

5 June 2020

## WORKSPACE GROUP PLC FULL YEAR RESULTS

### WELL POSITIONED TO NAVIGATE THE CHALLENGES AHEAD

Workspace Group PLC (“Workspace”) is pleased to announce its Full Year Results for the year ended 31 March 2020. The comments in this announcement refer to the period from 1 April 2019 to 31 March 2020 unless otherwise stated.

#### Financial highlights

- Trading profit after interest<sup>†</sup> up 12% to £81.0m driven by a 10% increase in net rental income to £122.0m
- Total dividend up 10% to 36.16p per share (2019: 32.87p), with a final dividend of 24.49p per share
- Profit before tax at £72.5m (2019: £137.3m), with a small reduction in underlying property valuation of 0.3% (£8m) compared to a £61m increase in the prior year
- EPRA net asset value per share up 0.3% to £10.89
- Loan to value of 21% (2019: 22%) with £166m of undrawn facilities and cash

#### Operating performance

- Strong customer demand with enquiries averaging 1,087 per month (2019: 1,048) and lettings averaging 121 per month (2019: 103)
- Total rent roll up 4.2% to £132.8m
- Like-for-like rent roll up 1.9% to £90.4m with occupancy up 2.6% to 93.1%, offset by 0.7% fall in rent per sq. ft. to £43.32
- Successful letting-up of new space adding £7.8m to rent roll

#### Portfolio activity

- Four property sales completed for £65m at a 21% premium to 31 March 2019 valuation
- Four projects delivering 200,000 sq. ft. completed in first half and letting up well, with two new buildings comprising a further 94,000 sq. ft due to open shortly
- A healthy pipeline of refurbishment and redevelopment activity, projected to deliver 1.1m sq. ft. of new and upgraded space over the next five years

#### Covid-19 update

- Significant slowdown in enquiries from the end of March 2020
- Majority of customers (c.75% by rent) benefitting from 50% rent reduction offer until end of June 2020, as well as rent deferrals on a case by case basis
- Overall cash collection (net of discounts and deferrals) running at c.70% in the quarter
- Extensive social distancing and hygiene measures being implemented at all business centres
- Actively engaged with customers as they increasingly plan their return to work

## Commenting on the results, Graham Clemett, Chief Executive Officer said:

“Over the past year, my first as Chief Executive, Workspace has had to deal with the uncertainty caused by Brexit and the General Election. However, that has now been eclipsed by the dramatic impact of the Covid-19 pandemic. I want to thank our teams across Workspace for their efforts during this time. They have been working flat out, many of them working remotely, keeping the business running, our centres open and engaging with customers.

As a Company, we felt it was important to support customers where we could and hope that the 50% rent reduction and deferral agreements we have offered to the majority of our customers have gone some way to lessen the burden of this crisis. We have been readying our business centres for the increasing return of customers, putting in place extensive measures to enable social distancing and promote good hygiene. Freehold ownership of our properties means we can quickly adapt them to cater for these new requirements.

Against this backdrop, the business has delivered a strong trading performance in the year to March 2020, with trading profit up 12% to £81m, driven by a 10% increase in net rental income. We have a strong balance sheet, prudent funding liquidity and substantial headroom on our covenants, which has meant we have not seen the need to take Government financial support. On this basis, the Board is proposing a 10% increase in the final dividend payment, a total dividend payment for the year of 36.16p per share.

Looking forward, we will undoubtedly see subdued levels of operational performance in the short term with a reduction in rental income. However, we expect that the structural shift in the office market towards flexibility will now accelerate more broadly. We believe that, with our well established flexible offer and the quality of our space and services, Workspace is ideally positioned to benefit as London recovers from the impact of the Covid-19 pandemic.”

## Summary Results

	March 2020	March 2019	Change
<b>Financial performance</b>			
Net rental income	<b>£122.0m</b>	£111.0m	+10%
Trading profit after interest <sup>†</sup>	<b>£81.0m</b>	£72.4m	+12%
Profit before tax	<b>£72.5m</b>	£137.3m	-47%
Total dividend per share	<b>36.16p</b>	32.87p	+10%
<b>Valuation</b>			
EPRA net asset value per share <sup>†</sup>	<b>£10.89</b>	£10.86	+0.3%
CBRE property valuation <sup>†</sup>	<b>£2,574m</b>	£2,604m	-0.3%**
<b>Financing</b>			
Loan to value	<b>21%</b>	22%	-1%*
Undrawn bank facilities and cash	<b>£166m</b>	£127m	+£39m*

<sup>†</sup> Alternative performance measure (APM). The Group uses a number of financial measures to assess and explain its performance. Some of these which are not defined within IFRS are considered APMs. For further details see Notes to the Financial Statements.

\* absolute change

\*\* underlying change

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## **Details of results presentation**

A presentation for analysts and investors will be held by webcast and conference call on Friday 5 June 2020 at 9.30am followed by Q&A. Questions can be submitted either online via the webcast or to the operator on the conference call.

Webcast: The live webcast will be available here:

<https://secure.emincote.com/client/workspace/workspace014>

Conference call: In order to dial in to the presentation via phone, please register at the following link and you will be provided with dial-in details and a unique access code:

[https://secure.emincote.com/client/workspace/workspace014/vip\\_connect](https://secure.emincote.com/client/workspace/workspace014/vip_connect)

## **Notes to Editors**

About Workspace Group PLC:

Established in 1987, and listed on the London Stock Exchange since 1993, Workspace owns and manages some 4 million sq. ft. of business space in London. We are home to thousands of businesses, including fast growing and established brands across a wide range of sectors. Workspace is geared towards helping businesses perform at their very best. We provide inspiring, flexible work spaces in dynamic London locations.

Workspace (WKP) is a FTSE 250 listed Real Estate Investment Trust (REIT) and a member of the European Public Real Estate Association (EPRA).

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For more information on Workspace, visit [www.workspace.co.uk](http://www.workspace.co.uk)

## **CEO'S STATEMENT**

Workspace has delivered a strong set of trading results for the past year, although obviously this has been overshadowed by the dramatic impact of the Covid-19 pandemic.

### **Results and Dividend**

Starting with our operating performance for the year, we saw good growth in net rental income, up 10%, with a particularly strong contribution from recently launched buildings. This income uplift has delivered a 12% increase in trading profit after interest to £81m, a tremendous performance given the continuing backdrop of Brexit uncertainty. We did see an upturn in business confidence and enquiries after the General Election in December but by March 2020 this had been negated by the onset of the Covid-19 lockdown.

There was a slight fall of 0.3% over the year in our underlying property valuation, with our valuers taking a naturally cautious view of property values at the year-end in the light of Covid-19. During the year, we continued with some judicious pruning of our property portfolio selling four of our smaller buildings for a total of £65m, 21% above their March 2019 valuation. Overall, there was a small increase in our EPRA net asset value of 0.3% to £10.89.

There has been much debate on dividend distributions at this difficult time and this has been discussed extensively by the Board. Driving operating performance to deliver income growth is a key focus for the Company, and we have a proud and consistent record of dividend distribution. Taking into account our prudent funding position, with significant headroom on our facilities and covenants, which has meant that we have not needed to take any Government financial support, we are proposing a final dividend of 24.49p per share. This meets our distribution requirement as a Real Estate Investment Trust and also reflects the Board's confidence in the long-term prospects of the Company. Together with our interim dividend, this represents a total dividend in the year of 36.16p per share, an increase of 10% on the prior year.

### **Covid-19 Update**

The immediate impact of the lockdown announced on 23 March 2020 was that the majority of our customers moved to work from home in line with Government guidance. Our business centres remained open with a number of key worker customers still in occupation and other customers visiting on an essential needs basis.

Given the impact that the lockdown was having on our customers and their cashflows, we took the immediate decision to offer the opportunity to defer rental payments for up to three months. We have also given the majority of our business centre customers an absolute rent reduction of 50% for the three months to the end of June 2020. We believed it was only fair to offer this rent reduction to customers irrespective of their size.

Since the Government announced the gradual relaxation of lockdown measures in England, we have taken action to ensure that our business centres are safe for the increasing number of customers returning to work. These extensive measures, in line with Government guidelines, include signage to promote social distancing, screens, hand sanitiser dispensers, one-way systems, restrictions on use of communal areas and increased daily cleaning of the common areas in our business centres. We are also supplying additional information and resources to help our customers on our website.

We are fortunate that our buildings are low-rise so the severe lift restrictions that need to be put in place have limited impact. We are also looking at the opportunity to increase the amount of cycle storage at centres where possible.

I am pleased to say that our rent collection rates have been robust. The majority of rent is collected monthly in advance and taking account of the agreed rent discounts and deferrals we have received c.70% of the net rent due for the first quarter.

We are maintaining a tight focus on operating costs, minimising all non-essential spend but ensuring we don't compromise on health and safety issues. Likewise, we are controlling our capital expenditure commitments to ensure we can maintain prudent liquidity and headroom levels. We currently have no major capital projects underway or due to start over the next six months.

## **ESG Priorities**

Despite the current challenging economic conditions, our ESG priorities and targets remain hugely relevant, with our focus on the long-term employment-led regeneration of London. Our priorities cover multiple aspects of day-to-day business activity, including:

- Setting and delivering on science-based targets to achieve net zero carbon emissions by 2050;
- Creating environmentally friendly, sustainable and energy efficient buildings;
- Treating all our stakeholders with respect, from customers through to our staff and suppliers, and ensuring an open and regular two-way dialogue;
- A focus on the health and wellbeing of our employees through regular engagement, mental health training and an annual staff survey; and
- An active Doing the Right Thing committee run by our staff supporting local initiatives across a wide range of schools, community groups and charities

## **Our People**

A huge strength of Workspace is the depth of operational experience across the company. The knowledge gained by our people from working through previous downturns and recessions is more relevant than ever. This has been supplemented by two recent external Executive appointments, Dave Benson joining as CFO and Will Abbott in the new role of Chief Customer Officer. They bring broader commercial and marketing expertise that will be hugely important as we navigate through the challenges ahead.

