Independent Auditors' Report to the Members of Workspace Group PLC

Report on the Group financial statements

Our opinion

In our opinion, Workspace Group PLC's Group financial statements (the 'financial statements'):
- give a true and fair view of the state of the Group's affairs as at 31 March 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('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.

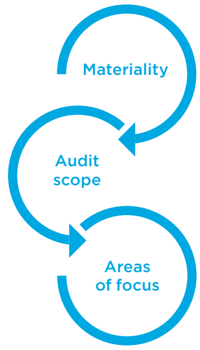
What we have audited

The financial statements, included within the Annual Report and Accounts (the 'Annual Report'), comprise:
- the Consolidated balance sheet as at 31 March 2017;
- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Consolidated statement of cash flows for the year then ended;
- the Consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Overview



- Overall Group materiality: £18.4 million which represents approximately 1% of total assets.
- Specific materiality of £3.2 million used for certain Consolidated income statement line items, being a percentage of profit before tax, net finance costs and investment property valuation movements.
- All work in support of the Group audit opinion is performed by the Group audit team.
- Valuation of investment properties due to materiality and the level of judgement involved.
- Compliance with the REIT regime due to the impact of the tax exempt status on the Group's business and the financial statements.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Valuation of investment properties *Refer to page 90 (Audit Committee Report), pages 139 to 141 (Notes to the financial statements – note 10) and page 130 (Significant judgements, key assumptions and estimates, Significant accounting policies).* We focused on this area due to the magnitude of the investment property balance and because the assumptions used in determining the fair value of the investment properties involve significant judgements and estimates. The Group's investment properties were valued at £1,839.0 million as at 31 March 2017 and the revaluation gain of £39.5 million is included within 'Change in fair value of investment properties' in the Consolidated income statement. The property valuations are carried out by external valuers in accordance with the RICS Valuation – Professional Standards and Workspace's Group accounting policies which incorporate the requirements of International Accounting Standard 40, 'Investment Property.' The Group's property portfolio consists of office and industrial properties located in London and includes: Properties held at investment value – These are existing properties that are currently let and generate rental income. They are valued using the income capitalisation method as explained in note 10. Properties held at development value – These are properties currently being refurbished, under development or identified for future development. They have a different risk and investment profile to the properties held at investment value and are valued using the residual value method as explained in note 10. The most significant judgements affecting all the valuations includes yield and Estimated Rental Value ('ERV') movements (as described in note 10 of the financial statements). For properties held at development value, other assumptions including costs to complete, property specific factors, timing and the likelihood of achieving planning consent are also factored into the valuation. Where available, the valuations take into account evidence of market transactions for properties and locations comparable to those of the Group.	In order to assess the accuracy of the valuation of the property portfolio as at 31 March 2017 and to identify those properties which needed further investigation, we undertook an analysis of each property valuation and compared the yield adopted and movement in capital value over the year with expected market benchmarks. We evaluated the underlying valuation methodology and assumptions used by the valuer and met with the Group's Development Director to understand property specific factors. The external valuer used by the Group is CBRE. We assessed the competence, capabilities and objectivity of CBRE and verified its qualifications. Consistent with previous years and as part of our evaluation, we assessed the independence of CBRE given the Non-Executive Director role of Stephen Hubbard. We also discussed the scope of its work and reviewed the terms of its engagement. We found no unusual terms or fee arrangements that might affect its objectivity. We met with CBRE to discuss and challenge the valuation process, key assumptions and the rationale behind the more significant movements since 1 April 2016. Where relevant, we were able to corroborate the explanations for yields and ERV movements with comparable property transactions and market benchmarks. We found that yields and ERVs were predominantly consistent with comparable benchmarking information for the asset location and that the assumptions applied appropriately reflected comparable market transactions. Where assumptions did not fall within our expected range, we assessed whether additional evidence presented in arriving at the final valuation was appropriate, and whether this had been robustly challenged by the external independent valuers. We were satisfied that variances were predominantly due to property specific factors such as new lettings at higher rents, increased average rents or capital improvements to the properties. We noted that the overall valuation primarily increased as a result of higher rents achieved, growth in ERVs and a contracted disposal. In addition, we were able to obtain evidence to support the valuation from the results of the following procedures which did not identify any material misstatements. We: – checked the accuracy of the underlying lease and occupancy data used by CBRE in their valuation of the portfolio by tracing the data back to the Workspace accounting records and signed leases on a sample basis; – for the properties held at development value, evaluated the underlying assumptions for the gross development value, construction costs and property specific factors within the development appraisals by comparing them to available market information and underlying project plans; – agreed the acquisitions and disposals in the year to the underlying agreements, cash payments and receipts and title deeds; and – agreed a sample of capital expenditure items to invoices, quantity surveyor reports and cash to check that they had been correctly capitalised.

Area of focus	How our audit addressed the area of focus
Compliance with the REIT regime *Refer to page 90 (Audit Committee Report), pages 136 to 137 (Notes to the financial statements – note 6) and page 130 (Significant judgements, key assumptions and estimates).* Workspace converted to a Real Estate Investment Trust ('REIT') in 2007. The UK REIT regime grants companies tax exempt status provided they meet the specific requirements of the regime. We focused on this area because the rules are complex and the tax exempt status has a significant impact on the Group's business and the Group financial statements. If the level of income generated from the property rental business were to fall below 75% of its total accounting profits in the current year, Workspace may be deemed to fail the Balance of Business test. Two consecutive years would represent a minor breach of the REIT regime criteria. In 2016, the Group recognised a performance fee of £24.1m from the BlackRock Workspace Property Trust for services provided in its capacity as the property manager of the joint venture. As a result, Workspace generated less than 75% of its total accounting profits from its property rental business for the period. We therefore considered the Balance of Business test for 2017 to understand whether 75% of its total accounting profits were generated from its property rental business thereby avoiding a minor breach in the second consecutive period.	We confirmed our understanding of management's overall approach to checking their compliance with the REIT regime requirements to our satisfaction. We obtained management's calculations and supporting documentation for the current and preceding year Balance of Business tests, testing the inputs, calculation and application of the rules. For 2016, based on our work on the calculations and supporting documentation, we were satisfied with management's conclusion that Workspace generated more than 50% and less than 75% of its total accounting profits from its property rental business. For 2017, we are satisfied that the Group generated approximately 96% of its total accounting profits from the property rental business. Consequently, there is not a second year of the test result being below 75% and we do not consider there to be a breach to any of the REIT criteria.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Workspace Group PLC provides commercial property to let throughout London. The Group financial statements are a consolidation of the nine active entities, nineteen dormant entities and the Group's one joint venture.

Except for the joint venture, where we focused our work on the share of profits and net assets that are recognised in the Group financial statements, all active entities were identified as requiring an audit of their complete financial information, either due to their size or their risk characteristics and all the audit work was performed by the Group audit team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£18.4 million (2016: £18.8 million).
How we determined it	Approximately 1% of total assets.
Rationale for benchmark applied	The key driver of the business and determinant of the Group's value is direct property investments. Due to this, the key area of focus in the audit is the valuation of investment properties. On this basis, consistent with last year, we set an overall Group materiality level based on total assets.
Specific materiality	£3.2 million (2016: £5.5 million).
How we determined it	A percentage of profit before tax, net finance costs and investment property valuation movements.
Rationale for benchmark applied	A number of key performance indicators of the Group are driven by income statement items and we therefore applied a lower specific materiality to the components of profit before tax, excluding net finance costs and investment property valuation movements.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.6 million (2016: £0.4 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going Concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 40, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting
Consistency of other information and compliance with applicable requirements

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

– information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
– the statement given by the Directors on page 120, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for Members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
– the section of the Annual Report on page 89, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

– the Directors' confirmation on page 88 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
– the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
– the Directors' explanation on page 40 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration
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. We have no exceptions to report arising from this responsibility.

Corporate governance statement
Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit
Our responsibilities and those of the Directors
As explained more fully in the Statement of Directors' responsibilities set out on page 120, the Directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and ISAs (UK & 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 Parent 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.

What an audit of financial statements involves
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.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter
We have reported separately on the Parent Company financial statements of Workspace Group PLC for the year ended 31 March 2017 and on the information in the Directors' Remuneration Report that is described as having been audited.

Sonia Copeland
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 June 2017

Consolidated income statement
For the year ended 31 March 2017

	Notes	2017 £m	2016 £m
Revenue	1	**108.8**	101.2
Direct costs	1	**(29.6)**	(27.1)
Net rental income	1	**79.2**	74.1
Administrative expenses	2	**(15.1)**	(14.6)
Trading profit excluding share of joint ventures		**64.1**	59.5
(Loss)/profit on disposal of investment properties	3(a)	**(0.6)**	8.1
Loss on disposal of joint ventures	3(b)	**(0.2)**	(0.1)
Other income	3(c)	**2.1**	39.0
Other expenses	3(d)	**(1.2)**	–
Change in fair value of investment properties	10	**39.5**	296.6
Operating profit	2	**103.7**	403.1
Finance income	4	**0.1**	0.1
Finance costs	4	**(13.7)**	(17.0)
Exceptional finance costs	4	**(1.4)**	–
Change in fair value of derivative financial instruments	16(f)	**–**	0.9
Gains from share in joint ventures	12(a)	**0.1**	4.2
Profit before tax		**88.8**	391.3
Taxation	6	**(0.1)**	(2.4)
Profit for the year after tax		**88.7**	388.9
Basic earnings per share (pence)	8	**54.5p**	240.3p
Diluted earnings per share (pence)	8	**53.5p**	237.3p

Consolidated statement of comprehensive income
For the year ended 31 March 2017

	Notes	2017 £m	2016 £m
Profit for the financial year		**88.7**	388.9
Other comprehensive income:			
Items that may be classified subsequently to profit or loss:			
Change in fair value of derivative financial instruments (cash flow hedge)	16(f)	**(2.2)**	1.4
Total comprehensive income for the year		**86.5**	390.3

The notes on pages 130 to 157 form part of these financial statements.

