

Independent Auditor's Report

to the members of Workspace Group PLC



1. Our opinion is unmodified

We have audited the financial statements of Workspace Group PLC ('the Company') for the year ended 31 March 2018 which comprise the Consolidated and Parent Company's Balance Sheets, the Consolidated Income Statement, the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Cash Flows, the Consolidated and Parent Company's Statement of Changes in Equity, and the related notes, including the accounting policies on pages 146 to 183.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were appointed as Auditor by the Shareholders on 14 July 2017. The period of total uninterrupted engagement is for the one financial year ended 31 March 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

| | |
|---------------------------------------|--|
| Materiality: | £22.0 million |
| Group financial statements as a whole | 0.9% of total Group assets |
| Lower materiality: | £3.0 million |
| components of adjusted trading profit | 4.9% of profit before tax excluding fair value valuation movements and profit on disposals |
| Coverage | 100% of total Group assets |
| Risks of material misstatement | |
| Recurring risk (Group) | Valuation of investment property |
| Recurring risk (Parent) | Accounting for financial instruments |

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

| | The risk | Our response |
|--|--|--|
| Valuation of investment property (Group) (Group: £2,288.7 million; 2017: £1,839.0 million) | Subjective valuation Investment properties is the largest balance in the financial statements and is held at fair value in the Group's financial statements. The portfolio is externally valued by qualified independent valuers, CBRE. Each property is unique and determining fair value requires significant judgement and estimation, in particular over the key assumptions of the estimated rental value and the yield. The key assumptions will be impacted by a number of factors including location, quality and condition of the building and occupancy. Valuing investment properties either under development or with development potential can be further complicated by the need to assess the likelihood of planning consent and an allowance for developer's profit. Whilst comparable market transactions can provide valuation evidence, the flexible office sector is still maturing and the unique nature of each property means that a key factor in the property valuations are the assumptions made by the valuer. Data capture Each property valuation includes source data provided by management and relied on as accurate by the external valuer, primarily the database of tenancy contracts. The relatively short average lease length in the Workspace portfolio and reduced market comparable information for such flexible office space means the valuer is more reliant on tenancy data to support their market rent assumptions than may be the case in other property sectors. Therefore the valuation is more sensitive to the source data than may be the case for more mature sectors with longer leases. Further, given the higher turnover of tenants, the valuers will have less working knowledge of the current tenancy position, and less reason to question changes. | Our procedures included: - Assessing valuer's credentials: We assessed CBRE's objectivity, professional qualifications and experience through discussions with them and reading their valuation report. - Methodology choice: We critically assessed the methodology used by the valuers by using our own property valuation specialist to assist us in considering whether the valuation report is in accordance with the RICS Valuation Professional Standards 'the Red Book', IFRS and that the valuation methodology adopted is appropriate by reference to acceptable valuation practice. - Benchmarking assumptions: With the assistance of our own property valuation specialist, we held discussions with CBRE to critically assess movements in property values. For a sample of properties selected using various criteria including analysis of the value of a property as well as correlation with movements in market rent, we evaluated and challenged as appropriate the key assumptions upon which these valuations were based, including those relating to forecast market rents and yields, by making a comparison to our own understanding of the market. - Test of detail: We compared a sample of key inputs used in the valuations, such as rental income and lease length to the Group's property management system and lease contracts. - Test of detail: For a selection of properties under development, we assessed the progress of the development and evaluated assumptions over constructions costs, agreeing them to construction contracts and management's project appraisals. - Assessing transparency: We considered the adequacy of the Group's disclosures about the degree of estimation and sensitivity to key assumptions made when valuing properties. Our results - We found the valuation of investment properties to be acceptable. |