Workspace has a vibrant and inclusive culture and this has been particularly evident throughout the lockdown period. I'd like to thank all our employees for their incredible efforts during this time. Despite working remotely, I have been impressed by how we have come together to keep the business running effectively and to maintain regular engagement with our customers. Our purpose, to give businesses the freedom to grow, and a clear set of corporate values have underpinned the actions we have taken to support our customers at this difficult time.

As previously announced, our Chairman, Danny Kitchen, will be stepping down from his role after nine years. Danny has made a huge contribution to the business, providing wise counsel and challenge to both the Board and Executive Committee. I am delighted that Stephen Hubbard, one of our current Non-Executive Directors with extensive property experience, has agreed to take over as Chairman following the AGM in July.

Chris Pieroni, Operations Director, will be retiring at the end of June. Chris has been an integral part of the success and growth of Workspace over the last 12 years. We will miss him both as a colleague and friend and wish him all the very best for his retirement.

## **Strategy**

We have always been very clear about the attractions offered by our flexible model. For many years we were seen as a successful but alternative property play. In more recent years, our model has become increasingly mainstream as customer demand for flexibility has grown, with many new and existing competitors now in the market. These competitors have varying financial and operating models and I remain confident that we continue to have an industry-leading proposition. The key elements of our model are:

- A flexible space and lease offer;
- Scalable marketing and operating platform;
- A customer-centric culture;
- Well located, distinctive buildings;
- High quality fit-out and services; and
- Freehold property ownership.

Our strength and success have come as a result of bringing all these elements together into a compelling offer for customers.

## **Outlook**

It is not possible at this time to give a near-term view for trading performance. We will undoubtedly see subdued operational performance and a reduction in rental income in the current year. For many of our existing customers there is a difficult period ahead as they look to rebuild their businesses. Some businesses will want to downsize, some will decide to continue working remotely, some may fail while others will recover quickly. Workspace is well positioned to provide them with the support they will need, and I believe the majority will see the value of retaining their Workspace office. Equally I believe our flexible offer will continue to attract new customers. This includes businesses reflecting on their property requirements following their experience operating remotely through the lockdown period.

I have been delighted with the success of our recently opened buildings and we have an extensive pipeline of refurbishment and redevelopment activity to deliver over the coming years. We will shortly be opening two buildings in Hackney and Bow that were completed just as the lockdown was announced. We are also continuing to track acquisition opportunities across London.

Despite the near-term uncertainty, I am confident that Workspace has a huge opportunity for growth in the medium and long term. The commercial property market is being redefined around fast-changing customer requirements, with lease and space flexibility becoming increasingly important. These are factors which play directly into the compelling offer we can provide.

## BUSINESS REVIEW

### ENQUIRIES AND LETTINGS

We saw strong levels of demand over the year with enquiries averaging 1,087 per month (2019: 1,048) and lettings averaging 121 per month (2019: 103). The Government restrictions on public movement began to impact enquiries and lettings in late March 2020, and we have seen a significant slowdown in activity since then. Prior to this enquiries and lettings in the fourth quarter were very strong with a high of 1,430 enquiries in January 2020.

Average number per month	Quarter Ended					
	31 Mar 2020	31 Dec 2019	30 Sept 2019	30 Jun 2019	31 Mar 2019	31 Dec 2018
Enquiries	<b>1,128</b>	1,001	1,158	1,060	1,244	907
Lettings	<b>117</b>	113	134	121	130	98

### RENT ROLL

Total rent roll, representing the total annualised net rental income at a given date, was up 4.2% to £132.8m at March 2020 as detailed below:

Rent Roll	£m
At 31 March 2019	127.5
Like-for-like portfolio	1.7
Completed projects	7.8
Projects underway and design stage	(1.0)
Disposals / other	(3.2)
<b>At 31 March 2020</b>	<b>132.8</b>

The total estimated rental value (ERV) of the portfolio, comprising the ERV of the like-for-like portfolio, and those properties currently undergoing refurbishment or redevelopment (but only including properties at the design stage or being sold at their current rent roll and occupancy) is £165.8m.

#### Like-for-like Portfolio

The like-for-like portfolio represents 68% of the total rent roll as at 31 March 2020. It comprises 29 properties with stabilised occupancy, excluding buildings impacted by significant refurbishment or redevelopment activity or contracted for sale. This category includes the prior year acquisitions of Centro Buildings and The Shepherds Building. Like-for-like trends reported for previous financial years are not restated for the property transfers made in the current financial year.

The like-for-like rent roll has increased by 1.9% (£1.7m) in the year to £90.4m. The growth over the twelve months has come from a 2.6% increase in occupancy from 90.5% to an all-time high of 93.1% offset by a 0.7% decrease in rent per sq. ft. to £43.32, reflecting some moderation in pricing levels in the first half of the year.

If all the like-for-like properties were at the current occupancy level of 93.1% at the CBRE estimated rental values at 31 March 2020, the rent roll would be £99.2m, £8.8m higher than the actual cash rent roll at 31 March 2020.

#### Completed Projects

There are now a total of thirteen projects in the completed projects category, with rent roll increasing by 43% (£7.8m) in the year to £26.1m and overall occupancy at 87%.

If the buildings in this category were all at 90% occupancy at the CBRE estimated rental values at 31 March 2020, the rent roll would be £31.2m, an uplift of £5.1m.

#### Projects Underway – Refurbishments

We are currently underway on five refurbishment projects that will deliver 214,000 sq. ft. of new and upgraded space. As at 31 March 2020, rent roll was £2.2m, down £0.1m in the year. We expect to complete four of these refurbishments during the current year delivering 148,000 sq. ft. of new space.

Assuming 90% occupancy at the CBRE estimated rental values at 31 March 2020, the rent roll at these five buildings once they are completed would be £7.2m, an uplift of £5.0m.

#### Projects Underway – Redevelopments

There are currently three mixed-use redevelopment projects underway. At all of these sites, new business centres built at no cost to Workspace, will be delivered providing 98,000 sq. ft. of net lettable space.

Assuming 90% occupancy at the CBRE estimated rental values at 31 March 2020, the rent roll at the three new business centres would be £2.2m.

#### Projects at Design Stage

These are properties where we are planning a refurbishment or redevelopment that has not yet commenced. In a number of cases this is because we are awaiting planning consent. The rent roll at these properties at 31 March 2020 was £14.1m, down £0.9m in the year.

### **PROFIT PERFORMANCE**

Trading profit after interest for the year is up 11.9% (£8.6m) on the prior year to £81.0m.

£m	<b>31 Mar 2020</b>	31 Mar 2019
Net rental income	<b>122.0</b>	111.0
Administrative expenses - underlying	<b>(15.1)</b>	(14.9)
Administrative expenses – share based costs*	<b>(2.6)</b>	(2.2)
Net finance costs	<b>(23.3)</b>	(21.5)
Trading profit after interest	<b>81.0</b>	72.4

\* These relate to both cash and equity settled costs

Net rental income was up 9.9% (£11.0m) in total to £122.0m, as detailed below:

£m	<b>31 Mar 2020</b>	31 Mar 2019
Underlying net rental income	<b>103.9</b>	97.5
Acquisitions	<b>16.0</b>	9.9
Disposals	<b>2.1</b>	3.6
	<b>122.0</b>	111.0

There was a £6.4m (6.6%) increase in underlying net rental income, largely driven by the successful letting up of recently completed projects. The income from acquisitions relates to the Centro Buildings and The Shepherds Building acquired in the last financial year; while disposals include both sales in the last financial year and the current financial year.



Underlying administrative expenses increased by 1.3% (£0.2m) to £15.1m from inflationary pay rises and cost increases, offset by a short-term saving in Executive costs following Jamie Hopkins stepping down as CEO in May 2019.

Net finance costs increased by 8.4% (£1.8m) in the year. The average net debt balance over the year was £40.0m higher than the prior year, whilst the average interest rate was stable at 3.7%. This interest rate includes the commitment fee on the undrawn portion of the revolver facility. The marginal cost of the undrawn revolver facility is 1.5% over LIBOR.

Profit before tax decreased to £72.5m with an adverse movement year-on-year in the property revaluation from a surplus of £60.8m in the prior year to a deficit of £7.5m in the current year.

£m	<b>31 March 2020</b>	31 March 2019
Trading profit after interest	<b>81.0</b>	72.4
Change in fair value of investment properties	<b>(7.5)</b>	60.8
(Loss) / profit on sale of investment properties	<b>(0.8)</b>	8.3
Exceptional finance costs	-	(3.1)
Other items	<b>(0.2)</b>	(1.1)
Profit before tax	<b>72.5</b>	137.3
Adjusted underlying earnings per share	<b>44.6p</b>	40.6p

The small loss on sale of investment properties relates to sales costs associated with four disposals completed in the second half of the year which were calculated by reference to the September 2019 CBRE valuation. The sales were made at a premium of 21% relative to the March 2019 valuation.

Adjusted underlying earnings per share, based on EPRA earnings adjusted for non-trading items and calculated on a diluted share basis, is up 9.9% to 44.6p. The 12% growth in trading profit after interest is reduced by the impact of an increase of 9.96% in the number of shares in issue following the share placement in June 2018.