Consolidated balance sheet
As at 31 March 2017

	Notes	2017 £m	2016 £m
Non-current assets			
Investment properties	10	**1,839.0**	1,749.4
Intangible assets		**0.7**	0.6
Property, plant and equipment	11	**2.9**	2.0
Investment in joint ventures	12(a)	**0.3**	22.3
Other investments	12(b)	**3.1**	4.2
Trade and other receivables	13	**7.3**	14.2
Derivative financial instruments	16(e) & (f)	**12.1**	3.9
		1,865.4	1,796.6
Current assets			
Trade and other receivables	13	**25.2**	52.0
Cash and cash equivalents	14	**6.5**	27.8
		31.7	79.8
Total assets		**1,897.1**	1,876.4
Current liabilities			
Trade and other payables	15	**(52.2)**	(48.4)
Deferred tax	6	**(0.9)**	(1.1)
		(53.1)	(49.5)
Non-current liabilities			
Borrowings	16(a)	**(265.5)**	(309.3)
		(265.5)	(309.3)
Total liabilities		**(318.6)**	(358.8)
Net assets		**1,578.5**	1,517.6
Shareholders' equity			
Share capital	19	**163.2**	162.4
Share premium	19	**135.4**	135.9
Investment in own shares	21	**(8.9)**	(8.9)
Other reserves	20	**18.7**	19.0
Retained earnings		**1,270.1**	1,209.2
Total shareholders' equity		**1,578.5**	1,517.6
EPRA net asset value per share	9	**£9.53**	£9.23

The notes on pages 130 to 157 form part of these financial statements.

The financial statements on pages 126 to 157 were approved and authorised for issue by the Board of Directors on 6 June 2017 and signed on its behalf by:

J Hopkins
G Clemett
Directors

Consolidated statement of changes in equity
For the year ended 31 March 2017

		Attributable to owners of the parent					
	Notes	Share capital £m	Share premium £m	Investment in own shares £m	Other reserves £m	Retained earnings £m	Total share-holders' equity £m
Balance at 31 March 2015		161.1	136.8	(8.8)	15.7	841.5	1,146.3
Profit for the year		–	–	–	–	388.9	388.9
Change in fair value of derivatives	20	–	–	–	1.4	–	1.4
Total comprehensive income		–	–	–	1.4	388.9	390.3
Transactions with owners:							
Share issues	19	1.3	(0.9)	–	–	(0.1)	0.3
Own shares purchase (net)		–	–	(0.1)	–	–	(0.1)
Dividends paid	7	–	–	–	–	(21.1)	(21.1)
Share based payments	22	–	–	–	1.9	–	1.9
Balance at 31 March 2016		162.4	135.9	(8.9)	19.0	1,209.2	1,517.6
Profit for the year		**–**	**–**	**–**	**–**	**88.7**	**88.7**
Change in fair value of derivatives	20	**–**	**–**	**–**	**(2.2)**	**–**	**(2.2)**
Total comprehensive income		**–**	**–**	**–**	**(2.2)**	**88.7**	**86.5**
Transactions with owners:							
Share issues	19	**0.8**	**(0.5)**	**–**	**–**	**(0.1)**	**0.2**
Own shares purchase (net)		**–**	**–**	**–**	**–**	**–**	**–**
Dividends paid	7	**–**	**–**	**–**	**–**	**(27.7)**	**(27.7)**
Share based payments	22	**–**	**–**	**–**	**1.9**	**–**	**1.9**
Balance at 31 March 2017		**163.2**	**135.4**	**(8.9)**	**18.7**	**1,270.1**	**1,578.5**

The notes on pages 130 to 157 form part of these financial statements.

Consolidated statement of cash flows
For the year ended 31 March 2017

	Notes	2017 £m	2016 £m
Cash flows from operating activities			
Cash generated from operations	18	**69.7**	67.6
Interest received		**0.1**	0.1
Interest paid		**(15.0)**	(17.9)
Tax		**(1.4)**	–
Net cash inflow from operating activities		**53.4**	49.8
Cash flows from investing activities			
Purchase of investment properties/deposits		**(10.8)**	(107.4)
Capital expenditure on investment properties		**(56.8)**	(55.4)
Proceeds from disposal of investment properties (net of sale costs)		**7.8**	123.0
Purchase of intangible assets		**(0.4)**	(0.4)
Purchase of property, plant and equipment		**(1.8)**	(0.8)
Capital distributions from joint ventures	12(a)	**2.7**	6.3
Proceeds from disposal of joint ventures		**18.7**	3.1
Other income (overage receipts)		**23.8**	0.7
Performance fee from joint venture		**24.5**	–
Purchase of investments		**–**	(1.7)
Movement in funding balances with joint ventures		**0.4**	0.2
Income distributions from joint ventures	12(a)	**0.6**	1.2
Net cash inflow/(outflow) from investing activities		**8.7**	(31.2)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	19	**0.2**	0.3
Finance costs for new/amended borrowing facilities		**(0.3)**	(1.0)
Exceptional finance costs		**(0.9)**	–
Settlement and re-couponing of derivative financial instruments		**–**	(1.7)
Repayment of bank borrowings	16(b)	**(55.0)**	(10.0)
Own shares purchase (net)		**–**	(0.1)
Dividends paid	7	**(27.4)**	(20.9)
Net cash outflow from financing activities		**(83.4)**	(33.4)
Net decrease in cash and cash equivalents		**(21.3)**	(14.8)
Cash and cash equivalents at start of year	18	**27.8**	42.6
Cash and cash equivalents at end of year	18	**6.5**	27.8

The notes on pages 130 to 157 form part of these financial statements.

Notes to the financial statements
For the year ended 31 March 2017

Workspace Group PLC (the 'Company') and its subsidiaries (together 'the Group') are engaged in property investment in the form of letting of high-quality business accommodation to businesses 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 presentation currency and have been prepared on a going concern basis, in accordance with International Financial Reporting Standards ('IFRS') and IFRS IC 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 and financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss or equity.

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 significant judgements within the accounting policies that management consider critical because of the assumptions 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 the key assumptions of estimated rental values and market based yields. With regard to redevelopments and refurbishments, future development costs and an appropriate discount rate are also used. In determining fair value the valuers make reference to market evidence and recent transaction prices for similar properties.

Details of the valuation methodology and key assumptions are given in note 10. Management consider the significant assumptions to the valuation of investment properties to be estimated rental values and market based yields. Sensitivities on these assumptions are provided in note 10.

Compliance with the Real Estate Investment Trust ('REIT') taxation regime
The Group is a REIT and is thereby exempt from tax on both rental profits and chargeable gains from its UK property rental business. In order to retain REIT status, 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 must arise from the tax exempt business; and
- at least 90% of the tax exempt business must be distributed.

During the prior year, the Group recorded Other income of £24.1m for the performance fee relating to the BlackRock Workspace Property Trust joint venture causing the Group to fail the 75% Balance of Business income test for the prior year. Two consecutive breaches are required for the Group to incur a minor breach. There is no reason to expect that any further breaches will occur in future periods and so no impact on the Group's tax exempt status is expected.

The Directors intend that the Group should continue as a REIT for the foreseeable future, with the result that deferred tax is not recognised on temporary differences relating to the property rental business which is within the REIT structure.

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 2017. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that 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.

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

Investment property is measured initially at cost, including related transaction costs. After initial recognition investment property is held at fair value based on a valuation by an independent professional external valuer at each reporting date. The valuation methods and key assumptions applied are explained in note 10. Changes in fair value of investment property at each reporting date are recorded in the Consolidated income statement.

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 investment properties acquired under finance leases are subsequently carried at fair value. 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.

Properties are treated as acquired at the point the Group assumes the significant risks and rewards of ownership and are treated as disposed when these are transferred outside of the Group's control. Existing investment properties which undergo redevelopment and refurbishment for continued future use remain in investment property where the purpose of holding the property continues to meet the definition of investment property as defined above.

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.

Capitalised interest on refurbishment/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. This is assumed when a sale has exchanged by the balance sheet date and completed before the date of signing the financial statements.

Income from 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 of the contract. In the case of a part disposal agreement, the part of the asset being disposed will be derecognised from investment property when completion is reached or when a finance lease agreement is signed (i.e. when the risks and rewards of this part of the site transfer to the developer). Profit or loss on disposal is taken as the consideration receivable (net of costs) less the latest valuation (net book value) and is taken to other operating income/expense.

Consideration can take the form of cash, new commercial buildings and a right to future overage (generally being a share in the proceeds of any future sale of the residential development to be constructed by the developer). Revenue is recognised when all relevant criteria in IAS 18 are met, specifically when the inflow of economic benefit is probable and when the amount can be measured reliably.

Consideration (including overage) is measured at the fair value of the consideration received/receivable.

Commercial property to be received is fair valued using the residual method described in note 10 and is included in investment property. Changes in fair value are recognised through the Consolidated income statement in accordance with IAS 40.

Overage is only recognised once an agreement has been signed with a residential developer. Overage represents a financial asset and is designated as a financial asset at fair value through profit or loss upon initial recognition. The carrying value of overage is assessed at each period end and changes in fair value are taken to Other operating income.

Intangible assets

Intangible assets are stated at historical cost, less accumulated amortisation. Acquired computer software licences and external costs of implementing or developing computer software programs and websites are capitalised. These costs are amortised over their estimated useful lives of five years on a straight-line basis.

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

Property, plant and equipment

Equipment and fixtures

Equipment and fixtures 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 Consolidated 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 assets' 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.

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 Group's investment is initially accounted for at cost and adjusted thereafter to recognise the Group's share of the gains or losses in the joint venture. These are adjusted for any gains or losses arising from transactions between the Group and the joint venture.

Other investments

Investment in unlisted shares are accounted for at cost where the fair value cannot be reliably measured. Subsequently they are reviewed for impairment by management on an annual basis.

Impairments and reversals are recognised through the Consolidated income statement.

Trade and other receivables
Trade and other receivables are recognised initially at fair value and subsequently measured at amortised 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 Consolidated income statement.

Deferred consideration on the disposal of investment properties is included within trade and other receivables. It is fair valued on recognition and at each year end with any movement taken to Other operating income.

Trade and other payables
Trade and other payables are initially recognised at fair value and subsequently held at amortised cost.

Cash and cash equivalents
Cash and cash equivalents include cash in hand, restricted cash in the form of tenants' deposits and deposits held on call with banks. Bank overdrafts are included in current liabilities but 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.

Transaction costs are amortised over the effective life of the amounts borrowed.

Foreign currency translation
Foreign currency transactions are translated into Sterling using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated income statement, except when deferred in Other comprehensive income as qualifying cash flow hedges.

Derivative financial instruments and hedge accounting
The Group enters into derivative transactions in order to manage its exposure to foreign currency fluctuations and interest rate risks. Financial derivatives are recorded at fair value calculated by valuation techniques based on market prices, estimated future cash flows and forward interest rates.

For financial derivatives (where hedge accounting is not applied) movements in fair value are recognised in the Consolidated income statement. In line with IFRS 13, fair values of financial derivatives are measured at the estimated amount that the Group would receive or pay to terminate the agreement at the balance sheet date, taking into account the current interest expectations and current credit value adjustment of the counterparties.