| | The risk | Our response |
|---|--|--|
| <p>Accounting for derivatives (Parent) Refer to page 150 (accounting policy) and page 167 (financial disclosures).</p> | <p>Accounting application The Parent Company has derivative financial instruments of £2.5 million (2017: £12.1 million). The cash flow hedge is against a \$100 million/£64.5 million loan (2017: \$100 million/£64.5 million).</p> <p>The Parent Company 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 Parent Company has created a synthetic Sterling fixed rate liability totalling £64.5 million (2017: £64.5 million). The swaps have been externally valued and are designated as a cash flow hedge with changes in fair value dealt with in other comprehensive income.</p> <p>The valuations of the swaps are based on market movements which can fluctuate in the year. It is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.</p> | <p>Our procedures included:</p> <ul style="list-style-type: none"> - Test of detail: We agreed the carrying value of derivatives to valuations obtained directly from counter-party valuers. - Reperformance: In addition, we engaged our internal specialists who performed independent valuations using independent market data. - Accounting analysis: We assessed whether the classification and accounting of the cash flow hedge was appropriate in addition to reviewing whether the changes in fair value are correctly classified within other comprehensive income. <p>Our results</p> <ul style="list-style-type: none"> - We consider derivatives to be accounted for appropriately. |

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £22.1 million, determined with reference to a benchmark of total assets (of which it represents 0.9%).

In addition, we applied materiality of £3.0 million to Group components of adjusted trading profit after interest (as defined by the Group on page 35) which comprises net rental income, administrative expenses and net finance costs for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could be reasonably expected to influence the Company's members' assessment of the financial performance of the Group.

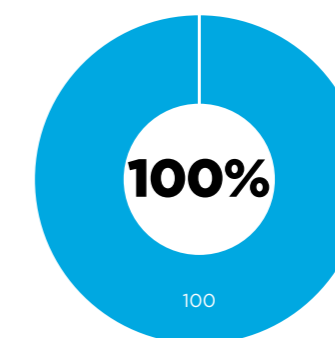
Materiality for the Parent Company financial statements as a whole was set at £21.0 million, determined with reference to a benchmark of Company net assets, of which it represents 3.1%.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.7 million (Group), £0.6 million (Parent Company) or £0.15 million for misstatements relating to procedures performed to the lower materiality, in addition to other identified misstatements that warranted reporting on qualitative grounds

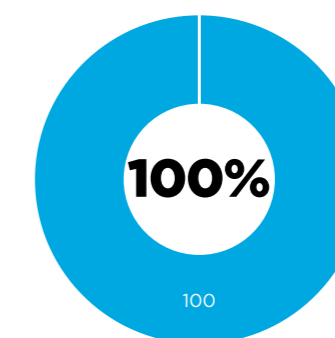
The components within the scope of our work accounted for the percentages illustrated opposite.

The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality levels set out above.

Group revenue

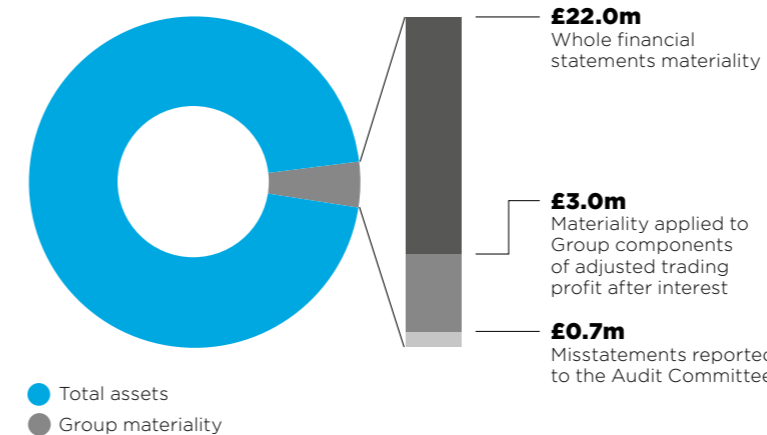


Group profit before tax

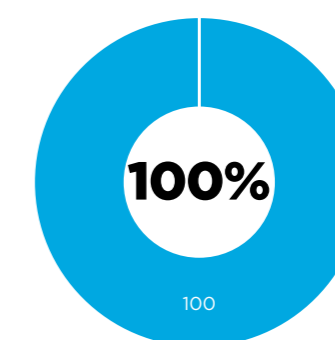


Total Group assets
£2,339.2m (2017: £1,897.1m)

Group materiality
£22.0m



Group total assets



● Full scope for Group audit purposes 2018

Independent Auditor's Report

to the members of Workspace Group PLC
continued

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement on page 139 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- if the related statement under the Listing Rules set out on page 138 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' Remuneration Report

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

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the Going Concern and Viability Statement on page 57 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 and liquidity;
- the Principal Risks and Uncertainties disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the Going Concern and Viability Statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered 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.