## **DIVIDEND**

Our dividend policy is based on trading profit after interest, taking into account our investment and acquisition plans and the distribution requirements that we have as a REIT, with our aim being to ensure the dividend per share is covered at least 1.2 times by adjusted underlying earnings per share. We believe that the strong trading performance for the year to 31 March 2020 combined with our business model and robust financial position leave us well positioned to address the challenges caused by the Covid-19 pandemic.

The Board is therefore recommending a final dividend of 24.49p per share (2019: 22.26p) to be paid on 7 August 2020 to shareholders on the register at 3 July 2020. The dividend will be paid as a Property Income Distribution and fully meets the REIT distribution requirement for the year to 31 March 2020, with a dividend cover at 1.23 times adjusted underlying earnings per share.

## PROPERTY VALUATION

At 31 March 2020, our property portfolio was independently valued by CBRE at £2,574m, an underlying decrease of 0.3% (£8m) in the year. The main movements in the valuation over the year are set out below:

	£m
Valuation at 31 March 2019	2,604
Revaluation uplift – 6 months to September 2019	59
Revaluation deficit – 6 months to March 2020	(67)
Capital expenditure	55
Capital receipts	(12)
Disposals	(65)
<b>Valuation at 31 March 2020</b>	<b>2,574</b>

There was a revaluation decrease of 2.5% (£67m) in the second half of the year compared to an increase of 2.2% (£59m) in the first half. The reduction in the second half of the year includes a capital deduction by CBRE of £32m reflecting their assessment of the deduction a buyer might expect to allow for the risk of increased customer defaults and non-payment of rent. The external valuation of our portfolio at 31 March 2020 contains a material uncertainty clause from CBRE, which is in line with the RICS guidance to valuers and reflects the difficulty in determining asset values when few comparable transactions have occurred in the current trading environment.

A summary of the full year valuation and revaluation movement by property type is set out below:

£m	Valuation	Uplift / deficit
Like-for-like Properties	1,540	(27)
Completed Projects	547	4
Refurbishments	331	8
Redevelopments	145	(2)
Disposals – exchanged	11	(1)
Disposals – completed	-	10
<b>Total</b>	<b>2,574</b>	<b>(8)</b>

### Like-for-like Properties

There was a 1.7% (£27m) underlying decrease in the valuation of like-for-like properties to £1,540m, largely reflecting the capital deduction made by CBRE in respect of Covid-19.

	<b>31 March 2020</b>	31 March 2019	Change
ERV per sq. ft.	<b>£47.54</b>	£48.11	-1.2%
Rent per sq. ft.	<b>£43.32</b>	£43.64	-0.7%
Equivalent Yield	<b>5.9%</b>	6.0%	-0.1%
Net Initial Yield	<b>5.2%</b>	5.1%	+0.1%
Capital Value per sq. ft.	<b>£687</b>	£691	-0.5%

The fall in CBRE's ERV estimate reflects reductions in pricing across the like-for-like portfolio, primarily in the first half of the year.

### Completed Projects

There was an underlying uplift of 0.7% (£4m) in the value of the thirteen completed projects to £547m. The overall valuation metrics for completed projects are set out below:

	<b>31 March 2020</b>
ERV per sq. ft.	<b>£45.76</b>
Rent per sq. ft.	<b>£39.67</b>
Equivalent Yield	<b>5.6%</b>
Net Initial Yield	<b>4.4%</b>
Capital Value per sq. ft.	<b>£723</b>

### Current Refurbishments and Redevelopments

There was an underlying uplift of 2.5% (£8m) in the value of our current refurbishments to £331m and a reduction of 1.4% (£2m) in the value of our current redevelopments to £145m.

### **REFURBISHMENT ACTIVITY**

In April 2019, we completed the refurbishment of The Light Box, Chiswick which now provides 78,000 sq. ft. of net lettable space, following a roof extension and significant upgrade to the common areas.

In June 2019, we completed two new buildings:

- Brickfields, adjacent to Hoxton Rail Station, provides 57,000 sq. ft. of net lettable space. The industrial design of the building features a steel-frame interior and a large central atrium.
- Ink Rooms, a former printing ink factory in Clerkenwell, has been converted and extended to provide 22,000 sq. ft. of net lettable space.

In September 2019, we completed the refurbishment of 338 Goswell Road, Angel, comprising 43,000 sq. ft. of upgraded space.

The major re-build of Mare Street Studios, Hackney, providing 55,000 sq. ft. of new business space completed in April 2020 and we plan to launch this building shortly.

A summary of the status of the refurbishment pipeline at 31 March 2020 is set out below:

Projects	Number	Capex spent	Capex to spend	Upgraded and new space (sq. ft.)
Underway	5	£36m	£15m	214,000
Design stage	6	–	£90m	437,000
Design stage (without planning)	1	–	£60m	155,000

## REDEVELOPMENT ACTIVITY

Many of our properties are in areas where there is strong demand for mixed-use redevelopment. Our model is to use our expertise, knowledge and local relationships to obtain a mixed-use planning consent and then agree terms with a residential developer to undertake the redevelopment and construction at no cost and limited risk to Workspace. We receive back a combination of cash, new commercial space and overage in return for the sale of the residential scheme to the developer.

A summary of the status of the redevelopment pipeline at 31 March 2020 is set out below:

	No. of properties	Residential units	Cash received	Cash/overage to come	New commercial space (sq. ft.)
Underway	3	407	£25m	£4m	98,000
Design stage	4	783	–	–	115,000
Design stage (without planning)	1	402	–	–	171,000

The sale of the residential schemes at the three redevelopment schemes underway is expected to deliver £29m in cash (of which £25m has already been received) and three new commercial buildings.

The third and final phase of the Bow Enterprise Park redevelopment scheme has been completed with a new 39,000 sq. ft. business centre delivered to us by the developer. We plan to launch this building, called Lock Studios, shortly.

There are four schemes at the design stage that have obtained mixed-use planning consents but are not yet contracted for sale.

Discussions with the planners for the re-designation of land use for a significant mixed-use redevelopment scheme in Wandsworth are progressing well and we hope to obtain planning consent shortly.

## DISPOSALS

Four properties have been exchanged and sold in the year for a total of £65m at a premium of 21% (£10m) to the 31 March 2019 valuation:

- In September 2019, we exchanged contracts for the sale of Alexandra House, Wood Green for £15.5m. The sale completed in March 2020 at a net initial yield of 4.1% and a capital value of £283 per sq. ft. The premium achieved is well ahead of the returns we expected to achieve from the planned repositioning of this building.
- In September 2019, we also exchanged contracts for the sale of Vestry Street Studios, near Old Street for £19.25m. The sale of this small office building completed in October 2019 at a net initial yield of 4.3% and a capital value of £847 per sq. ft.
- In October 2019, we exchanged and completed on the sale of 12-13 and 14 Greville Street, Farringdon for £14.75m. This represents a net initial yield of 1.3% and a capital value of £1,000 per sq. ft. In June 2018 we obtained planning consent for a refurbishment project. However, the premium to book value achieved on the sale exceeds the return anticipated from this planned project.
- In November 2019, we exchanged contracts for the sale of Quality Court, Holborn for £15.8m. The sale completed in January 2020 at a net initial yield of 4.3% and a capital value of £930 per sq. ft.

## CASH FLOW

The Group generates strong operating cash flow in line with trading profit, with good levels of cash collection. Bad debts remained low over the year at £0.4m (March 2019: £0.2m). A summary of the movements in cash flow are set out below:

£m	31 March 2020	31 March 2019
Net cash from operations after interest	85	76
Dividends paid	(61)	(52)
Capital expenditure	(62)	(87)
Purchase of investment properties	-	(221)
Property disposals and cash receipts	65	51
Capital receipts	12	6
Share placement proceeds	-	176
Other	-	(12)
Net movement	39	(63)
Opening debt (net of cash)	(580)	(517)
<b>Closing debt (net of cash)</b>	<b>(541)</b>	<b>(580)</b>

There is a reconciliation of net debt in note 13(b) to the financial statements.

## FINANCING

As at 31 March 2020, the Group had £70.3m of cash and £96.0m of undrawn facilities:

	Drawn amount	Facility	Maturity
Private Placement Notes	£457.5m	£457.5m	2020-2029
Bank facilities	£154.0m	£250.0m	2022
<b>Total</b>	<b>£611.5m</b>	<b>£707.5m</b>	

All facilities are provided on an unsecured basis with an average maturity of 4.5 years (31 March 2019: 5.6 years).

The average interest cost of our fixed rate private placement notes is 4.0%. Our revolver bank facilities are provided at a floating rate of 1.65% over LIBOR. At 31 March 2020, 63% of our facilities are at fixed rates, representing 73% of our borrowings on a drawn basis.

At 31 March 2020, loan to value (LTV) was 21% (31 March 2019: 22%) and interest cover (based on net rental income) was 5.2 times (31 March 2019: 5.2), providing good headroom on all facility covenants. We estimate that we could withstand a reduction in net rental income of 62% or a fall in asset valuation of 65% before any debt covenants are breached.

## NET ASSETS

Net assets increased in the year by £17m to £1,998m. EPRA net asset value (NAV) per share at 31 March 2020 was up 0.3% (£0.03) to £10.89:

	£
At 31 March 2019	10.86
Adjusted trading profit after interest	0.45
Property valuation surplus / (deficit)	(0.04)
Dividends paid	(0.34)
Other	(0.04)
<b>At 31 March 2020</b>	<b>£10.89</b>

The calculation of EPRA NAV per share is set out in note 8 of the financial statements.

## OUTLOOK FOR THE YEAR TO 31 MARCH 2021

The results for the first quarter will be impacted by rent discounts, partially offset by cost savings. We have offered customers in our business centres affected by the Government restrictions a rent reduction of 50% initially for the lockdown period and now extended until the end of June 2020. We have also, on a case by case basis, offered customers the opportunity to defer a proportion of their rental payments. The rent discount is only available to customers who continue to pay their rent or have a deferred payment agreement.