The Group applies hedge accounting for certain derivatives that are designated and effective as hedges of future cash flows (cash flow hedges). The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of various derivative instruments used for hedging purposes are disclosed in note 16. Movements on the hedging reserve in other comprehensive income are shown in note 20.

For cash flow hedges, the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated income statement within other gains/(losses). Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, to offset the currency movement on borrowings that are hedged at each period end). The gain or loss relating to the effective portion of swaps hedging the currency of borrowings is recognised in the Consolidated income statement.

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') and a trust for the Share Incentive Plan ('SIP'). When the Group funds these trusts 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.

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 Consolidated income statement on a straight-line basis over the lease term. Rent received in advance is deferred in the Consolidated balance sheet and recognised in the period to which it relates to. If 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 on an accruals basis by reference to the stage of completion of the relevant service or transactions at the reporting date. These services generally relate to a 12-month period.

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.

Exceptional items
Exceptional items are those items that in the Directors' view are required to be separately disclosed by virtue of their size or incidence to enable a full understanding of the Group's financial performance.

Share based payments
The Group operates a number of share schemes under which the Group receives services from employees as consideration for equity instruments of the Group.

The fair value of the employee services received in exchange for the grant of share awards and 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 Consolidated income statement on an accruals basis.

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

Deferred tax is provided in full on temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised when it is probable that taxable profits will be available against which the deferred tax asset can be utilised.

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 2017 the Group adopted the following accounting standards and guidance:
   - Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures – amendments regarding the consolidation exemption.
   - Amendments to IFRS 11 Joint Arrangements – amendments regarding the accounting for acquisitions of an interest in a joint operation.
   - Amendments to IAS 1 Presentation of Financial Statements – Disclosure Initiative.

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

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

Standard or interpretation	Content
Annual improvements 2014	Changes to IFRS 5/IFRS 7/IAS 19/IAS 34
IFRS 9	Financial instruments
IFRS 15	Revenue from contracts with customers
Amendment: IAS 1	Presentation of financial statements on the disclosure initiative
Amendment: IFRS 11	Joint venture arrangements on acquisition of an interest in a joint operation
Amendment: IFRS 10 and IAS 28	Consolidated financial statements and investments in associates and joint ventures
Amendment: IAS 7	Statement of cash flows on disclosure initiatives
Amendment: IAS 12	Recognition of deferred tax assets for unrealised losses
IFRS 16	Leases

1. Analysis of net rental income and segmental information

	2017			2016		
	Revenue £m	**Direct costs £m**	**Net rental income £m**	Revenue £m	Direct costs £m	Net rental income £m
Rental income	**86.8**	**(2.0)**	**84.8**	79.6	(1.9)	77.7
Service charges	**15.4**	**(18.5)**	**(3.1)**	16.3	(18.5)	(2.2)
Empty rates and other non-recoverables	**–**	**(4.8)**	**(4.8)**	–	(3.6)	(3.6)
Services, fees, commissions and sundry income	**6.6**	**(4.3)**	**2.3**	5.3	(3.1)	2.2
	108.8	**(29.6)**	**79.2**	101.2	(27.1)	74.1

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.

2. Operating profit

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

	2017 £m	2016 £m
Depreciation[1]	**0.9**	0.8
Staff costs (including share based costs)[1] (note 5)	**17.1**	16.2
Repairs and maintenance expenditure on investment properties	**2.7**	2.9
Trade receivables impairment (note 13)	**0.2**	0.2
Amortisation of intangibles	**0.2**	0.3
Operating lease rentals payable	**0.1**	0.1
Audit fees payable to the Company's auditors	**0.2**	0.2

1. Charged to direct costs and administrative expenses based on the underlying nature of the expenses.

Auditors' remuneration: Services provided by the Company's auditors and its associates	**2017 £000**	2016 £000
Audit fees:		
Audit of Parent Company and consolidated financial statements	**155**	149
Audit of subsidiary financial statements	**33**	32
	188	181
Fees for other services:		
Audit related assurance services	**35**	34
Tax advisory, tax compliance and legal services	**20**	15
	55	49

	2017 £m	2016 £m
Total administrative expenses are analysed below:		
Staff costs	**8.3**	7.5
Cash settled share based costs	**0.4**	0.9
Equity settled share based costs	**1.9**	1.9
Other	**4.5**	4.3
	15.1	14.6

3(a). (Loss)/profit on disposal of investment properties

	2017 £m	2016 £m
Proceeds from sale of investment properties (net of sale costs)	**7.8**	122.7
Book value at time of sale (including assets held for sale)	**(8.5)**	(115.0)
(Loss)/profit on disposal	**(0.7)**	7.7
Realisation of profits on sale of properties out of joint ventures (note 12)	**0.1**	0.4
	(0.6)	8.1

£0.1m (2016: £0.4m) above relates to previously unrealised profit from the sale of property by the Group to joint ventures.

3(b). Loss on disposal of joint ventures

	2017 £m	2016 £m
Proceeds from disposal of joint ventures (net of costs)	**18.7**	3.1
Carrying value at time of disposal (note 12)	**(18.9)**	(3.2)
Loss on disposal	**(0.2)**	(0.1)

3(c). Other income

	2017 £m	2016 £m
Joint venture performance fee	**0.4**	24.1
Change in fair value of deferred consideration	**(0.5)**	9.5
Rights of light compensation	**2.2**	–
Lease surrender premium	**–**	5.4
	2.1	39.0

The Group, as property manager to the BlackRock Workspace Property Trust joint venture, received a performance fee based on the returns achieved over the five-year term of the fund. The five-year term came to an end in February 2016 and the Group agreed with its partner to sell the remaining properties to bring the joint venture to a conclusion. Based on the returns achieved over the life of the fund and the valuation at 31 March 2016 of the remaining properties the fee was estimated at £24.1m. Subsequent to the sale of the joint venture in June 2016, an additional fee of £0.4m was recognised and the total amount settled in the financial year.

The value of deferred consideration (cash and overage) from the sale of investment properties has been re-valued by CBRE Limited at 31 March 2017 and 31 March 2016. The amounts receivable are included in the Consolidated balance sheet under non-current and current trade and other receivables (note 13).

3(d). Other expenses

	2017 £m	2016 £m
Impairment of other investments	**(1.2)**	–
	(1.2)	–

The Group has provided 100% against its investment in Mailstorage Ltd, resulting in a charge of £1.2m in the year.

4. Finance income and costs

	2017 £m	2016 £m
Interest income	**0.1**	0.1
Finance income	**0.1**	0.1
Interest payable on bank loans and overdrafts	**(1.2)**	(2.7)
Interest payable on other borrowings	**(12.8)**	(13.9)
Amortisation of issue costs of borrowings	**(0.7)**	(0.8)
Interest payable on finance leases	**(0.5)**	(0.5)
Interest capitalised on property refurbishments (note 10)	**1.5**	0.9
Foreign exchange losses on financing activities	**(10.3)**	(2.2)
Cash flow hedge – transfer from equity	**10.3**	2.2
Finance costs	**(13.7)**	(17.0)
Exceptional finance costs	**(1.4)**	–
Total finance costs	**(15.1)**	(17.0)

The exceptional finance cost of £1.4m arose on the repayment of UK fund debt in September 2016 and comprises of a £0.9m repayment fee and £0.5m unamortised finance costs.

5. Employees and Directors

Staff costs for the Group during the year were:	**2017 £m**	2016 £m
Wages and salaries	**13.9**	12.8
Social security costs	**1.7**	1.4
Other pension costs (note 26)	**0.7**	0.8
Cash settled share based costs (note 22)	**0.4**	0.9
Equity settled share based costs (note 22)	**1.9**	1.9
	18.6	17.8
Less costs capitalised	**(1.5)**	(1.6)
	17.1	16.2

The monthly average number of people employed during the year was:	**2017 Number**	2016 Number
Head office staff (including Directors)	**98**	92
Estates and property management staff	**108**	119
	206	211

The emoluments and pension benefits of the Directors are determined by the Remuneration Committee of the Board and are set out in detail in the Directors' Remuneration Report on pages 94 to 115. These form part of the financial statements.

6. Taxation

	2017 £m	2016 £m
Current tax:		
UK corporation tax	**0.6**	1.3
Adjustments to tax in respect of previous periods	**(0.3)**	–
	0.3	1.3
Deferred tax:		
On origination and reversal of temporary differences	**(0.2)**	1.1
	(0.2)	1.1
Total taxation charge	**0.1**	2.4

The tax on the Group's profit for the year differs from the standard applicable corporation tax rate in the UK of 20% (2016: 20%). The differences are explained below:

	2017 £m	2016 £m
Profit on ordinary activities before taxation	**88.8**	391.3
Adjust gains from share in joint ventures	**(0.1)**	(4.2)
	88.7	387.1
Tax at standard rate of corporation tax in the UK of 20% (2016: 20%)	**17.7**	77.4
Effects of:		
REIT exempt income	**(10.3)**	(10.3)
Changes in fair value not subject to tax as a REIT	**(7.9)**	(59.3)
Change in fair value of derivatives not subject to tax	**–**	(0.5)
Share based payment adjustments	**(0.5)**	(3.0)
Overage income subject to tax when received	**1.2**	0.2
Adjustments to tax in respect of previous periods	**(0.3)**	–
Losses carried forward previously unrecognised	**–**	0.3
Utilisation of losses unrecognised brought forward	**–**	(2.4)
Other non-taxable expenses	**0.2**	–
Total taxation charge	**0.1**	2.4

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. Other income of £2.1m has been recorded this year (note 3(c)). £0.8m (2016: £30.7m) of this income is subject to tax. The Group estimates that as the majority of its future profits will be exempt from tax, it will have a very low tax charge.

Changes to the UK corporation tax rates were 'substantively enacted' and 'fully enacted' on 6 and 15 September 2016 respectively as part of the Finance Bill 2016. These changes include reductions to the main rate of corporation tax from 19% to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using the rates expected to apply to the period when the asset is realised or the liability is settled.

The Group currently has an asset in relation to unrecognised tax losses carried forward of £1.0m (2016: £1.4m) calculated at a corporation tax rate of 19% (2016: 19%).