Under the Listing Rules we are required to review the Going Concern and Viability Statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or

We are required to report to you if the Corporate Governance Report does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 139, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an Auditor's Report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities - ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the Directors (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the Directors and inspection of regulatory and legal correspondence.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Kelly (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor Chartered Accountants

15 Canada Square
London E14 5GL
5 June 2018

Consolidated income statement

For the year ended 31 March 2018

| | Notes | 2018 £m | 2017 £m |
|--|-------|---------------|------------|
| Revenue | 1 | 128.9 | 108.8 |
| Direct costs | 1 | (33.3) | (29.6) |
| Net rental income | 1 | 95.6 | 79.2 |
| Administrative expenses | 2 | (16.1) | (15.1) |
| Trading profit | | 79.5 | 64.1 |
| Profit/(loss) on disposal of investment properties | 3(a) | 26.6 | (0.6) |
| Loss on disposal of joint ventures | 3(b) | - | (0.2) |
| Other income | 3(c) | 0.6 | 2.1 |
| Other expenses | 3(d) | - | (1.2) |
| Change in fair value of investment properties | 10 | 82.5 | 39.5 |
| Operating profit | 2 | 189.2 | 103.7 |
| Finance income | 4 | - | 0.1 |
| Finance costs | 4 | (18.8) | (13.7) |
| Exceptional finance costs | 4 | - | (1.4) |
| Gains from share in joint ventures | 12(a) | - | 0.1 |
| Profit before tax | | 170.4 | 88.8 |
| Taxation | 6 | 1.0 | (0.1) |
| Profit for the financial year after tax | | 171.4 | 88.7 |
| Basic earnings per share | 8 | 104.8p | 54.5p |
| Diluted earnings per share | 8 | 104.0p | 53.5p |

Consolidated statement of other comprehensive income

For the year ended 31 March 2018

| | 2018 £m | 2017 £m |
|--|--------------|------------|
| Profit for the financial year | 171.4 | 88.7 |
| Other comprehensive income: | | |
| Items that may be classified subsequently to profit or loss: | | |
| Cash flow hedge - transfer to income statement | 8.5 | 10.3 |
| Cash flow hedge - change in fair value | (9.5) | (8.1) |
| Total comprehensive income for the year | 170.4 | 86.5 |

The notes on pages 150 to 178 form part of these financial statements.

Consolidated balance sheet

As at 31 March 2018

| | Notes | 2018 £m | 2017 £m |
|-----------------------------------|-------------|----------------|------------|
| Non-current assets | | | |
| Investment properties | 10 | 2,288.7 | 1,839.0 |
| Intangible assets | | 1.4 | 0.7 |
| Property, plant and equipment | 11 | 2.9 | 2.9 |
| Investment in joint ventures | 12(a) | 0.1 | 0.3 |
| Other investments | 12(b) | 3.2 | 3.1 |
| Trade and other receivables | 13 | - | 7.3 |
| Derivative financial instruments | 16(e) & (f) | 2.5 | 12.1 |
| | | 2,298.8 | 1,865.4 |
| Current assets | | | |
| Trade and other receivables | 13 | 22.4 | 25.2 |
| Cash and cash equivalents | 14 | 18.0 | 6.5 |
| | | 40.4 | 31.7 |
| Total assets | | 2,339.2 | 1,897.1 |
| Current liabilities | | | |
| Trade and other payables | 15 | (75.5) | (52.2) |
| Deferred tax | 6 | - | (0.9) |
| | | (75.5) | (53.1) |
| Non-current liabilities | | | |
| Borrowings | 16(a) | (550.8) | (265.5) |
| | | (550.8) | (265.5) |
| Total liabilities | | (626.3) | (318.6) |
| Net assets | | 1,712.9 | 1,578.5 |
| Shareholders' equity | | | |
| Share capital | 19 | 163.8 | 163.2 |
| Share premium | 19 | 135.3 | 135.4 |
| Investment in own shares | 21 | (9.3) | (8.9) |
| Other reserves | 20 | 19.4 | 18.7 |
| Retained earnings | | 1,403.7 | 1,270.1 |
| Total shareholders' equity | | 1,712.9 | 1,578.5 |
| EPRA net asset value per share | 9 | £10.37 | £9.53 |

The notes on pages 150 to 178 form part of these financial statements.