Overall, we have given rent reductions to around 75% of our customers (by rent), which represents a reduction in rent of c.£15m in the quarter. We have agreed to defer around 15% of the discounted rent amounts due from these customers.

Of the total rent (net of discounts and deferrals) that we expected to collect for the first quarter, we have so far collected approximately 70% and continue to work with customers on the remaining rent due.

Whilst our centres have remained open during the lockdown period and our teams have continued to support customers remotely, the significant temporary decrease in the number of people using our centres has allowed us to reduce service costs, although these are partially offset by higher costs in areas such as security.

Government restrictions on public movement began to impact enquiries and lettings in late March 2020 and we have seen a significant slowdown in enquiries and letting activity since then, with enquiries falling to a low of around 50 per week in early April. Whilst it is too soon to draw any conclusions, we have seen enquiry levels start to pick up again in May, albeit still significantly below normal levels.

Our customer base comprises over 3,000 businesses, highly diversified both by size and by sector, with those customers in sectors most directly impacted by Covid-19, including retail, travel, hospitality, events and leisure, accounting for less than 15% of total rent roll. Despite this diversity and our best efforts to support them, not all customers' businesses will survive. The key test will come over the next few months as lockdown eases, Government support is reduced and our customers assess the prospects for their businesses.

Whilst the risk of material bad debts is largely mitigated by the rent deposits we hold, the space vacated, combined with that released by customers downsizing, will put downward pressure on occupancy. Our focus will be on retaining existing customers as best we can, alongside capturing the demand from new customers. As the structural shift towards flexible working continues, we do believe we will see ongoing demand from a broad range of businesses for the space and services Workspace provides.

It is too soon to see any clear trends or predict exactly the extent to which the factors above will impact the results for the year to March 2021. We have, however, modelled a number of scenarios to better understand the wide spread of potential outcomes and to ensure the robustness of the business as a going concern. The key variables for our operating performance are occupancy and pricing, with a 5% change in occupancy or rent per sq. ft. having an impact of approximately £7m on total rent roll. For reference, during the Global Financial Crisis, we saw like-for-like occupancy drop by 7% to 83% at its lowest point and rent per sq. ft. drop by 6%.

Whilst the results for the year to 31 March 2021 will be impacted by the rent reductions we have given our customers in the first quarter and any short-term pressure on occupancy, our experience from previous economic downturns has shown that our dynamic operating model and flexible offer allow us to adapt quickly to capture demand and achieve good occupancy levels in any market conditions.

## KEY PROPERTY STATISTICS

	Half Year ended			
	31 March 2020	30 Sept 2019	31 March 2019	30 Sept 2018
<b>Workspace Group Portfolio</b>				
CBRE property valuation	<b>£2,574m</b>	£2,682m	£2,604m	£2,435m
Number of locations	<b>59</b>	64	64	64
Lettable floorspace (million sq. ft.)	<b>3.9</b>	4.0	3.9	3.8
Number of lettable units	<b>4,009</b>	4,969	4,796	4,709
Rent roll of occupied units	<b>£132.8m</b>	£130.4m	£127.5m	£115.0m
Average rent per sq. ft.	<b>£39.18</b>	£38.06	£38.45	£36.66
Overall occupancy	<b>87.0%</b>	86.3%	84.8%	82.4%
Like-for-like number of properties	<b>29</b>	28	30	30
Like-for-like lettable floor space (million sq. ft.)	<b>2.2</b>	2.2	2.1	2.1
Like-for-like rent roll growth	<b>1.2%</b>	0.7%	(0.4)%	2.6%
Like-for-like rent per sq. ft. growth	<b>0.3%</b>	(1.0)%	1.0%	2.8%
Like-for-like occupancy movement	<b>0.9%</b>	1.7%	(0.7)%	(0.2)%

- 1) The like-for-like category has been restated in the current financial year for the following:
  - The transfer in of Centro Buildings, Camden, and The Shepherds Building, Shepherd's Bush, from the acquisitions category
  - The transfer in of The Record Hall, Hatton Garden, Cocoa Studios at The Biscuit Factory, Bermondsey, and Vox Studios (phase 2), Vauxhall, from the completed projects category
  - The transfer out of Canalot Studios, Ladbroke Grove, Parkhall Business Centre, Dulwich, and Havelock Terrace, Battersea, to the refurbishment projects category
  - The transfer out of Vestry Street Studios, Old Street, and Quality Court, Holborn, to the disposals category
- 2) Like-for-like statistics for prior years are not restated for the changes made to the like-for-like property portfolio in the current financial year.
- 3) Overall rent per sq. ft. and occupancy statistics include the lettable area at like-for-like properties and all refurbishment and redevelopment projects, including those projects recently completed and also properties where we are in the process of obtaining vacant possession.



## Consolidated income statement

For the year ended 31 March 2020

	Notes	2020 £m	2019 £m
Revenue	1	<b>161.4</b>	149.4
Direct costs	1	<b>(39.4)</b>	(38.4)
Net rental income	1	<b>122.0</b>	111.0
Administrative expenses	2	<b>(17.7)</b>	(17.1)
Trading profit		<b>104.3</b>	93.9
(Loss) / profit on disposal of investment properties	3(a)	<b>(0.8)</b>	8.3
Other expenses	3(b)	<b>(0.2)</b>	(1.1)
Change in fair value of investment properties	10	<b>(7.5)</b>	60.8
Operating profit	2	<b>95.8</b>	161.9
Finance costs	4	<b>(23.3)</b>	(21.5)
Exceptional finance costs	4	<b>–</b>	(3.1)
Profit before tax		<b>72.5</b>	137.3
Taxation	6	<b>(0.4)</b>	–
Profit for the financial year after tax		<b>72.1</b>	137.3
Basic earnings per share	8	<b>40.0p</b>	78.9p
Diluted earnings per share	8	<b>39.7p</b>	78.3p

## Consolidated statement of other comprehensive income

For the year ended 31 March 2020

	2020 £m	2019 £m
Profit for the financial year	<b>72.1</b>	137.3
Other comprehensive income:		
Items that may be classified subsequently to profit or loss:		
Change in fair value of other investments	<b>(1.9)</b>	4.0
Cash flow hedge – transfer to income statement	<b>(4.2)</b>	(5.5)
Cash flow hedge – change in fair value	<b>8.3</b>	7.6
Total comprehensive income for the year	<b>74.3</b>	143.4

# Consolidated balance sheet

As at 31 March 2020

	Notes	2020 £m	2019 £m
<b>Non-current assets</b>			
Investment properties	10	<b>2,586.3</b>	2,591.4
Intangible assets		<b>2.0</b>	1.6
Property, plant and equipment	11	<b>4.8</b>	3.4
Other investments	12	<b>7.9</b>	9.8
Derivative financial instruments	16(e) & (f)	<b>18.5</b>	10.1
Deferred tax	6	<b>0.6</b>	-
		<b>2,620.1</b>	2,616.3
<b>Current assets</b>			
Trade and other receivables	13	<b>25.2</b>	13.7
Assets held for sale	10	<b>11.0</b>	25.5
Cash and cash equivalents	14	<b>79.2</b>	26.7
		<b>115.4</b>	65.9
<b>Total assets</b>		<b>2,735.5</b>	2,682.2
<b>Current liabilities</b>			
Trade and other payables	15	<b>(83.1)</b>	(77.0)
Borrowings	16(a)	<b>(9.0)</b>	-
		<b>(92.1)</b>	(77.0)
<b>Non-current liabilities</b>			
Borrowings	16(a)	<b>(645.4)</b>	(623.2)
		<b>(645.4)</b>	(623.2)
<b>Total liabilities</b>		<b>(737.5)</b>	(700.2)
<b>Net assets</b>		<b>1,998.0</b>	1,982.0
<b>Shareholders' equity</b>			
Share capital	18	<b>180.7</b>	180.4
Share premium	18	<b>295.4</b>	295.1
Investment in own shares		<b>(9.6)</b>	(9.3)
Other reserves	19	<b>32.2</b>	27.4
Retained earnings		<b>1,499.3</b>	1,488.4
<b>Total shareholders' equity</b>		<b>1,998.0</b>	1,982.0
<b>EPRA net asset value per share</b>	9	<b>£10.89</b>	£10.86

# Consolidated statement of changes in equity

For the year ended 31 March 2020

	Attributable to owners of the parent						Total Shareholders' equity £m
	Notes	Share capital £m	Share premium £m	Investment in own shares £m	Other reserves £m	Retained earnings £m	
Balance at 31 March 2018		163.8	135.3	(9.3)	19.4	1,403.7	1,712.9
Profit for the financial year		–	–	–	–	137.3	137.3
Other comprehensive income for the year	19	–	–	–	6.1	–	6.1
Total comprehensive income		–	–	–	6.1	137.3	143.4
Transactions with owners:							
Share issues	18	16.6	159.8	–	–	–	176.4
Dividends paid	7	–	–	–	–	(52.6)	(52.6)
Share based payments		–	–	–	1.9	–	1.9
Balance at 31 March 2019		180.4	295.1	(9.3)	27.4	1,488.4	1,982.0
Profit for the financial year		–	–	–	–	72.1	72.1
Other comprehensive income for the year	19	–	–	–	2.2	–	2.2
Total comprehensive income		–	–	–	2.2	72.1	74.3
Transactions with owners:							
Share issues	18	0.3	0.3	(0.3)	–	–	0.3
Dividends paid	7	–	–	–	–	(61.2)	(61.2)
Share based payments		–	–	–	2.6	–	2.6
<b>Balance at 31 March 2020</b>		<b>180.7</b>	<b>295.4</b>	<b>(9.6)</b>	<b>32.2</b>	<b>1,499.3</b>	<b>1,998.0</b>