	2017 £m	2016 £m
Deferred tax assets:		
– Deferred tax to be recovered within 12 months	**0.9**	3.1
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered within 12 months	**(1.8)**	(4.2)
Deferred tax liabilities (net)	**(0.9)**	(1.1)

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities	**Other income (overage receipts) £m**	Total £m
At 1 April 2015	**2.3**	2.3
Charged to income statement	**1.9**	1.9
At 31 March 2016	**4.2**	4.2
Credited to income statement	**(2.4)**	(2.4)
At 31 March 2017	**1.8**	1.8

Deferred tax assets	**Expenses (share based payment) £m**	**Tax losses £m**	Total £m
At 1 April 2016	**–**	**(2.3)**	(2.3)
(Credited)/charged to income statement	**(1.1)**	**0.3**	(0.8)
At 31 March 2016	**(1.1)**	**(2.0)**	(3.1)
Charged to income statement	**0.2**	**2.0**	2.2
At 31 March 2017	**(0.9)**	**–**	(0.9)

7. Dividends

Ordinary dividends paid	Payment date	Per share	**2017 £m**	2016 £m
For the year ended 31 March 2015:				
Final dividend	August 2015	8.15p	**–**	13.2
For the year ended 31 March 2016:				
Interim dividend	February 2016	4.86p	**–**	7.9
Final dividend	August 2016	10.19p	**16.5**	–
For the year ended 31 March 2017:				
Interim dividend	February 2017	6.80p	**11.2**	–
Dividends for the year			**27.7**	21.1
Timing difference on payment of withholding tax			**(0.3)**	(0.2)
Dividends cash paid			**27.4**	20.9

In addition, the Directors are proposing a final dividend in respect of the financial year ended 31 March 2017 of 14.27 pence per ordinary share which will absorb an estimated £23.3m of revenue reserves and cash. If approved by the shareholders at the AGM, it will be paid on 7 August 2017 to shareholders who are on the register of members on 7 July 2017. The dividend will be paid as a REIT Property Income Distribution ('PID') net of withholding tax where appropriate.

8. Earnings per share

Earnings used for calculating earnings per share:	**2017 £m**	2016 £m
Basic and diluted earnings	**88.7**	388.9
Change in fair value of investment properties	**(39.5)**	(296.6)
Loss/(profit) on disposal of investment properties	**0.6**	(8.1)
Loss on disposal of joint ventures	**0.2**	0.1
Movement in fair value of derivative financial instruments	**–**	(0.9)
Group's share of EPRA adjustments of joint ventures	**–**	(5.6)
EPRA adjusted earnings	**50.0**	77.8
Adjustment for non-trading items:		
Group's share of joint ventures other expenses	**0.1**	2.7
Other expenses	**1.2**	–
Exceptional finance costs	**1.4**	–
Other income	**(2.1)**	(39.0)
Taxation	**0.1**	2.4
Adjusted underlying earnings	**50.7**	43.9

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').

Adjusted underlying earnings represents trading profits after interest, including trading profits of joint ventures but excluding exceptional items. Taxation in the Consolidated income statement for both years is in respect of non-trading items.

Number of shares used for calculating earnings per share:	**2017 Number**	2016 Number
Weighted average number of shares (excluding own shares held in trust)	**162,833,428**	161,843,774
Dilution due to share option schemes	**2,892,100**	2,018,833
Weighted average number of shares for diluted earnings per share	**165,725,528**	163,862,607

In pence:	**2017**	2016
Basic earnings per share	**54.5p**	240.3p
Diluted earnings per share	**53.5p**	237.3p
EPRA earnings per share[1]	**30.2p**	47.5p
Adjusted underlying earnings per share[1]	**30.6p**	26.8p

1. EPRA earnings per share and adjusted underlying earnings per share are calculated on a diluted basis.

9. Net assets per share

Net assets used for calculating net assets per share:	**2017 £m**	2016 £m
Net assets at end of year (basic)	**1,578.5**	1,517.6
Derivative financial instruments at fair value	**(12.1)**	(3.9)
EPRA net assets	**1,566.4**	1,513.7

Number of shares used for calculating net assets per share:	**2017 Number**	2016 Number
Shares in issue at year-end	**163,199,045**	162,404,600
Less own shares held in trust at year-end	**(118,274)**	(122,362)
Number of shares for calculating basic net assets per share	**163,080,771**	162,282,238
Dilution due to share option schemes	**1,227,537**	1,673,407
Number of shares for calculating diluted adjusted net assets per share	**164,308,308**	163,955,645

	2017	2016
EPRA net assets per share	**£9.53**	£9.23

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

10. Investment properties

	2017 £m	2016 £m
Balance at 1 April	**1,749.4**	1,408.9
Purchase of investment properties	**–**	107.4
Capital expenditure	**57.1**	54.3
Capitalised interest on refurbishments (note 4)	**1.5**	0.9
Disposals during the year	**(8.5)**	(114.7)
Change in fair value of investment properties	**39.5**	296.6
Balance at 31 March	**1,839.0**	1,753.4
Less: classified as trade and other receivables	**–**	(4.0)
Total investment properties	**1,839.0**	1,749.4

Investment properties represent a single class of property being business accommodation for rent in London.

Capitalised interest is included at a rate of capitalisation of 5.2% (2016: 4.8%). The total amount of capitalised interest included in investment properties is £8.2m (2016: £6.7m).

The change in fair value of investment properties is recognised in the Consolidated income statement.

Investment properties include buildings under finance leases of which the carrying amount is £7.1m (2016: £7.1m). Investment property finance lease commitment details are shown in note 16(h).

Valuation

The Group's investment properties are held at fair value and were revalued at 31 March 2017 by the external valuer, CBRE Limited, a firm of independent qualified valuers in accordance with the Royal Institution of Chartered Surveyors Valuation – Professional Standards 2014. All the properties are revalued at period end regardless of the date of acquisition. This includes a physical inspection of all properties, at least once a year. In line with IFRS 13, all investment properties are valued on the basis of their highest and best use. For like-for-like properties their current use equates to the highest and best use. For properties undergoing refurbishment or redevelopment, most of these are currently being used for business accommodation in their current state. However, the valuation is based on the current valuation at the balance sheet date including the impact of the potential refurbishment and redevelopment as this represents the highest and best use.

The Executive Committee and the Board both conduct a detailed review of each property valuation to ensure appropriate assumptions have been applied. Meetings are held with the valuers to review and challenge the valuations, ensuring they have considered all relevant information, and rigorous reviews are performed to ensure valuations are sensible.

The valuation of like-for-like properties (which are not subject to refurbishment or redevelopment) is based on the income capitalisation method which applies market-based yields to the Estimated Rental Values ('ERVs') of each of the properties. Yields are based on current market expectations depending on the location and use of the property. ERVs are based on estimated rental potential considering current rental streams, market comparatives, occupancy and timing of rent reviews. Whilst there is market evidence for these inputs and recent transaction prices for similar properties, there is still a significant element of estimation and judgement. As a result of adjustments made to market observable data, the significant inputs are deemed unobservable under IFRS 13.

When valuing properties being refurbished by Workspace, the residual value method is used. The completed value of the refurbishment is determined as for like-for-like properties above. Capital expenditure required to complete the building is then deducted and a discount factor is applied to reflect the time period to complete construction and allowance made for construction and market risk to arrive at the residual value of the property.

The discount factor used is the property yield that is also applied to the estimated rental value to determine the value of the completed building. Other risks such as unexpected time delays relating to planned capital expenditure are assessed on a project-by-project basis, looking at market comparable data where possible and the complexity of the proposed scheme.

10. Investment properties continued
Redevelopment properties are also valued using the residual value method. The completed proposed redevelopment which would be undertaken by a residential developer is valued based on the market value for similar sites and then adjusted for costs to complete, developer's profit margin and a time discount factor. Allowance is also made for planning and construction risk depending on the stage of the redevelopment. If a contract is agreed for the sale/redevelopment of the site, the property is valued based on agreed consideration.

For all methods the valuers are provided with information on tenure, letting, town planning and the repair of the buildings and sites.

An increase/decrease to ERVs will increase/decrease valuations respectively, while an increase/decrease to yields will decrease/increase valuations respectively. There are interrelationships between these inputs as they are partially determined by market conditions.

An increase/decrease in costs to complete and the discount factor will decrease/increase valuations respectively.

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:

	2017 £m	2016 £m
Total per CBRE valuation report	**1,844.0**	1,778.6
Deferred consideration on sale of property	**(12.1)**	(36.3)
Head leases treated as finance leases under IAS 17	**7.1**	7.1
Total investment properties per balance sheet	**1,839.0**	1,749.4

The Group's Investment properties are carried at fair value and under IFRS 13 are required to be analysed by level depending on the valuation method adopted. The different valuation methods are as follows:

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.

As noted in the Significant judgements, key assumptions and estimates section, property valuations are complex and involve data which is not publicly available and involves a degree of judgement. All the investment properties are classified as Level 3, due to the fact that one or more significant inputs to the valuation are not based on observable market data. If the degree of subjectivity or nature of the measurement inputs changes then there could be a transfer between Levels 2 and 3 of classification. No changes requiring a transfer have occurred during the current or previous year.

The following table summarises the valuation techniques and inputs used in the determination of the property valuation.

Key unobservable inputs:

			ERVs – per sq. ft.		Equivalent yields	
Property category	Valuation £m	Valuation technique	Range	Weighted average	Range	Weighted average
Like-for-like	1,001	1	£9–£84	£32	5.0%–8.0%	6.5%
Completed projects	134	1	£40–£70	£47	5.9%–6.8%	6.3%
Refurbishments	369	2	£14–£80	£41	5.0%–6.8%	5.8%
Redevelopments	196	2	£13–£35	£23	5.4%–7.1%	6.3%
Other	132	1	£16–£51	£39	2.6%–7.3%	5.1%
Head leases	7	n/a				
Total	**1,839**					

1 = Income capitalisation method.
2 = Residual value method.

Sensitivity analysis:
A +/- 10% movement in ERVs or a +/- 25 basis points movement in yields would result in the following increase/decrease in the valuation.