The financial statements on pages 146 to 178 were approved and authorised for issue by the Board of Directors on 5 June 2018 and signed on its behalf by:

J Hopkins
G Clemett
Directors

Consolidated statement of changes in equity

For the year ended 31 March 2018

| | Notes | Attributable to owners of the parent | | | | | Total Shareholders' equity £m |
|---|-------|--------------------------------------|---------------------|--------------------------------|----------------------|-------------------------|----------------------------------|
| | | Share capital £m | Share premium £m | Investment in own shares £m | Other reserves £m | Retained earnings £m | |
| Balance at 31 March 2016 | | 162.4 | 135.9 | (8.9) | 19.0 | 1,209.2 | 1,517.6 |
| Profit for the financial year | | - | - | - | - | 88.7 | 88.7 |
| Other comprehensive income for the year | 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 |
| 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 |
| Profit for the financial year | | - | - | - | - | 171.4 | 171.4 |
| Other comprehensive income for the year | 20 | - | - | - | (1.0) | - | (1.0) |
| Total comprehensive income | | - | - | - | (1.0) | 171.4 | 170.4 |
| Transactions with owners: | | | | | | | |
| Share issues | 19 | 0.6 | (0.1) | - | - | - | 0.5 |
| Own shares purchase (net) | | - | - | (0.4) | - | - | (0.4) |
| Dividends paid | 7 | - | - | - | - | (37.8) | (37.8) |
| Share based payments | 22 | - | - | - | 1.7 | - | 1.7 |
| Balance at 31 March 2018 | | 163.8 | 135.3 | (9.3) | 19.4 | 1,403.7 | 1,712.9 |

The notes on pages 150 to 178 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 March 2018

| | Notes | 2018 £m | 2017 £m |
|---|-------|------------|------------|
| Cash flows from operating activities | | | |
| Cash generated from operations | 18 | 93.2 | 69.7 |
| Interest received | | - | 0.1 |
| Interest paid | | (18.8) | (15.0) |
| Tax | | (0.2) | (1.4) |
| Net cash inflow from operating activities | | 74.2 | 53.4 |
| Cash flows from investing activities | | | |
| Purchase of investment properties | | (370.4) | (10.8) |
| Capital expenditure on investment properties | | (73.8) | (56.8) |
| Proceeds from disposal of investment properties (net of sale costs) | | 128.1 | 7.8 |
| Purchase of intangible assets | | (1.1) | (0.4) |
| Purchase of property, plant and equipment | | (1.0) | (1.8) |
| Capital distributions from joint ventures | | - | 2.7 |
| Proceeds from disposal of joint ventures | | - | 18.7 |
| Other income (overage receipts) | | 8.7 | 23.8 |
| Performance fee from joint venture | | - | 24.5 |
| Purchase of investments | | (0.1) | - |
| Movement in funding balances with joint ventures | | - | 0.4 |
| Income distributions from joint ventures | 12(a) | 0.2 | 0.6 |
| Net cash (outflow)/inflow from investing activities | | (309.4) | 8.7 |
| Cash flows from financing activities | | | |
| Proceeds from issue of ordinary share capital | 19 | 0.5 | 0.2 |
| Finance costs for new/amended borrowing facilities | | (1.9) | (0.3) |
| Exceptional finance costs | | - | (0.9) |
| Settlement and re-coupons of derivative financial instruments | | (0.1) | - |
| Repayment of bank borrowings | 16(b) | (294.0) | (55.0) |
| Draw down of bank borrowings and Private Placement Notes | 16(b) | 580.0 | - |
| Own shares purchase (net) | | (0.4) | - |
| Dividends paid | 7 | (37.4) | (27.4) |
| Net cash inflow/(outflow) from financing activities | | 246.7 | (83.4) |
| Net increase/(decrease) in cash and cash equivalents | | 11.5 | (21.3) |
| Cash and cash equivalents at start of year | 18 | 6.5 | 27.8 |
| Cash and cash equivalents at end of year | 18 | 18.0 | 6.5 |

The notes on pages 150 to 178 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2018

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 details of the going concern assessment can be found on page 57.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties and certain 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 valuer 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.