# Consolidated statement of cash flows

For the year ended 31 March 2020

	Notes	2020 £m	2019 £m
<b>Cash flows from operating activities</b>			
Cash generated from operations	17	<b>108.7</b>	99.8
Interest paid		<b>(24.1)</b>	(23.7)
Tax receipt		<b>0.1</b>	–
Net cash inflow from operating activities		<b>84.7</b>	76.1
<b>Cash flows from investing activities</b>			
Purchase of investment properties		–	(220.8)
Capital expenditure on investment properties		<b>(59.7)</b>	(86.7)
Proceeds from disposal of investment properties (net of sale costs)		<b>75.0</b>	50.8
Purchase of intangible assets		<b>(0.9)</b>	(0.6)
Purchase of property, plant and equipment		<b>(2.3)</b>	(1.5)
Other income (overage receipts)		<b>2.0</b>	5.8
Purchase of investments		<b>0.5</b>	(1.5)
Income distributions from joint ventures		–	0.1
Net cash inflow / (outflow) from investing activities		<b>14.6</b>	(254.4)
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary share capital	18	<b>0.6</b>	176.4
Finance costs for new/amended borrowing facilities		–	(0.7)
Exceptional finance costs		–	(2.9)
Settlement and re-couponsing of derivative financial instruments		–	(0.2)
Repayment of bank borrowings and Retail Bond	16(b)	<b>(90.1)</b>	(343.5)
Draw down of bank borrowings and Private Placement Notes	16(b)	<b>104.0</b>	410.0
Own shares purchase (net)		<b>(0.3)</b>	–
Dividends paid	7	<b>(61.0)</b>	(52.1)
Net cash (outflow) / inflow from financing activities		<b>(46.8)</b>	187.0
Net increase in cash and cash equivalents		<b>52.5</b>	8.7
Cash and cash equivalents at start of year	17	<b>26.7</b>	18.0
Cash and cash equivalents at end of year	17	<b>79.2</b>	26.7

# Notes to the financial statements

For the year ended 31 March 2020

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 March 2020 or 2019 but is derived from those accounts. Statutory accounts for 2019 have been delivered to the registrar of companies, and those for 2020 will be delivered in due course. The auditor has reported on those accounts; their reports were i) unqualified ii) did include an emphasis of matter regarding uncertain valuation of investment property without qualifying their report and iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The accounting policies are consistent with those contained in the Group's last annual report and accounts for the year ended 31 March 2019, with exception of the following:

## 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 potential impact of the Covid-19 pandemic on the operations of the Group has been a key consideration when assessing the appropriateness of applying the going concern basis in the preparation of the financial statements. There is still significant uncertainty as to how our customers, and the economy more widely, will respond to the current challenge and how our business will be impacted as a result. We have therefore modelled a number of different scenarios considering a period of 12 months from the date of signing of these financial statements. These scenarios include a severe, but realistically possible, scenario which assumes a lock-down period of six months with an economic slowdown. Key assumptions in this scenario include:

- 90% of customers receive a 50% discount and 80% of the discounted rent is deferred for 12 months after lockdown ends.
- A reduction of 30% in occupancy and 20% in pricing. These reductions are more severe than that experienced during the global financial crisis.
- A gradual recovery in occupancy to 90% over a period of 23 months.
- An expansion in investment yields of 350bps.

The appropriateness of the going concern basis is reliant on the continued availability of borrowings and compliance with loan covenants. The group has a fully unsecured loan portfolio of £611.5m requiring compliance with LTV and Interest Cover covenants. As at the tightest test date the group could withstand a reduction in net rental income of 61 percent and a fall in the asset valuation of 61 per cent compared to 31 March 2020 values before these covenants are breached, assuming no mitigating actions are taken. As at 31 March 2020, the company had significant headroom on its facilities with £70m of cash and undrawn facilities of £96m. Other than Private Placement notes of £9m, no debt is due to be refinanced until June 2022. For the full period of the scenario tested, the Group maintains sufficient headroom in its cash and loan facilities and loan covenants are met.

Based on these factors, and the outcome of their review, the Directors have a reasonable expectation that the Group and the Company have adequate resources and sufficient loan facility headroom to continue as a going concern.

## New accounting standards, amendments and guidance

a) During the year to 31 March 2020 the Group adopted the following accounting standards and guidance:

IFRS 9 (amended)	Prepayment Features with Negative Compensation and modifications of financial liabilities
IFRS 16	Leases
IAS 19 (amended)	Plan Amendment, Curtailment or Settlement
IAS 19 (amended)	Plan Amendment, Curtailment or Settlement
IFRIC 23	Uncertainty over Income Tax Treatments

The Group had to update its accounting policies and disclosures in relation to IFRS 16, but there were no impacts from other accounting standard amendments.

## IFRS 16 – Leases

This new standard requires that for all leases in excess of one year, must recognise a right-of-use asset and a related lease liability representing the obligation to make lease payments. The Group has a number of property head leases which are already accounted for as investment properties held under leases in accordance with IAS 40 and have therefore been grossed up on the balance sheet. Lessor accounting is substantially unchanged from current accounting. Hence, this standard does not impact the Group's financial statements.

b) The following accounting standards and guidance are not yet effective but are 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:

IFRS Standards	Amendments to References to the Conceptual Framework in IFRS Standards
IFRS 3 (amended)	Definition of a Business
IAS 1 and IAS 8 (amended)	Definition of Material
IFRS 9, IAS 39, IFRS 7 (amended)	Interest Rate Benchmark Reform
IAS 1 (amended)	Classification of Liabilities as Current or Non-Current

The Covid-19 pandemic has caused disrupted activity in real estate markets creating heightened valuation uncertainty for the Group's valuers. Consequently, the valuation report contains a material uncertainty clause. Details of this along with the valuation methodology and key assumptions are given in note 10.

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

	2020			2019		
	Revenue £m	Direct costs £m	Net rental income £m	Revenue £m	Direct costs £m	Net rental income £m
Rental income	<b>132.7</b>	<b>(2.2)</b>	<b>130.5</b>	123.7	(3.8)	119.9
Service charges	<b>21.8</b>	<b>(25.5)</b>	<b>(3.7)</b>	19.3	(24.6)	(5.3)
Empty rates and other non-recoverables	<b>–</b>	<b>(6.3)</b>	<b>(6.3)</b>	–	(5.3)	(5.3)
Services, fees, commissions and sundry income	<b>6.9</b>	<b>(5.4)</b>	<b>1.5</b>	6.4	(4.7)	1.7
	<b>161.4</b>	<b>(39.4)</b>	<b>122.0</b>	149.4	(38.4)	111.0

All of the properties within the portfolio are geographically close to each other and have similar economic features and risks. Management information utilised by the Executive Committee to monitor and review performance is reviewed 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:

	2020 £m	2019 £m
Depreciation <sup>1</sup>	<b>0.9</b>	1.0
Staff costs (including share based costs) <sup>1</sup> (note 5)	<b>18.7</b>	18.8
Repairs and maintenance expenditure on investment properties	<b>2.4</b>	3.7
Trade receivables impairment (note 13)	<b>0.8</b>	0.7
Amortisation of intangibles	<b>0.5</b>	0.4
Audit fees payable to the Company's Auditor	<b>0.2</b>	0.2

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

	2020 £000	2019 £000
Auditor's remuneration: Services provided by the Company's Auditor and its associates	<b>£000</b>	£000
Audit fees:		
Audit of Parent Company and consolidated financial statements	<b>178</b>	154
Audit of subsidiary financial statements	<b>31</b>	27
	<b>209</b>	181
Fees for other services:		
Audit-related assurance services	<b>31</b>	31
Total fees payable to Auditor	<b>240</b>	212

	2020 £m	2019 £m
Total administrative expenses are analysed below:		
Staff costs	9.8	9.6
Cash settled share based costs	–	0.3
Equity settled share based costs	2.6	1.9
Other	5.3	5.3
	<b>17.7</b>	17.1

### 3(a). Profit on disposal of investment properties

	2020 £m	2019 £m
Proceeds from sale of investment properties (net of sale costs)	79.5	50.8
Book value at time of sale	(80.3)	(42.5)
(Loss) / profit on disposal	<b>(0.8)</b>	8.3

During the year, the sale of the Marshgate site completed. Workspace received proceeds of £15m, of which £10.5m was received in cash in August 2019. The remaining balance of £4.5m is payable upon transfer of the leasehold element and is being held on the balance sheet as deferred consideration (Note 10). As part of the sale, Workspace will also be receiving new commercial space, the value of which is held as investment property on the balance sheet.

### 3(b). Other expenses

	2020 £m	2019 £m
Change in fair value of deferred consideration	0.2	1.1
	<b>0.2</b>	1.1

The value of deferred consideration (cash and overage) from the sale of investment properties has been revalued by CBRE Limited at 31 March 2020 and 31 March 2019. This resulted in a reduction in the fair value of deferred consideration of £0.2m at 31 March 2020 (31 March 2019: decrease of £1.1m). The amounts receivable are included in the Consolidated balance sheet under current trade and other receivables (note 13).

### 4. Finance costs

	2020 £m	2019 £m
Interest payable on bank loans and overdrafts	(4.1)	(4.7)
Interest payable on other borrowings	(18.6)	(17.3)
Amortisation of issue costs of borrowings	(0.7)	(1.3)
Interest payable on finance leases	(1.7)	(0.9)
Interest capitalised on property refurbishments (note 10)	1.8	2.7
Foreign exchange gains/(losses) on financing activities	4.2	5.5
Cash flow hedge – transfer (to)/from equity	(4.2)	(5.5)
Finance costs	<b>(23.3)</b>	(21.5)
Exceptional finance costs	–	(3.1)
Total finance costs	<b>(23.3)</b>	(24.6)

Prior year exceptional finance costs of £3.1m were incurred upon repayment of the £57.5m 6% Retail Bond in September 2018. The costs included a £2.9m premium on redemption and £0.2m of unamortised finance costs and legal fees relating to this debt.

