments of effective cash flow hedges (financial derivatives) and deferred tax relating to revaluation movements, capital allowances and derivatives

Equivalent Yield is a weighted average of the initial yield and reversionary yield and represents the return a property will produce based upon the timing of the occupancy of the property and timing of the income receivable. This is approximated by the reversionary yield multiplied by the Group trend occupancy of 90%

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

Exceptional items are significant items of income or expense that by virtue of their size, incidence or nature are shown separately on the Income Statement to enable a full understanding of the Group's financial performance

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

Gearing on adjusted net assets is the Group's net debt as a percentage of net assets excluding mark to market derivative adjustments

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

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

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

IPD Universe is the IPD quarterly universe property fund benchmark of approximately 250 (£50b) UK domestic property funds

LIBOR is the British Bankers' Association London Interbank Offer Rate

Like-for-like are those properties that have been held throughout a 12 month period and have not been subject to a refurbishment or redevelopment programme in the last 24 months

Loan to value is the current loan balance divided by the current value of properties secured on the loan

Market rental values (see ERV)

Net assets per share (NAV) are net assets divided by the number of shares in issue at the period end (excluding shares held in the ESOT)

Net bank debt is the amount drawn on bank facilities including overdrafts less cash deposits

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

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

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

Profit/(loss) before tax (PBT) is income less all expenditure other than taxation

Property Income Distribution (PID) a dividend generally subject to withholding tax that a UK REIT is required to pay from its tax-exempted property rental business and which is taxable for UK resident shareholders at their marginal tax rate

REIT is a Real Estate Investment Trust as set out in the UK Finance Act 2006 Sections 106 and 107. REITs pay no corporation tax on profits derived from their property rental business

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

Rent roll (see cash rent roll)

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

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

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

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

Trading profit after interest (adjusted) is net rental income, joint venture trading income and finance income less administrative expenses, less finance costs

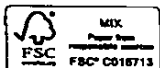
WORKSPACE GROUP PLC

Chester House

Kennington Park
1-3 Brixton Road
London
SW9 6DE

Telephone +44 (0) 20 7138 3300
Web www.workspacegroupplc.co.uk
Email info@workspace.co.uk

If you require information regarding
business space in London call
+44 (0) 20 7138 3300 or visit
www.workspace.co.uk



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