£m	+/- 10% in ERVs	+/- 25 bps in yields
Like-for-like	+100/-100	-37/+40
Completed projects (refurbishments)	+13/-13	-5/+6
Refurbishments	+53/-53	-9/+18
Redevelopments	+8/-8	-2/+3
Other	+13/-13	-6/+7

11. Property, plant and equipment

Cost or valuation	Equipment and fixtures £m	Total £m
Balance at 31 March 2015	7.9	7.9
Additions during the year	0.8	0.8
Disposals during the year	(3.6)	(3.6)
Balance at 31 March 2016	5.1	5.1
Additions during the year	1.8	1.8
Disposals during the year	(0.8)	(0.8)
Balance at 31 March 2017	**6.1**	**6.1**
Accumulated depreciation		
Balance at 31 March 2015	5.9	5.9
Charge for the year	0.8	0.8
Disposals during the year	(3.6)	(3.6)
Balance at 31 March 2016	3.1	3.1
Charge for the year	0.9	0.9
Disposals during the year	(0.8)	(0.8)
Balance at 31 March 2017	**3.2**	**3.2**
Net book amount at 31 March 2017	**2.9**	**2.9**
Net book amount at 31 March 2016	2.0	2.0

12(a). Investment in joint ventures

The Group's investment in joint ventures represents:

	2017 £m	2016 £m
Balance at 1 April	**22.3**	28.6
Capital distributions received*	**(2.7)**	(6.3)
(Repayment)/payment of loans to joint ventures	**-**	(0.2)
Share of gains	**0.1**	4.2
Income distributions received*	**(0.6)**	(1.2)
Disposal of joint ventures (note 3(b))	**(18.9)**	(3.2)
Realisation of profits on sale of properties out of joint ventures (note 3(a))	**0.1**	0.4
Balance at 31 March	**0.3**	22.3

* Capital distributions are from proceeds on disposal of investment properties. Income distributions are from trading profits.

The Group had the following joint ventures during the year:

	Partner	Established	Ownership	Measurement method
BlackRock Workspace Property Trust*	BlackRock UK Property Fund	February 2011	20.1%	Equity
Generate Studio Limited	Whitebox Creative Limited	February 2014	50%	Equity

* The Company sold its share in this joint venture in June 2016.

12(a). Investment in joint ventures continued

BlackRock Workspace Property Trust ('BWPT') was a Jersey property unit trust established in February 2011 whose aim was to build a fund of up to £100m of office and industrial property in and around London. Prior to disposing of its share in the BWPT joint venture, the Group held a 20.1% interest. Strategic decisions were taken with the agreement of both parties and no one party had control on their own. The Group was also property manager with significant delegated powers including responsibility for asset management and recommending acquisitions and disposals. As a result there was shared control and so the joint venture was equity accounted in the Consolidated financial statements.

Generate Studio Limited is engaged in the design and project management of office fit outs and workplace consultancy both for Group properties and third parties.

The Group has no funding commitments relating to its joint ventures.

The summarised balance sheets and income statements of the joint ventures are shown below:

Balance sheet: Generate Studio Limited (2016: BWPT and Generate Studio Limited)	**2017 £m**	2016 £m
Investment properties	**–**	130.6
Cash and cash equivalents	**0.4**	6.3
Other current assets	**0.8**	1.8
Current liabilities	**(0.6)**	(27.8)
Net assets	**0.6**	110.9

The net assets of BlackRock Workspace Property Trust included above are nil (2016: £110.5m).

Income statement of joint ventures (includes income from Generate Studio Limited and BWPT joint venture until date of sale)	**2017 £m**	2016 £m
Revenue	**4.0**	9.5
Direct costs	**(1.1)**	(2.9)
Net rental income	**2.9**	6.6
Administrative expenses	**(1.0)**	(1.8)
Other expenses	**(0.4)**	(13.9)
Profit on disposal of investment properties	**0.3**	0.8
Change in fair value of investment properties	**(1.2)**	27.5
Profit before tax	**0.6**	19.2
Taxation	**–**	(0.1)
Profit after tax	**0.6**	19.1

There are no differences in accounting policies between the Group and the joint ventures.

The reconciliation of the summarised financial information presented above to the carrying amount of the Group's interest in the joint ventures is shown below:

Summarised financial information	**2017 £m**	2016 £m
Opening net assets 1 April	**110.9**	134.7
Profit for the period	**0.6**	19.1
Capital distributions	**(13.6)**	(31.5)
Income distributions	**(3.4)**	(4.7)
Loans to joint ventures	**–**	(0.4)
Disposal of joint ventures	**(93.9)**	(6.3)
Closing net assets 31 March	**0.6**	110.9
Group's interest	**0.3**	22.4
Unrealised surplus on sale of properties to joint ventures	**–**	(0.1)
Carrying amount	**0.3**	22.3

12(b). Other investments
The Group holds the following investments:

	2017 £m	2016 £m
8% of share capital of Mailstorage Ltd	–	1.2
10% of share capital of The Excell Group plc	3.1	3.0
	3.1	4.2

The Group wrote off the investment in Mailstorage Ltd of £1.2m in the financial year (see note 3(d)).

13. Trade and other receivables

Non-current trade and other receivables	2017 £m	2016 £m
Prepayments, other receivables and accrued income	3.0	7.2
Deferred consideration on sale of investment properties (see below)	4.3	7.0
	7.3	14.2

	2017 £m	2016 £m
Deferred consideration on sale of investment properties:		
Balance at 1 April	7.0	8.7
(Cash received)/additions	(1.7)	1.6
Less: classified as current	–	(12.8)
Change in fair value	(1.0)	9.5
Balance at 31 March	4.3	7.0

The deferred consideration arising on the sale of investment properties relates to cash and overage. The conditional value of the portion of the receivable that relates to overage is held at fair value through profit and loss. It has been fair valued by CBRE Limited on the basis of residual value, using appropriate discount rates, and will be revalued on a regular basis. This is a Level 3 valuation of a financial asset, as defined by IFRS 13. The methodology and significant assumptions used in the valuation are consistent with those disclosed in note 10. The change in fair value recorded in the Consolidated income statement, including both current and non-current elements, was a loss of £0.5m (31 March 2016: £9.5m gain) (note 3(c)).

Current trade and other receivables	2017 £m	2016 £m
Trade receivables	3.5	3.4
Less provision for impairment of receivables	(0.3)	(0.4)
Trade receivables – net	3.2	3.0
Prepayments, other receivables and accrued income	14.2	19.7
Deferred consideration on sale of investment properties	7.8	29.3
	25.2	52.0

Prepayments, other receivables and accrued income (non-current and current) includes £10.8m (2016: £nil) in respect of deposits paid to acquire investment properties. In the prior year this included £24.1m in relation to the performance fee for the BlackRock Workspace Property Trust joint venture.

Receivables at fair value:
Included within deferred consideration on sale of investment properties is £9.4m (2016: £33.3m) of overage which is held at fair value through profit and loss. Where the amount is receivable within the following 12 months it has been classified from non-current to current receivables.

Receivables at amortised cost:
The remaining receivables are held at amortised cost. 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:

	2017 £m	2016 £m
Balance at 1 April	0.4	0.4
Increase in provision for impairment of trade receivables	0.2	0.2
Receivables written off during the year	(0.3)	(0.2)
Balance at 31 March	0.3	0.4

13. Trade and other receivables continued

As at 31 March 2017, the ageing of trade receivables past due but not impaired was as follows:

	Total 2017 £m	**Impaired 2017 £m**	**Not impaired 2017 £m**	Total 2016 £m	Impaired 2016 £m	Not impaired 2016 £m
Up to 3 months past due	**2.7**	**(0.1)**	**2.6**	2.6	(0.1)	2.5
3 to 6 months past due	**0.3**	**(0.1)**	**0.2**	0.3	(0.1)	0.2
Over 6 months past due	**0.5**	**(0.1)**	**0.4**	0.5	(0.2)	0.3
	3.5	**(0.3)**	**3.2**	3.4	(0.4)	3.0

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

14. Cash and cash equivalents

	2017 £m	2016 £m
Cash at bank and in hand	**2.7**	24.5
Restricted cash – tenants' deposit deeds	**3.8**	3.3
	6.5	27.8

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

15. Trade and other payables

	2017 £m	2016 £m
Trade payables	**4.6**	3.7
Other tax and social security payable	**2.0**	0.5
Corporation tax payable	**0.3**	1.3
Tenants' deposit deeds (note 14)	**3.8**	3.3
Tenants' deposits	**18.0**	16.0
Accrued expenses	**20.2**	20.3
Amounts due to related parties (note 23)	**–**	0.4
Deferred income – rent and service charges	**3.3**	2.9
	52.2	48.4

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

16. Borrowings
(a) Balances

	2017 £m	2016 £m
Non-current		
Bank loans (unsecured)	**28.4**	38.3
6% Retail Bond (unsecured)	**57.1**	56.9
5.6% Senior US Dollar Notes 2023 (unsecured)	**80.1**	69.7
5.53% Senior Notes 2023 (unsecured)	**83.8**	83.8
Senior Floating Rate Notes 2020 (unsecured)	**9.0**	9.0
Other term loan (unsecured)	**–**	44.5
Finance lease obligations	**7.1**	7.1
	265.5	309.3

(b) Net Debt

	2017 £m	2016 £m
Borrowings per (a) above	**265.5**	309.3
Adjust for:		
Finance leases	**(7.1)**	(7.1)
Cost of raising finance	**2.3**	3.2
Foreign exchange differences	**(15.7)**	(5.4)
	245.0	300.0
Cash at bank and in hand (note 14)	**(2.7)**	(24.5)
Net Debt	**242.3**	275.5

At 31 March 2017 the Group had £120m (2016: £110m) of undrawn bank facilities and £2.7m of unrestricted cash (2016: £24.5m).

(c) Maturity

	2017 £m	2016 £m
Repayable between two years and three years	**57.5**	–
Repayable between three years and four years	**9.0**	57.5
Repayable between four years and five years	**30.0**	49.0
Repayable in five years or more	**148.5**	193.5
	245.0	300.0
Cost of raising finance	**(2.3)**	(3.2)
Foreign exchange differences	**15.7**	5.4
	258.4	302.2
Finance leases:		
Repayable in five years or more	**7.1**	7.1
	265.5	309.3

(d) Interest rate and repayment profile

	Principal at period end £m	Interest rate	Interest payable	Repayable
Current				
Bank overdraft due within one year or on demand	–	Base+2.25%	Variable	On demand
Non-current				
Private Placement Notes:				
5.6% Senior US Dollar Notes	64.5	5.6%	Half yearly	June 2023
5.53% Senior Notes	84.0	5.53%	Half yearly	June 2023
Senior Floating Rate Notes	9.0	LIBOR+3.5%	Half yearly	June 2020
Revolver loan	30.0	LIBOR+1.65%	Monthly	June 2021
6% Retail Bond	57.5	6.0%	Half yearly	October 2019
	245.0			

16. Borrowings continued

(e) Derivative financial instruments

The following derivative financial instruments are held:

	Amount	Rate payable (%)	Term/expiry
Cash flow hedge – cross currency swap	$100m/£64.5m	5.66%	June 2023

The Group has a cross currency swap to ensure the US Dollar liability streams generated from the US Dollar Notes are fully hedged into Sterling for the life of the transaction. Through entering into the cross currency swap the Group has created a synthetic Sterling fixed rate liability totalling £64.5m. This swap has been designated as a cash flow hedge with changes in fair value dealt with in other comprehensive income.