## 5. Employees and Directors

	2020 £m	2019 £m
Staff costs for the Group during the year were:		
Wages and salaries	15.3	15.8
Social security costs	1.8	1.9
Other pension costs (note 26)	0.7	0.8
Cash settled share based costs (note 22)	–	0.3
Equity settled share based costs (note 22)	2.6	1.9
	<b>20.4</b>	<b>20.7</b>
Less costs capitalised	(1.7)	(1.9)
	<b>18.7</b>	<b>18.8</b>

	2020 Number	2019 Number
The monthly average number of people employed during the year was:		
Head office staff (including Directors)	117	110
Estates and property management staff	118	110
	<b>235</b>	<b>220</b>

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 127 to 154. These form part of the financial statements.

Total Directors' emoluments for the financial year were £2.9m (2019: £3.2m), comprising of £1.4m (2019: £2.2m) of Directors' remuneration, £1.4m (2019: £0.9m) gain on exercise of share options and £0.1m (2019: £0.1m) of cash contributions in lieu of pension in respect of two Directors (2019: two).

## 6. Taxation

	2020 £m	2019 £m
Current tax:		
UK corporation tax	0.8	–
Deferred tax:		
On origination and reversal of temporary differences	(0.4)	–
Total taxation charge	0.4	–

Taxation chargeable in the year relates to income from non-REIT activities such as overage, meeting room income and utilities recharges. The tax on the Group's profit for the year differs from the standard applicable corporation tax rate in the UK of 19% (2019: 19%). The differences are explained below:

	2020 £m	2019 £m
Profit before taxation	72.5	137.3
Tax at standard rate of corporation tax in the UK of 19% (2019: 19%)	13.8	26.0
Effects of:		
REIT exempt income	(14.3)	(15.1)
Changes in fair value not subject to tax as a REIT	1.4	(11.5)
Share based payment adjustments	–	0.1
Overage income subject to tax when received	(0.1)	–
Losses carried forward previously unrecognised	–	0.6
Utilisation of losses unrecognised brought forward	(0.4)	–
Other non-taxable expenses	–	(0.1)
Total taxation charge	0.4	–



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 estimates that as the majority of its future profits will be exempt from tax, future tax charges are likely to be low.

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the company's future current tax charge accordingly. The deferred tax asset at balance sheet date has been calculated at 19% (2019: 17%).

The Group currently has an unrecognised asset in relation to tax losses carried forward of £1.3m (2019: £0.8m) calculated at a corporation tax rate of 19% (2019: 19%).

	2020 £m	2019 £m
Deferred tax assets:		
– Deferred tax to be recovered within 12 months	<b>0.8</b>	0.6
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered within 12 months	<b>(0.2)</b>	(0.6)
Deferred tax Assets (net)	<b>0.6</b>	–

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:

	Other income (overage receipts) £m	Total £m
Deferred tax liabilities		
At 1 April 2018	0.8	0.8
Credited to income statement	(0.2)	(0.2)
At 31 March 2019	0.6	0.6
Credited to income statement	(0.4)	(0.4)
<b>At 31 March 2020</b>	<b>0.2</b>	<b>0.2</b>

	Expenses (share based payment) £m	Tax losses £m	Total £m
Deferred tax assets			
At 1 April 2018	(0.8)	–	(0.8)
Charged to income statement	0.2	(0.2)	–
At 31 March 2019	(0.6)	(0.2)	(0.8)
Charged to income statement	–	–	–
<b>At 31 March 2020</b>	<b>(0.6)</b>	<b>(0.2)</b>	<b>(0.8)</b>

## 7. Dividends

	Payment date	Per share	2020 £m	2019 £m
For the year ended 31 March 2018:				
Final dividend	August 2018	18.55p	–	33.4
For the year ended 31 March 2019:				
Interim dividend	February 2019	10.61p	–	19.2
Final dividend	August 2019	22.26p	<b>40.1</b>	–
<b>For the year ended 31 March 2020:</b>				
Interim dividend	February 2020	11.67p	<b>21.1</b>	–
Dividends for the year			<b>61.2</b>	52.6
Timing difference on payment of withholding tax			<b>(0.2)</b>	(0.5)
Dividends cash paid			<b>61.0</b>	52.1

In addition, the Directors are proposing a final dividend in respect of the financial year ended 31 March 2020 of 24.49 pence per ordinary share which will absorb an estimated £44.3m of revenue reserves and cash. If approved by the Shareholders at the AGM, it will be paid on 7 August 2020 to Shareholders who are on the register of members on 3 July 2020. The dividend will be paid as a REIT Property Income Distribution ('PID') net of withholding tax where appropriate.

## 8. Earnings per share

	2020 £m	2019 £m
Earnings used for calculating earnings per share:		
Basic and diluted earnings	<b>72.1</b>	137.3
Change in fair value of investment properties	<b>7.5</b>	(60.8)
Exceptional finance costs	–	3.1
Profit on disposal of investment properties	<b>0.8</b>	(8.3)
EPRA earnings	<b>80.4</b>	71.3
Adjustment for non-trading items:		
Other income/(expenses)	<b>0.2</b>	1.1
Taxation	<b>0.4</b>	–
Trading profit after interest	<b>81.0</b>	72.4

Earnings have been adjusted to derive an earnings per share measure as defined by the European Public Real Estate Association ('EPRA') and an adjusted underlying earnings per share measure.

	2020 Number	2019 Number
Number of shares used for calculating earnings per share:		
Weighted average number of shares (excluding own shares held in trust)	<b>180,465,649</b>	177,138,144
Dilution due to share option schemes	<b>981,867</b>	1,258,651
Weighted average number of shares for diluted earnings per share	<b>181,447,516</b>	178,396,795
In pence:		
Basic earnings per share	<b>40.0p</b>	77.5p
Diluted earnings per share	<b>39.7p</b>	77.0p
EPRA earnings per share	<b>44.5p</b>	40.3p
Adjusted underlying earnings per share <sup>1</sup>	<b>44.6p</b>	40.6p

1. Adjusted underlying earnings per share is calculated by trading profit after interest on a diluted basis.

## 9. Net assets per share and total accounting return

	2020 £m	2019 £m
Net assets used for calculating net assets per share:		
Net assets at end of year (basic)	<b>1,998.0</b>	1,982.0
Derivative financial instruments at fair value	<b>(18.5)</b>	(10.1)
EPRA net assets	<b>1,979.5</b>	1,971.9

	2020 Number	2019 Number
Number of shares used for calculating net assets per share:		
Shares in issue at year-end	<b>180,747,868</b>	180,385,498
Less own shares held in trust at year-end	<b>(174,719)</b>	(135,946)
Dilution due to share option schemes	<b>1,232,747</b>	1,267,169
Number of shares for calculating diluted adjusted net assets per share	<b>181,805,896</b>	181,516,721

	2020	2019
EPRA net assets per share	<b>£10.89</b>	£10.86
Basic net assets per share	<b>£11.07</b>	£11.00
Diluted net assets per Share	<b>£10.99</b>	£10.91

Net assets have been adjusted and calculated on a diluted basis to derive a net asset per share measure as defined by EPRA.

	2020 £	2019 £
Total Accounting Return		
Opening EPRA net assets per share (A)	<b>10.86</b>	10.37
Closing EPRA net assets per share	<b>10.89</b>	10.86
Increase in EPRA net assets per share	<b>0.03</b>	0.49
Ordinary dividends paid in the year	<b>0.34</b>	0.29
Total return (B)	<b>0.37</b>	0.78
Total accounting return (B/A)	<b>3.4%</b>	7.5%

The total accounting return for the year comprises the growth in absolute EPRA net asset per share plus dividends paid in the year as a percentage of the opening EPRA net asset value per share. The total return for the year ended 31 March 2020 was 3.4% (31 March 2019: 7.5%).

### EPRA Net Asset Value Metrics

EPRA published updated best practice reporting guidance in October 2019, which included 3 new Net Asset Valuation metrics; EPRA Net Reinstatement Value (NRV), EPRA Net Tangible Assets (NTA) and EPRA Net Disposal Value (NDV). This new set of EPRA NAVs metrics will come into full effect for accounting periods starting from 1 January 2020, but are presented below for comparison to the current EPRA NAV metric.