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 2018. 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 until 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.

Investment properties 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 plus an adjustment for the carrying amount of the finance lease obligation. 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.

Acquisitions

Where properties are acquired through corporate acquisitions and there are no significant assets (other than investment property) and liabilities, and without a business being acquired, the acquisition is treated as an asset acquisition. In all other cases, the acquisition is treated as a business combination.

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 four to 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

Investments 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.

Notes to the financial statements

continued

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.

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 charges 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.

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 earnings must be distributed.

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 2018 the Group adopted the following accounting standards and guidance:
- Amendments to IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures – amendments regarding the consolidation exemption.
 - Amendment: IAS 7 Statement of cash flows on disclosure initiatives.

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 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:

| Standard or interpretation | Content |
|----------------------------|---------------------------------------|
| IFRS 9 | Financial instruments |
| IFRS 15 | Revenue from contracts with customers |
| IFRS 16 | Leases |

IFRS 9 – Financial Instruments

This standard covers the classification and measurement of financial instruments. Having carried out an assessment of the standard, the Group believes the main impact will be the measurement and presentation of trade receivables due to the change in impairment model to expected credit losses. It is not currently expected that any impact will be material.

IFRS 15 – Revenue from contracts with customers

This standard is based on the principle that revenue is recognised when control passes to a customer. In our case, the standard is most applicable to the recognition point for service charge income and disposals of investment properties. As the standard excludes rental income, which falls within the scope of IAS 17/IFRS 16 – Leases, it is not expected that IFRS 15 will have a significant impact on the Group's financial statements. There may be changes to presentation and disclosure.

IFRS 16 – Leases

For operating leases in excess of one year, this standard requires lessees to recognise a right-of-use asset and a related lease liability representing the obligation to make lease payments. The right-of-use asset is assessed for impairment annually and is amortised on a straight-line basis. The lease liability is amortised using the effective interest method. Lessor accounting is substantially unchanged from current accounting. Therefore, since the Group is primarily a lessor, this standard does not significantly impact the Group's financial statements.

Notes to the financial statements

continued

1. Analysis of net rental income and segmental information

| | 2018 | | | 2017 | | |
|---|---------------|-----------------------|----------------------------|---------------|-----------------------|----------------------------|
| | Revenue £m | Direct costs £m | Net rental income £m | Revenue £m | Direct costs £m | Net rental income £m |
| Rental income | 106.1 | (3.4) | 102.7 | 86.8 | (2.0) | 84.8 |
| Service charges | 17.7 | (21.8) | (4.1) | 15.4 | (18.5) | (3.1) |
| Empty rates and other non-recoverables | - | (5.0) | (5.0) | - | (4.8) | (4.8) |
| Services, fees, commissions and sundry income | 5.1 | (3.1) | 2.0 | 6.6 | (4.3) | 2.3 |
| | 128.9 | (33.3) | 95.6 | 108.8 | (29.6) | 79.2 |

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:

| | 2018 £m | 2017 £m |
|---|------------|------------|
| Depreciation ¹ | 1.1 | 0.9 |
| Staff costs (including share based costs) ¹ (note 5) | 18.6 | 17.1 |
| Repairs and maintenance expenditure on investment properties | 2.6 | 2.7 |
| Trade receivables impairment (note 13) | 0.3 | 0.2 |
| Amortisation of intangibles | 0.3 | 0.2 |
| 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.

| | 2018 £000 | 2017 £000 |
|--|--------------|--------------|
| Auditors' remuneration: Services provided by the Company's Auditors and its associates | | |
| Audit fees: | | |
| Audit of Parent Company and consolidated financial statements | 150 | 155 |
| Audit of subsidiary financial statements | 20 | 33 |
| | 170 | 188 |
| Fees for other services: | | |
| Audit-related assurance services | 30 | 35 |
| Tax advisory, tax compliance and legal services | - | 20 |
| | 30 | 55 |

| | 2018 £m | 2017 £m |
|--|-------------|------------|
| Total administrative expenses are analysed below: | | |
| Staff costs | 8.9 | 8.3 |
| Cash settled share based costs | 0.6 | 0.4 |
| Equity settled share based costs | 1.7 | 1.9 |
| Other | 4.9 | 4.5 |
| | 16.1 | 15.1 |