(f) Financial instruments and fair values

	2017 Book value £m	**2017 Fair value £m**	2016 Book value £m	2016 Fair value £m
Financial liabilities held at amortised cost				
Bank loans	**28.4**	**28.4**	38.3	38.3
6% Retail Bond	**57.1**	**61.7**	56.9	59.7
Private Placement Notes	**172.9**	**172.9**	162.5	162.5
Other term loan	**–**	**–**	44.5	44.5
Finance lease obligations	**7.1**	**7.1**	7.1	7.1
	265.5	**270.1**	309.3	312.1
Financial (assets)/liabilities at fair value through other comprehensive income				
Derivative financial instruments:				
Cash flow hedge – derivatives used for hedging	**(12.1)**	**(12.1)**	(3.9)	(3.9)
	(12.1)	**(12.1)**	(3.9)	(3.9)
Financial assets at fair value through profit or loss				
Deferred consideration	**9.4**	**9.4**	33.3	33.3

The fair value of the Retail Bond has been established from the quoted market price at 31 March 2017 and is thus a Level 1 valuation as defined by IFRS 13.

In accordance with IFRS 13 disclosure is required for financial instruments that are carried in the financial statements at fair value. The fair values of all the Group's financial derivatives have been determined by reference to market prices and discounted expected cash flows at prevailing interest rates and are Level 2 valuations. There have been no transfers between levels in the year.

The different levels of valuation hierarchy as defined by IFRS 13 are set out in note 10.

The total change in fair value of derivative financial instruments recorded in other comprehensive income was a £2.2m loss (2016: profit of £1.4m).

In the prior year we recognised a gain on the change in fair value of derivative financial instruments of £0.9m. This interest rate hedge was cancelled during the prior year.

(g) Financial instruments by category

Assets	2017 £m	2016 £m
a) Derivatives used for hedging		
Derivative financial instruments	**–**	3.9
b) Assets at value through profit or loss		
Financial assets at fair value through profit or loss	**9.4**	33.3
c) Loans and receivables		
Cash and cash equivalents	**6.5**	27.8
Trade and other receivables excluding prepayments[1]	**9.6**	6.0
	16.1	33.8
Total	**25.5**	71.0

Liabilities	2017 £m	2016 £m
Other financial liabilities at amortised cost		
Borrowings (excluding finance leases)	**258.4**	302.2
Finance lease liabilities	**7.1**	7.1
Trade and other payables excluding non-financial liabilities[2]	**46.6**	43.7
	312.1	353.0
Total	**312.1**	353.0

1. Trade and other receivables exclude prepayments of £6.4m (2016: £26.9m) and non-cash deferred consideration of £9.4m (2016: £33.3m).
2. Trade and other payables exclude other tax and social security of £2.0m (2016: £0.5m), corporation tax of £0.3m (2016: £1.3m) and deferred income of £3.3m (2016: £2.9m).

(h) Finance leases

Finance lease liabilities are in respect of leased investment property.

Minimum lease payments under finance leases fall due as follows:

	2017 £m	2016 £m
Within one year	**0.5**	0.5
Between two and five years	**1.8**	1.8
Beyond five years	**48.3**	48.7
	50.6	51.0
Future finance charges on finance leases	**(43.5)**	(43.9)
Present value of finance lease liabilities	**7.1**	7.1

17. Financial risk management objectives and policy

The Group has identified exposure to the following financial risks:
- Market risk.
- Credit risk.
- Liquidity risk.
- Capital risk management.

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 and cross currency swaps and caps to generate the desired interest and risk profile. The Group has entered into a cross currency swap to ensure the US Dollar liability streams generated from the US Dollar private placement notes are fully hedged into Sterling for the life of the transaction. At 31 March 2017 84% (2016: 69%) of Group borrowings were fixed or fixed through the use of interest rate and cross currency 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 and decreased net interest payable and equity respectively by £0.2m (2016: £0.5m).

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

Credit risk is the risk of financial loss if a tenant or a counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to this risk principally relates to the receivables from tenants, deferred consideration on the sale of investment property 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 around 4,000 tenants over 68 properties. The largest 10 single tenants generate less than 10% 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 £21.8m (2016: £19.3m). The Group monitors aged debt balances and any potential bad debts every week, the information being reported to the Executive Committee every month as part of the performance monitoring process. The Group's debtor recovery is consistently high and as such is deemed a low risk area.

Deferred consideration (cash and overage) on the sale of investment properties is contractual and valued regularly by the external valuer based on current and future market factors. Cash and cash equivalents and financial derivatives are held with major UK high street banks or building societies and strict counterparty limits are operated on deposits.

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

	2017 £m	2016 £m
Cash and cash equivalents (note 14)	**6.5**	27.8
Trade receivables – current (note 13)	**3.2**	3.0
Deferred consideration – current (note 13)	**7.8**	29.3
Deferred consideration – non-current (note 13)	**4.3**	7.0
	21.8	67.1

(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 (2016: £4m) and a revolving loan facility of £150m (2016: £150m). At 31 March 2017 headroom excluding overdraft and cash was £120m (31 March 2016: £110m).

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

The following is an analysis of the contractual undiscounted cash flows payable under financial liabilities, 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.

31 March 2017	**Carrying amount £m**	**Due within 1 year £m**	**Due between 1 and 2 years £m**	**Due between 2 and 3 years £m**	**Due 3 years and beyond £m**	**Total contracted cash flows £m**
Financial liabilities						
Bank loans	**30.0**	**0.6**	**0.6**	**0.6**	**30.8**	**32.6**
6% Retail Bond	**57.5**	**3.5**	**3.5**	**59.4**	**–**	**66.4**
Private Placement Notes	**157.5**	**8.7**	**8.7**	**8.7**	**183.6**	**209.7**
Finance lease liabilities	**7.1**	**0.5**	**0.5**	**0.5**	**49.1**	**50.6**
Trade and other payables†	**46.6**	**46.6**	**–**	**–**	**–**	**46.6**
	298.7	**59.9**	**13.3**	**69.2**	**263.5**	**405.9**

31 March 2016	Carrying amount £m	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due 3 years and beyond £m	Total contracted cash flows £m
Financial liabilities						
Bank loans	40.0	0.9	0.9	0.9	41.0	43.7
6% Retail Bond	57.5	3.5	3.5	3.5	59.3	69.8
Private Placement Notes	157.5	8.7	8.7	8.7	192.1	218.2
Other term loan	45.0	1.8	1.8	1.8	51.5	56.9
Finance lease liabilities	7.1	0.5	0.5	0.5	49.5	51.0
Trade and other payables†	43.7	43.7	–	–	–	43.7
	350.8	59.1	15.4	15.4	393.4	483.3

† Trade and other payables exclude other tax and social security of £2.0m (2016: £0.5m), corporation tax of £0.3m (2016: £1.3) and deferred income of £3.3m (2016: £2.9m).

17. Financial risk management objectives and policy continued

(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, reserves and retained earnings as disclosed in the Consolidated statement of changes in equity. Debt comprises term loan facilities, revolving loan facilities from banks, the Retail Bond, private placement notes less cash at bank and in hand.

The foreign currency risk on the US Dollar Private Placement Notes is fully hedged through a cross currency swap.

At 31 March 2017 Group equity was £1,578.5m (2016: £1,517.6m), and Group net debt (debt less cash at bank and in hand) was £242.3m (2016: £275.5m). Group gearing at 31 March 2017 was 17% (2016: 19%).

The Group's borrowings are all unsecured. The loan to value covenants applicable to these borrowings range between 60% and 75% and compliance is being met comfortably.

18. Notes to cash flow statement

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

	2017 £m	2016 £m
Profit before tax	**88.8**	391.3
Depreciation	**0.9**	0.8
Amortisation of intangibles	**0.2**	0.3
Loss/(profit) on disposal of investment properties	**0.6**	(8.1)
Loss on disposal of joint ventures	**0.2**	0.1
Other income	**(2.1)**	(33.6)
Other expenses	**1.2**	–
Net gain from change in fair value of investment property	**(39.5)**	(296.6)
Equity settled share based payments	**1.9**	1.9
Change in fair value of financial instruments	**–**	(0.9)
Finance income	**(0.1)**	(0.1)
Finance costs	**13.7**	17.0
Exceptional finance costs	**1.4**	–
Gains from share in joint ventures	**(0.1)**	(4.2)
Changes in working capital:		
Increase in trade and other receivables	**(2.2)**	(0.5)
Increase in trade and other payables	**4.8**	0.2
Cash generated from operations	**69.7**	67.6

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

	2017 £m	2016 £m
Cash at bank and in hand	**2.7**	24.5
Restricted cash – tenants' deposit deeds	**3.8**	3.3
	6.5	27.8

19. Share capital and share premium

	2017 Number	2016 Number
Issued: Fully paid ordinary shares of £1 each	**163,199,045**	162,404,600

	2017 £m	2016 £m
Issued: Fully paid ordinary shares of £1 each	**163.2**	162.4

Movements in share capital were as follows:	2017 Number	2016 Number
Number of shares at 1 April	**162,404,600**	161,107,649
Issue of shares	**794,445**	1,296,951
Number of shares at 31 March	**163,199,045**	162,404,600

The Group issued 794,445 shares (2016: 1,296,951 shares) during the year to satisfy the exercise of share options with net proceeds of £0.2m (2016: £0.3m).

	Share Capital		Share Premium	
	2017 £m	2016 £m	2017 £m	2016 £m
Balance at 1 April	**162.4**	161.1	**135.9**	136.8
Issue of shares	**0.8**	1.3	**(0.5)**	(0.9)
Balance at 31 March	**163.2**	162.4	**135.4**	135.9

20. Other reserves

	Equity settled share based payments £m	Merger reserve £m	Hedging reserve £m	Total £m
Balance at 31 March 2015	10.2	8.7	(3.2)	15.7
Share based payments	1.9	–	–	1.9
Change in fair value of derivative financial instruments (cash flow hedge)	–	–	1.4	1.4
Balance at 31 March 2016	12.1	8.7	(1.8)	19.0
Share based payments	1.9	–	–	1.9
Change in fair value of derivative financial instruments (cash flow hedge)	–	–	(2.2)	(2.2)
Balance at 31 March 2017	**14.0**	**8.7**	**(4.0)**	**18.7**

21. Investment in own shares

The Company has an Employee Share Ownership Trust ('ESOT') and a trust for the Share Incentive Plan ('SIP'). Shares are purchased in the market for distribution at a later date in accordance with the terms of the various share schemes. The shares are held by independent trustees. No shares were purchased for the ESOT during the year and no shares were transferred to employees on the exercise of share options. At 31 March 2017 the number of shares held by the ESOT totalled 75,226 (2016: 75,266).