	March 2020			March 2019		
	EPRA NRV £m	EPRA NTA £m	EPRA NDV £m	EPRA NRV £m	EPRA NTA £m	EPRA NDV £m
IFRS Equity attributable to shareholders	<b>1,998.0</b>	<b>1,998.0</b>	<b>1,998.0</b>	1,982.0	1,982.0	1,982.0
Fair Value of Derivative Financial Instruments	<b>(18.5)</b>	<b>(18.5)</b>	–	(10.1)	(10.1)	–
Intangibles per IFRS balance sheet	–	<b>(2.0)</b>	–	–	(1.6)	–
Excess of fair value of debt over book value	–	–	<b>11.98</b>	–	–	10.7
Purchasers costs	<b>187.8</b>	–	–	190.0	–	–
New EPRA measure	<b>2,167.3</b>	<b>1,977.5</b>	<b>2,009.9</b>	2,161.9	1,970.3	1,992.7
New EPRA measure per share	<b>£11.92</b>	<b>£10.88</b>	<b>£11.06</b>	£11.91	£10.85	£10.98

## Reconciliation to previously reported EPRA NAV

	March 2020			March 2019		
	EPRA NRV £m	EPRA NTA £m	EPRA NDV £m	EPRA NRV £m	EPRA NTA £m	EPRA NDV £m
EPRA NAV	<b>1,979.5</b>	<b>1,979.5</b>	<b>1,979.5</b>	1,971.9	1,971.9	1,971.9
Include Fair value of Derivative financial instruments	–	–	<b>18.5</b>	–	–	10.1
Exclude Intangibles per IFRS balance sheet	–	<b>(2.0)</b>	–	–	(1.6)	–
Excess of fair value of debt over book value	–	–	<b>11.9</b>	–	–	10.7
Purchasers costs	<b>187.8</b>	–	–	190.0	–	–
New EPRA measure	<b>2,167.3</b>	<b>1,977.5</b>	<b>2,009.9</b>	2,161.9	1,970.3	1,992.7

## 10. Investment properties

	2020 £m	2019 £m
Balance at 1 April	<b>2,591.4</b>	2,288.7
Purchase of investment properties	–	221.8
Capital expenditure	<b>53.5</b>	88.6
Change in value of finance lease	<b>12.4</b>	(0.3)
Capitalised interest on refurbishments (note 4)	<b>1.8</b>	2.7
Disposals during the year	<b>(65.3)</b>	(42.5)
Change in fair value of investment properties	<b>(7.5)</b>	60.8
Less: Reclassified as deferred consideration	–	(2.9)
Less: Classified as assets held for sale	–	(25.5)
Balance at 31 March	<b>2,586.3</b>	2,591.4

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 4.0% (2019: 4.3%). The total amount of capitalised interest included in investment properties is £14.1m (2019: £12.3m).

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

Investment properties include buildings with a carrying amount of £305m (2019: £300m) held under finance leases with a carrying amount of £28.2m (2019: £15.8m). 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 2020 by the external valuer, CBRE Limited, a firm of independent qualified valuers in accordance with the Royal Institution of Chartered Surveyors Valuation – Global Standards current at this balance sheet date. 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.

For the 31 March 2020 valuation, the outbreak of Covid-19 has had a significant impact on real estate activity causing some uncertainty for property valuations. Consequently, the valuers have included a material valuation uncertainty clause in their valuation report which states:

As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Our valuations are therefore reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty – and a higher degree of caution – should be attached to our valuations than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, we recommend that you keep the valuation of the properties under frequent review.

For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. Rather, the declaration has been included to ensure transparency of the fact that – in the

current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is to serve as a precaution and does not invalidate the valuation.

To allow for the immediate impact of the pandemic, the valuers have reflected in their assessment a £32m deduction a buyer might expect to allow for the risk of increased customer defaults and non-payment of rent. The Executive Committee and the Board both conduct a detailed review of each property valuation to review appropriate assumptions have been applied. Meetings are held with the valuers to review and challenge the valuations, to confirm that they have considered all relevant information, and rigorous reviews are performed to check that valuations are sensible. In particular, they discussed the impact on the valuation of the Covid-19 rent reduction. They are satisfied with the valuers conclusions.

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.

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.

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:

	2020 £m	2019 £m
Total per CBRE valuation report	<b>2,574.4</b>	2,604.0
Deferred consideration on sale of property	<b>(5.3)</b>	(2.9)
Head leases treated as finance leases under IFRS 16	<b>28.2</b>	15.8
Less: Reclassified as assets held for sale	<b>(11.0)</b>	(25.5)
Total investment properties per balance sheet	<b>2,586.3</b>	2,591.4

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:

Property category	Valuation £m	Valuation technique	ERVs – per sq. ft.		Equivalent yields	
			Range	Weighted average	Range	Weighted average
Like-for-like	1,539.6	A	£12-£79	£47	4.1%-7.0%	5.9%
Completed projects	547.4	A	£20-£69	£46	4.9%-7.2%	5.6%
Refurbishments	331.3	A/B	£19-£70	£35	4.3%-6.4%	5.2%
Redevelopments	139.8	A/B	£16-£35	£21	3.5%-6.8%	5.4%
Head leases	28.2	n/a	–	–	–	–
<b>Total</b>	<b>2,586.3</b>					

A = Income capitalisation method.  
B = Residual value method.

A key unobservable input for redevelopments at planning stage and refurbishments is developer's profit. The range is 15%–19% with a weighted average of 17%.

Costs to complete is a key unobservable input for redevelopments at planning stage with a range of £213–£240 per sq. ft. and a weighted average of £229 per sq. ft.

Costs to complete are not considered to be a significant unobservable input for refurbishments due to the high percentage of costs that are fixed.

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	+154/- 154	-63/+68
Completed projects	+55/-55	-23/26
Refurbishments	+39/-39	-18/+24
Redevelopments	+11/-11	-5/+6

11. Property, plant and equipment

Cost or valuation	Equipment and fixtures £m
1 April 2018	7.2
Additions during the year	1.5
Balance at 31 March 2019	8.7
Additions during the year	2.3
<b>Balance at 31 March 2020</b>	<b>11.0</b>
Accumulated depreciation	
1 April 2018	4.3
Charge for the year	1.0
Balance at 31 March 2019	5.3
Charge for the year	0.9
<b>Balance at 31 March 2020</b>	<b>6.2</b>
<b>Net book amount at 31 March 2020</b>	<b>4.8</b>
Net book amount at 31 March 2019	3.4

## 12. Other Investments

The Group holds the following investment:

	2020 £m	2019 £m
15% of share capital of Excell Holdings Limited (2019:15%)	7.9	9.8
	<b>7.9</b>	<b>9.8</b>

In accordance with IFRS 9 the valuation of the share in Excell Holdings has been adjusted to fair value, resulting in a reduction of £1.9m in the financial year, recognised in the Consolidated statement of other comprehensive income.

## 13. Trade and other receivables

	2020 £m	2019 £m
Current trade and other receivables		
Trade receivables	11.1	5.0
Less provision for impairment of receivables	(1.1)	(0.7)
Trade receivables – net	10.0	4.3
Prepayments, other receivables and accrued income	9.9	6.5
Deferred consideration on sale of investment properties	5.3	2.9
	<b>25.2</b>	<b>13.7</b>

### Receivables at fair value:

Included within deferred consideration on sale of investment properties is £0.8m (2019: £2.9m) of overage which is held at fair value through profit and loss. In the current year, as the amounts receivable are expected within the following 12 months it has been classified as current receivables.

The deferred consideration arising on the sale of investment properties relates to cash and overage. The overage has been fair valued by CBRE Limited 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 change in fair value recorded in the consolidated income statement, including both current and non-current elements, was a loss of £0.2m (31 March 2019: £1.1m loss) (note 3(c)).

	2020 £m	2019 £m
Deferred consideration on sale of investment properties:		
Balance at 1 April	2.9	7.0
Cash received	(1.9)	(5.8)
Additions/reclassifications	4.5	2.8
Change in fair value	(0.2)	(1.1)
Balance at 31 March	5.3	2.9

### 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:

	2020 £m	2019 £m
Balance at 1 April	0.7	0.6
Increase in provision for impairment of trade receivables	0.8	0.3
Receivables written off during the year	(0.4)	(0.2)
Balance at 31 March	1.1	0.7

#### 14. Cash and cash equivalents

	2020 £m	2019 £m
Cash at bank and in hand	<b>70.3</b>	17.3
Restricted cash – tenants’ deposit deeds	<b>8.9</b>	9.4
	<b>79.2</b>	26.7

Tenants’ deposit deeds represent returnable cash security deposits received from tenants and are held in ring-fenced bank accounts in accordance with the terms of the individual lease contracts.

#### 15. Trade and other payables

	2020 £m	2019 £m
Trade payables	<b>4.8</b>	5.7
Other tax and social security payable	<b>5.6</b>	0.4
Corporation tax payable	<b>0.8</b>	–
Tenants’ deposit deeds (note 14)	<b>8.9</b>	9.4
Tenants’ deposits	<b>25.6</b>	21.2
Accrued expenses	<b>26.6</b>	28.7
Deferred income – rent and service charges	<b>10.8</b>	11.6
	<b>83.1</b>	77.0

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

	2020 £m	2019 £m
Current		
Senior Floating Rate Notes 2020 (unsecured)	<b>9.0</b>	–
Non-current		
Bank loans (unsecured)	<b>153.0</b>	138.5
5.6% Senior US Dollar Notes 2023 (unsecured)	<b>81.0</b>	76.9
5.53% Senior Notes 2023 (unsecured)	<b>83.9</b>	83.8
Senior Floating Rate Notes 2020 (unsecured)	–	9.0
3.07% Senior Notes (unsecured)	<b>79.8</b>	79.7
3.19% Senior Notes (unsecured)	<b>119.7</b>	119.7
3.6% Senior Notes (unsecured)	<b>99.8</b>	99.8
Finance lease obligations	<b>28.2</b>	15.8
	<b>654.4</b>	623.2



(b) Net Debt

	2020 £m	2019 £m
Borrowings per (a) above	<b>654.4</b>	623.2
Adjust for:		
Finance leases	<b>(28.2)</b>	(15.8)
Cost of raising finance	<b>1.9</b>	2.6
Foreign exchange differences	<b>(16.6)</b>	(12.5)
	<b>611.5</b>	597.5
Cash at bank and in hand (note 14)	<b>(70.3)</b>	(17.3)
Net Debt	<b>541.2</b>	580.2

At 31 March 2020 the Group had £96m (2019: £110m) of undrawn bank facilities, a £2m overdraft facility (2019: £2m) and £70.3m of unrestricted cash (2019: £17.3m).

Net debt represents borrowing facilities drawn, less cash at bank and in hand. It excludes impacts of foreign exchange differences as these are fixed via swaps, finance leases and any cost of raising finance as they have no future cash flows.

(c) Maturity

	2020 £m	2019 £m
Repayable within one year	<b>9.0</b>	–
Repayable between one year and two years	<b>–</b>	9.0
Repayable between two years and three years	<b>154.0</b>	–
Repayable between three years and four years	<b>148.5</b>	140.0
Repayable between four years and five years	<b>–</b>	148.5
Repayable in five years or more	<b>300.0</b>	300.0
	<b>611.5</b>	597.5
Cost of raising finance	<b>(1.9)</b>	(2.6)
Foreign exchange differences	<b>16.6</b>	12.5
	<b>626.2</b>	607.4
Finance leases:		
Repayable in five years or more	<b>28.2</b>	15.8
	<b>654.4</b>	623.2

(d) Interest rate and repayment profile

	Principal at period end £m	Interest rate	Interest payable	Repayable
<b>Current</b>				
Bank overdraft due within one year or on demand	–	Base+2.25%	Variable	On demand
Private Placement Notes:				
Senior Floating Rate Notes	9.0	LIBOR+3.5%	Half yearly	June 2020
<b>Non-current</b>				
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
3.07% Senior Notes	80.0	3.07%	Half yearly	August 2025
3.19% Senior Notes	120.0	3.19%	Half yearly	August 2027
3.6% Senior Notes	100.0	3.6%	Half yearly	January 2029
Bank loan	154.0	LIBOR+1.65%	Monthly	June 2022
	611.5			

(e) Derivative financial instruments

The Group has cross currency swaps 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 cross currency swaps the Group has created a synthetic Sterling fixed rate liability totalling £64.5m.

These swaps have been designated as a cash flow hedge with changes in fair value dealt with in other comprehensive income. The Group has elected to continue applying hedge accounting as set out in IAS 39 to these swaps as permitted by IFRS 9.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The critical terms of this hedging relationship perfectly matched at origination, so for the prospective assessment of effectiveness a qualitative assessment was performed. Quantitative retrospective effectiveness tests using the hypothetical derivative method are performed at each period end to determine the continuing effectiveness of the relationship. Sources of hedge ineffectiveness include credit risk or changes made to the critical terms of the hedged item or the hedged instrument.

The effects of the cash flow US Dollar swap hedging relationship is as follows:

	2020	2019
Carrying amount of derivative	18.5	10.1
Change in fair value of designated hedging instrument	8.3	7.6
Change in fair value of designated hedged item	(4.2)	(5.4)
Notional amount £m	64.5	64.5
Notional amount (\$m)	100	100
Rate payable (%)	5.66%	5.66%
Maturity	June 2023	June 2023
Hedge ratio	1:1	1:1

## (f) Financial instruments and fair values

	2020 Book value £m	2020 Fair value £m	2019 Book value £m	2019 Fair value £m
<b>Financial liabilities held at amortised cost</b>				
Bank loans	153.0	154.0	138.5	140.0
Private Placement Notes	473.2	484.1	468.9	478.1
Finance lease obligations	28.2	28.2	15.8	15.8
	<b>654.4</b>	<b>666.3</b>	623.2	633.9
<b>Financial assets at fair value through other comprehensive income</b>				
Derivative financial instruments:				
Cash flow hedge – derivatives used for hedging	(18.5)	(18.5)	(10.1)	(10.1)
Other investments	(6.9)	(6.9)	(9.8)	(9.8)
	<b>(25.4)</b>	<b>(25.4)</b>	(19.9)	(19.9)
<b>Financial assets at fair value through profit or loss</b>				
Deferred consideration (overage)	5.3	5.3	2.9	2.9
	<b>5.3</b>	<b>5.3</b>	2.9	2.9

In accordance with IFRS 13 disclosure is required for financial instruments that are carried or disclosed in the financial statements at fair value. The fair values of all the Group's financial derivatives, bank loans and Private Placement Notes, 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.

## (g) Financial instruments by category

Assets	2020 £m	2019 £m
<b>a) Assets at value through profit or loss</b>		
Deferred consideration (overage)	5.3	2.9
	<b>5.3</b>	2.9
<b>b) Loans and receivables</b>		
Cash and cash equivalents	79.2	26.7
Trade and other receivables excluding prepayments <sup>1</sup>	11.7	5.7
	<b>90.9</b>	32.4
<b>c) Assets at value through other comprehensive income</b>		
Other investments	6.9	9.8
	<b>6.9</b>	9.8
<b>Total</b>	<b>103.1</b>	45.1
<b>Liabilities</b>		
<b>Other financial liabilities at amortised cost</b>		
Borrowings (excluding finance leases)	626.2	607.4
Finance lease liabilities	28.2	15.8
Trade and other payables excluding non-financial liabilities <sup>2</sup>	65.9	65.0
	<b>720.3</b>	688.2

1. Trade and other receivables exclude prepayments of £8.2 m (2019: £5.1m) and non-cash deferred consideration of £5.3 m (2019: £2.9m).

2. Trade and other payables exclude other tax and social security of £5.6m (2019: £0.4m), corporation tax of £0.8m (2019: nil) and deferred income of £10.8m (2019: £11.6m).

(h) Finance leases

Finance lease liabilities are in respect of leased investment property.

Minimum lease payments under finance leases fall due as follows:

	2020 £m	2019 £m
Within one year	1.7	1.0
Between two and five years	6.8	3.9
Beyond five years	159.3	93.0
	167.8	97.9
Future finance charges on finance leases	(139.6)	(82.1)
Present value of finance lease liabilities	28.2	15.8

(i) Changes in liabilities from financing activities

	Bank loans and borrowings £m	Finance lease liabilities £m	Derivatives used for hedging- assets £m
Balance at 1 April	607.4	15.8	10.1
Changes from financing cash flows:			
Proceeds from bank borrowings and Private Placement Notes	104.0	–	–
Repayment of bank borrowings	(90.1)	–	–
Finance costs for new/amended borrowing facilities		–	–
Total changes from cash flows	13.9	–	–
Changes in fair value of derivative financial instruments	–	–	8.4
Foreign exchange differences	4.2	–	–
Amortisation of issue costs of borrowing	0.7	–	–
Changes in finance leases	–	12.4	–
Interest payable	22.7	1.4	–
Interest paid	(22.7)	(1.4)	–
Total other changes	4.9	12.4	8.4
<b>Balance at 31 March 2020</b>	<b>626.2</b>	<b>28.2</b>	<b>18.5</b>

17. Notes to cash flow statement

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

	2020 £m	2019 £m
Profit before tax	72.5	137.3
Depreciation	0.9	1.0
Amortisation of intangibles	0.5	0.4
Loss / (profit) on disposal of investment properties	0.8	(8.3)
Other expenses	0.2	1.1
Net loss / (gain) from change in fair value of investment property	7.5	(60.8)
Equity settled share based payments	2.6	1.9
Finance costs	23.0	21.5
Exceptional finance costs	–	3.1
Changes in working capital:		
(Increase) / decrease in trade and other receivables	(9.5)	1.8
Increase in trade and other payables	10.2	0.8
Cash generated from operations	108.7	99.8

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

	2020 £m	2019 £m
Cash at bank and in hand	70.3	17.3
Restricted cash – tenants' deposit deeds	8.9	9.4
	<b>79.2</b>	<b>26.7</b>

#### 18. Share capital and share premium

	2020 £m	2019 £m
Issued: Fully paid ordinary shares of £1 each	180.7	180.4

Movements in share capital were as follows:	2020 Number	2019 Number
Number of shares at 1 April	180,385,498	163,806,591
Issue of shares	362,370	16,578,907
Number of shares at 31 March	180,747,868	180,385,498

The Group issued 362,370 shares (2019: 258,845 shares) during the year to satisfy the exercise of share options with net proceeds of £0.7m (2019: £0.3m). In the prior year the Group raised net proceeds of £176.4m via the issue of 16.3m Ordinary Shares, to assist funding of our acquisition and refurbishment plans.

	Share Capital		Share Premium	
	2020 £m	2019 £m	2020 £m	2019 £m
Balance at 1 April	180.4	163.8	295.1	135.3
Issue of shares	0.3	16.6	0.3	159.8
Balance at 31 March	180.7	180.4	295.4	295.1

#### 19. Other reserves

	Other Investment Reserve £m	Equity settled share based payments £m	Merger reserve £m	Hedging reserve £m	Total £m
Balance at 1 April 2018	–	15.7	8.7	(5.0)	19.4
Share based payments	–	1.9	–	–	1.9
Change in fair value of other investments (note 12)	4.0	–	–	–	4.0
Change in fair value of derivative financial instruments (cash flow hedge)	–	–	–	2.1	2.1
Balance at 31 March 2019	4.0	17.6	8.7	(2.9)	27.4
Share based payments	–	2.6	–	–	2.6
Change in fair value of other investments (note 12)	(1.9)	–	–	–	(1.9)
Change in fair value of derivative financial instruments (cash flow hedge)	–	–	–	4.1	4.1
<b>Balance at 31 March 2020</b>	<b>2.1</b>	<b>20.2</b>	<b>8.7</b>	<b>1.2</b>	<b>32.2</b>

#### 20. Capital commitments

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

	2020 £m	2019 £m
Investment property construction	4.3	16.1

## 21. Responsibility Statement

The 2020 Annual Report, which will be issued on 8<sup>th</sup> June 2020, contains a responsibility statement which states that on 4 June 2020, the date of approval of the Annual Report, the Directors confirm that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group.
- The Business Review contained within the Annual Report, includes a fair review of the developments and performance of the business, and the position of the Group, with a description of the principal risks and uncertainties that the Group faces included in a separate section.
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.