The SIP is governed by HMRC rules (note 22). At 31 March 2017 the number of shares held for the SIP totalled 43,048 (2016: 47,136).

	2017 £m	2017 £m
Balance at 1 April	**8.9**	8.8
Shares purchased for the Trusts	**-**	0.2
Shares issued/sold from the Trusts	**-**	(0.1)
Balance at 31 March	**8.9**	8.9

22. 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.

The shares are issued at nil consideration provided the performance conditions are met.

Under the 2016 LTIP scheme 479,057 performance and matching shares were awarded in June 2016 to Directors and Senior Management (2015 LTIP scheme: 402,421).

Details of the movements for the LTIP scheme during the year were as follows:

	LTIP Number
At 31 March 2015	2,489,613
Granted	402,421
Exercised	(1,141,871)
Lapsed	(27,348)
At 31 March 2016	1,722,815
Granted	479,057
Exercised	(740,263)
Lapsed	(67,714)
At 31 March 2017	**1,393,895**

For the 2013 LTIP the average closing share price at the date of exercise of shares exercised during the year was £6.85 (2016: £8.85).

For the 2016 LTIP 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:

	2017	2016
Share price at grant	**828p**	914p
Exercise price	**Nil**	Nil
Average expected life (years)	**3**	3
Risk free rate	**1%**	1%
Expected dividend yield	**2%**	2%
Average share price volatility	**28%**	25%
Fair value per option – Absolute TSR element	**316p**	305p
Fair value per option – Relative TSR element	**306p**	306p

The relative NAV is a non-market based condition and the intrinsic value is therefore the share price at date of grant of 828 pence. At each balance sheet date, the Directors assess the likelihood of meeting the conditions under this element of the scheme. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity. The assessment at year end was that up to 50% of the relative NAV element will vest.

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

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

II) Employee share option schemes
The Group operates a Save As You Earn ('SAYE') share option scheme. Grants under the SAYE scheme are normally exercisable after three or five year's 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 schemes during the year were as follows:

	SAYE	
Options outstanding	Number	Weighted exercise price
At 31 March 2015	354,506	£3.09
Options granted	86,251	£7.27
Options exercised	(155,081)	£1.93
Options lapsed	(17,983)	£5.33
At 31 March 2016	267,693	£4.95
Options granted	190,167	£5.18
Options exercised	(53,429)	£3.65
Options lapsed	(99,220)	£6.41
At 31 March 2017	**305,211**	**£4.85**

The average closing share price at the date of exercise for the SAYE options exercised (for the 3 year 2013 and the 5 year 2011 schemes) during the year was £7.16 (2016: £8.73).

190,167 SAYE share options were granted in the year (2016: 86,251 shares).

The fair value has been calculated using the Black-Scholes model. Inputs to the model are summarised as follows:

	2017 SAYE 3 year	**2017 SAYE 5 year**	2016 SAYE 3 year	2016 SAYE 5 year
Weighted average share price at grant	**622p**	**622p**	908p	908p
Exercise price	**518p**	**518p**	727p	727p
Expected volatility	**28%**	**28%**	25%	25%
Average expected life (years)	**3**	**5**	3	5
Risk free rate	**1%**	**1%**	1%	1%
Expected dividend yield	**2%**	**2%**	2%	2%
Possibility of ceasing employment before vesting	**25%**	**25%**	25%	25%

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

Fair values per share of these options were:

	2017		2016	
	Grant date	**Fair value of award**	Grant date	Fair value of award
SAYE – 3 year	**27 July 2016**	**149p**	24 July 2015	222p
SAYE – 5 year	**27 July 2016**	**164p**	24 July 2015	259p

III) Share incentive plan ('SIP')
All staff were granted £1,000 worth of shares in both March 2013 and September 2015. These shares are held in trust under an HMRC approved SIP. The shares can be exercised following three years of employment but must be held for a further two years in order to qualify for tax advantages. No new shares were granted in the year (2016: 20,651). 4,088 (2016: 12,643) shares were exercised in the year and 3,930 (2016: 3,426) shares lapsed.

22. Share based payments continued

IV) Year end summary

At 31 March 2017 in total there were 1,733,960 (2016: 2,034,218) share awards/options exercisable on the Company's ordinary share capital. These are analysed below:

Date of grant	Exercise price	Ordinary shares Number	Vested and exercisable	Exercisable between	
LTIP					
26 June 2014	–	559,556	–	26.06.2017	–
26 June 2015	–	374,545	–	26.06.2018	–
26 June 2016	–	459,860	–	26.06.2019	–
SAYE					
30 July 2012 – 5 year	£1.93	18,652	–	01.09.2017	01.03.2018
31 July 2013 – 5 year	£3.47	6,915	–	01.09.2018	01.03.2019
25 July 2014 – 3 year	£4.59	94,882	–	01.09.2017	01.03.2018
25 July 2014 – 5 year	£4.59	392	–	01.09.2019	01.03.2020
25 July 2015 – 3 year	£7.27	12,936	–	01.09.2018	01.03.2019
25 July 2015 – 5 year	£7.27	247	–	01.09.2020	01.03.2021
20 July 2016 – 3 year	£5.18	170,841	–	01.09.2019	01.03.2020
20 July 2016 – 5 year	£5.18	347	–	01.09.2021	01.03.2022
SIP					
22 March 2013	–	15,313	15,313	22.03.2016	22.03.2018
18 September 2015	–	19,474	–	18.09.2018	18.09.2020
Total		**1,733,960**	**15,313**		

The share awards/options outstanding at 31 March 2017 had a weighted average remaining contractual life of: LTIP – 1.2 years (2016: 1.1 years), SAYE – 1.6 years (2016: 1.6 years), SIP – 0.8 years (2016: 1.1 years).

V) Cash-settled share based payments

National Insurance payments due on the exercise of non-approved ESOS options and shares from the LTIP 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.

VI) Share based payment charges

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

	2017 £m	2016 £m
Equity settled share based payments	**1.9**	1.9
Cash settled share based payments	**0.4**	0.9
	2.3	2.8

The total liability at the end of the year in respect of cash settled share based schemes was £0.8m (2016: £1.1m).

23. Related party transactions

	2017 £m	2016 £m
Transactions for the year ended 31 March:		
Capital distributions received from joint ventures (note 12(a))	**2.7**	6.3
Repayment/payment of loans to joint ventures (note 12(a))	**-**	0.2
Fee income and recharges to joint ventures (including performance fees)	**0.4**	25.1
Fee income and recharges from joint ventures	**(1.4)**	(1.2)
Income distributions received from joint ventures (note 12(a))	**0.6**	1.2
Fees paid to CBRE Limited	**(0.2)**	(0.2)
Balances with joint ventures at 31 March:		
Amounts payable to joint ventures (note 15)	**-**	(0.4)

Fee income and recharges to joint ventures includes a performance fee of £0.4m (2016: £24.1m). Refer to note 3(c) for details.

Fees paid to CBRE Limited are in respect of the property valuations.

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:	2017 £m	2016 £m
Short-term employee benefits	**3.2**	3.0
Post-employment benefits	**-**	0.2
Share based payments	**1.1**	1.2
	4.3	4.4

24. Capital commitments

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

	2017 £m	2016 £m
Construction or redevelopment of investment property	**27.9**	18.8

25. Subsidiary and other related undertakings

The Company's subsidiary and other related undertakings at 31 March 2017, and up to the date of signing the financial statements, are listed below.

Except where indicated otherwise, the Company owns 100% of the ordinary share capital of the following subsidiary undertakings incorporated and operating in the UK, all of which are consolidated in the Group's financial statements. The registered address of all subsidiaries is Canterbury Court, Kennington Park, 1-3 Brixton Road, London SW9 6DE:

Name	Nature of business
Workspace 12 Limited*	Property Investment
Workspace 13 Limited	Property Investment
Workspace 14 Limited	Property Investment
Workspace 16 (Jersey) Limited†	Investor in joint venture
Workspace Glebe Limited	Holding Company
Glebe Three Limited*	Property Investment
LI Property Services Limited	Insurance Agents
Workspace Management Limited	Property Management
Workspace 1 Limited*	Dormant
Workspace 2 Limited*	Dormant
Workspace 3 Limited*	Dormant
Workspace 4 Limited*	Dormant
Workspace 5 Limited*	Dormant
Workspace 6 Limited	Dormant
Workspace 7 Limited*	Dormant
Workspace 8 Limited*	Dormant
Workspace 9 Limited*	Dormant
Workspace 10 Limited	Dormant
Workspace 11 Limited	Dormant
Workspace 15 Limited	Dormant
Workspace Holdings Limited	Dormant
Anyspacedirect.co.uk Limited	Dormant
Enerjet Limited	Dormant
Redhill Workspace Limited	Dormant
London Industrial (Kingsland Viaduct) Limited	Dormant
Vylan Limited	Dormant
Workspace Newco 1 Limited	Holding Company
Workspace Newco 2 Limited	Dormant

* 100% of the ordinary share capital of these subsidiaries is held by other Group companies.
† Company registered in Jersey.

The Company's other related undertakings are as follows:

Name	Country of incorporation or operation	Class of shares held	Ownership
Generate Studio Limited	UK	Ordinary	50%

26. 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 £0.7m (2016: £0.8m) representing contributions payable by the Group to the fund and is charged through operating profit.

The Group's commitment with regard to pension contributions, consistent with the prior year, ranges from 6% to 16.5% of an employee's salary. The pension scheme is open to every employee in accordance with the new Government auto-enrolment rules. The number of employees, including Directors, in the scheme at the year end was 177 (2016: 186).

27. Operating leases

As a lessee, the following future minimum lease payments are due under non-cancellable operating leases:

Motor vehicles and office equipment:	**2017 £m**	2016 £m
Due within one year	**0.1**	0.1
Due between two and five years	**0.1**	0.1
	0.2	0.2

As a lessor, 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 shown below.

Land and buildings:	**2017 £m**	2016 £m
Within one year	**41.2**	34.7
Between two and five years	**6.4**	5.0
Beyond five years	**1.5**	1.5
	49.1	41.2

28. Post balance sheet events

On 6 April 2017, the Group completed the acquisition of 13-17 Fitzroy Street for £98.5m.

In May 2017, the Group announced the simultaneous exchange and completion of contracts for the disposal of Uplands Business Park in Walthamstow, E17, for £50m. The property was sold at an uplift of £10m compared to the March 2017 valuation.

On 5 June 2017, the Group exercised the option to extend the maturity term of the revolver bank facility for a year to June 2022.

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

Report on the Parent Company financial statements
Our opinion
In our opinion, Workspace Group PLC's Parent Company financial statements (the 'financial statements'):
- give a true and fair view of the state of the Parent Company's affairs as at 31 March 2017;
- 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.

What we have audited
The financial statements, included within the Annual Report and Accounts (the 'Annual Report'), comprise:
- the Parent Company balance sheet as at 31 March 2017;
- the Parent Company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law (United Kingdom Generally Accepted Accounting Practice).

Other required reporting
Consistency of other information and compliance with applicable requirements

Companies Act 2006 opinion

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Parent Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') we are required to report to you if, in our opinion, information in the Annual Report is:
- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Parent Company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- 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 financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Directors' Remuneration Report – Companies Act 2006 opinion
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting
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. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit
Our responsibilities and those of the Directors
As explained more fully in the Statement of Directors' responsibilities set out on page 120, the Directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and ISAs (UK & 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 Parent 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.

What an audit of financial statements involves
We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter
We have reported separately on the Group financial statements of Workspace Group PLC for the year ended 31 March 2017.

Sonia Copeland
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 June 2017

Parent Company balance sheet
As at 31 March 2017

	Notes	2017 £m	2016 £m
Fixed assets			
Investments	C	**703.8**	612.6
Derivative financial instruments	F	**12.1**	3.9
		715.9	616.5
Current assets			
Debtors: amounts falling due after more than one year	D	**–**	7.2
Debtors: amounts falling due within one year	D	**243.6**	413.6
Cash and cash equivalents		**0.2**	0.2
		243.8	421.0
Total assets		**959.7**	1,037.5
Current liabilities			
Creditors: amounts falling due within one year	E	**(100.1)**	(115.9)
Current tax liabilities		**–**	(0.1)
		(100.1)	(116.0)
Creditors: amounts falling due after more than one year			
Borrowings	F	**(258.4)**	(302.2)
		(258.4)	(302.2)
Total liabilities		**(358.5)**	(418.2)
Net assets		**601.2**	619.3
Capital and reserves			
Share capital	G	**163.2**	162.4
Share premium	G	**135.4**	135.9
Investment in own shares	G	**(8.9)**	(8.9)
Other reserves	G	**18.7**	19.0
Retained earnings		**292.8**	310.9
Total shareholders' equity		**601.2**	619.3

The profit for the year is £9.7m (2016: £36.1m).

The notes on pages 161 to 163 form part of these financial statements.

The financial statements on pages 159 to 163 were approved by the Board of Directors on 6 June 2017 and signed on its behalf by:

J Hopkins
G Clemett
Directors
Workspace Group PLC
Registered number 2041612

Parent Company statement of changes in equity
For the year ended 31 March 2017

	Share capital £m	Share premium £m	Investment in own shares £m	Other reserves £m	Retained earnings £m	Total share-holders' equity £m
Balance at 31 March 2015	161.1	136.8	(8.8)	15.7	296.0	600.8
Profit for the year	–	–	–	–	36.1	36.1
Change in fair value of derivatives	–	–	–	1.4	–	1.4
Total comprehensive income	–	–	–	1.4	36.1	37.5
Transactions with owners:						
Share issues	1.3	(0.9)	–	–	(0.1)	0.3
Own shares purchase (net)	–	–	(0.1)	–	–	(0.1)
Dividends paid	–	–	–	–	(21.1)	(21.1)
Share based payments	–	–	–	1.9	–	1.9
Balance at 31 March 2016	162.4	135.9	(8.9)	19.0	310.9	619.3
Profit for the year	**–**	**–**	**–**	**–**	**9.7**	**9.7**
Change in fair value of derivatives	**–**	**–**	**–**	**(2.2)**	**–**	**(2.2)**
Total comprehensive income	**–**	**–**	**–**	**(2.2)**	**9.7**	**7.5**
Transactions with owners:						
Share issues	**0.8**	**(0.5)**	**–**	**–**	**(0.1)**	**0.2**
Dividends paid	**–**	**–**	**–**	**–**	**(27.7)**	**(27.7)**
Share based payments	**–**	**–**	**–**	**1.9**	**–**	**1.9**
Balance at 31 March 2017	**163.2**	**135.4**	**(8.9)**	**18.7**	**292.8**	**601.2**

The notes on pages 161 to 163 form part of these financial statements.

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 Financial Reporting Standard 101 ('FRS 101') 'Reduced Disclosure Framework'.

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. The financial statements are presented in Sterling.

In preparing the financial statements the Company has taken advantage of the following disclosure exemptions conferred by FRS 101:

a) The requirements of IAS 7 to provide a Statement of cash flows for the year;

b) The requirements of IAS 1 to provide a statement of compliance with IFRS;

c) The requirements of IAS 1 to disclose information on the management of capital;

d) The requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to disclose new IFRS's that have been issued but are not yet effective;

e) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;

f) The requirements of IFRS 7 on financial instruments disclosures; and

g) The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement to disclose information of fair value valuation techniques and inputs.

The above disclosure exemptions are allowed because equivalent disclosures are included in the Group Consolidated financial statements.

Significant Accounting Policies

i. Investments

Investments are carried in the Company's balance sheet at cost less impairment. Impairment reviews are performed by the Directors when there has been an indication of potential impairment.

Impairment and reversal of impairment is taken to the profit and loss account.

ii. 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 has also established an employee Share Incentive Plan ('SIP') which is governed by HMRC rules.

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.

The disclosure requirements for share based payments are met in note 22 of the Group Consolidated financial statements.

iii. Borrowings

Details of borrowings are described in note F to the Parent Company financial statements. Costs associated with the raising of finance are capitalised, amortised over the life of the instrument and charged as part of interest costs.

iv. Derivative financial instruments and hedge accounting

The accounting policy for derivative financial instruments and hedge accounting are the same as those for the Group and are set out on page 132. Disclosure requirements are provided in note 16 to the Consolidated financial statements.

v. Foreign currency translation

The accounting policy for foreign currency translation is the same as that for the Group and is set out on page 132.

Taxation

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

Deferred tax is provided in full on temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised when it is probable that taxable profits will be available against which the deferred tax asset can be utilised.

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.

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 £9.7m (2016: £36.1m). £23.1m dividends were received in the year from subsidiary undertakings (2016: £14.4m).

Auditors' remuneration of £10,000 (2015: £10,000) has been borne by a subsidiary undertaking.

Dividend payments are disclosed in note 7 to the Consolidated financial statements.

C. Investments

	Investment in subsidiary undertakings £m	Other investments £m	Total £m
Cost			
Balance at 31 March 2016	736.1	1.2	737.3
Additions in the year	102.0	–	102.0
Balance at 31 March 2017	838.1	1.2	839.3
Impairment			
Balance at 31 March 2016	124.7	–	124.7
Impairment charge in the year	9.6	1.2	10.8
Balance at 31 March 2017	134.3	1.2	135.5
Net book value at 31 March 2017	**703.8**	**–**	**703.8**
Net book value at 31 March 2016	611.4	1.2	612.6

Other investments represent 8% of the share capital of Mailstorage Ltd, a company incorporated in the UK. The Company wrote off this investment during the year.

D. Debtors

Amounts falling due after more than one year	**2017 £m**	2016 £m
Prepayments, other receivables and accrued income	**–**	7.2
	–	7.2

Amounts falling due within one year	**2017 £m**	2016 £m
Amounts owed by Group undertakings	**241.6**	396.7
Corporation tax asset	**2.0**	–
Prepayments, other receivables and accrued income	**–**	16.9
	243.6	413.6

Prepayments and accrued income in the prior year (non-current and current) represented £24.1m in respect of a performance fee for the BlackRock Workspace Property Trust joint venture (see note 3(c) of the Consolidated financial statements). This was settled during the year.

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

E. Creditors: amounts falling due within one year

	2017 £m	2016 £m
Amounts owed to Group undertakings	**95.0**	110.7
Taxation and social security	**1.0**	0.8
Accruals and deferred income	**4.1**	4.4
	100.1	115.9

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

F. Creditors: amounts falling due after more than one year

Borrowings and financial instruments	Interest rate	Repayable	**2017 £m**	2016 £m
Bank loan	LIBOR+1.65%	June 2020	**30.0**	40.0
5.6% Senior US Dollar Notes 2023	5.6%	June 2023	**80.2**	69.9
5.53% Senior Notes 2023	5.53%	June 2023	**84.0**	84.0
Senior Floating Rate Notes 2020	LIBOR+3.5%	June 2020	**9.0**	9.0
Other term loan	LIBOR+3.5%	May 2022 and May 2023	**-**	45.0
6% Retail Bond	6.0%	October 2019	**57.5**	57.5
Total borrowings			**260.7**	305.4
Less cost of raising finance			**(2.3)**	(3.2)
Net borrowings			**258.4**	302.2

All the above borrowings are unsecured.

Maturity analysis of borrowings:	**2017 £m**	2016 £m
Repayable between two and three years	**57.5**	–
Repayable between three and four years	**9.0**	57.5
Repayable between four and five years	**30.0**	49.0
Repayable in five years or more	**164.2**	198.9
	260.7	305.4

The following derivative financial instruments are held:

	Amount	Rate payable (%)	Term/ expiry	**2017 £m**	2016 £m
Cash flow hedge – cross currency swap	$100m/£64.5m	5.66%	June 2023	**12.1**	3.9
				12.1	3.9

G. Capital and reserves

Movements and notes applicable to share capital, share premium account, investment in own shares, other reserves and share based payment reserve are shown in notes 19 to 22 on pages 151 to 154 and in the Statement of changes in equity.

Other reserves:	Equity settled share based payments £m	Merger Reserve £m	Hedging Reserve £m	Total £m
Balance at 31 March 2015	10.2	8.7	(3.2)	15.7
Share based payments	1.9	–	–	1.9
Change in fair value of derivative financial instruments	–	–	1.4	1.4
Balance at 31 March 2016	12.1	8.7	(1.8)	19.0
Share based payments	1.9	–	–	1.9
Change in fair value of derivative financial instruments	–	–	(2.2)	(2.2)
Balance at 31 March 2017	**14.0**	**8.7**	**(4.0)**	**18.7**