3(a). Profit on disposal of investment properties

| | 2018 £m | 2017 £m |
|--|-------------|------------|
| Proceeds from sale of investment properties (net of sale costs) | 128.1 | 7.8 |
| Book value at time of sale (including assets held for sale) | (101.5) | (8.5) |
| Profit/(loss) on disposal | 26.6 | (0.7) |
| Realisation of profits on sale of properties out of joint ventures (note 12) | - | 0.1 |
| | 26.6 | (0.6) |

Proceeds from sale of investment properties includes £14.0m (March 2017: £Nil) of capital receipts in relation to two part disposals.

3(b). Loss on disposal of joint ventures

| | 2018 £m | 2017 £m |
|---|------------|------------|
| Proceeds from disposal of joint ventures (net of costs) | 0.3 | 18.7 |
| Carrying value at time of disposal (note 12) | (0.3) | (18.9) |
| Loss on disposal | - | (0.2) |

The Group sold its share in Generate Studio Limited in March 2018. The BlackRock Workspace Property Trust joint venture was sold in June 2016 with the loss on sale being recognised in the prior year.

3(c). Other income

| | 2018 £m | 2017 £m |
|--|------------|------------|
| Joint venture performance fee | - | 0.4 |
| Change in fair value of deferred consideration | 0.4 | (0.5) |
| Rights of light compensation | - | 2.2 |
| Income from investments | 0.2 | - |
| | 0.6 | 2.1 |

The value of deferred consideration (cash and overage) from the sale of investment properties has been revalued by CBRE Limited at 31 March 2018 and 31 March 2017. 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

| | 2018 £m | 2017 £m |
|---------------------------------|------------|------------|
| Impairment of other investments | - | (1.2) |

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

Notes to the financial statements

continued

4. Finance income and costs

| | 2018 £m | 2017 £m |
|---|---------------|------------|
| Interest income | - | 0.1 |
| Finance income | - | 0.1 |
| Interest payable on bank loans and overdrafts | (2.8) | (1.2) |
| Interest payable on other borrowings | (16.0) | (12.8) |
| Amortisation of issue costs of borrowings | (0.7) | (0.7) |
| Interest payable on finance leases | (0.9) | (0.5) |
| Interest capitalised on property refurbishments (note 10) | 1.6 | 1.5 |
| Foreign exchange losses on financing activities | (8.5) | (10.3) |
| Cash flow hedge – transfer from equity | 8.5 | 10.3 |
| Finance costs | (18.8) | (13.7) |
| Exceptional finance costs | - | (1.4) |
| Total finance costs | (18.8) | (15.1) |

The exceptional finance costs of £1.4m were incurred in the prior year for the repayment of the £45m UK fund debt in September 2016 and comprised of a £0.9m repayment fee and £0.5m unamortised finance costs and legal fees relating to this debt.

5. Employees and Directors

| | 2018 £m | 2017 £m |
|---|--------------|------------|
| Staff costs for the Group during the year were: | | |
| Wages and salaries | 15.6 | 13.9 |
| Social security costs | 1.9 | 1.7 |
| Other pension costs (note 26) | 0.8 | 0.7 |
| Cash settled share based costs (note 22) | 0.6 | 0.4 |
| Equity settled share based costs (note 22) | 1.7 | 1.9 |
| | 20.6 | 18.6 |
| Less costs capitalised | (2.0) | (1.5) |
| | 18.6 | 17.1 |

| | 2018 Number | 2017 Number |
|--|----------------|----------------|
| The monthly average number of people employed during the year was: | | |
| Head office staff (including Directors) | 103 | 98 |
| Estates and property management staff | 114 | 108 |
| | 217 | 206 |

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 113 to 134. These form part of the financial statements.

Total Directors' emoluments for the financial year were £4.1m (2017: £4.3m), comprising of £2.1m (2017: £2.1m) of Directors' remuneration, £1.8m (2017: £2.1m) gain on exercise of share options and £0.2m (2017: £0.1m) of contributions to pension plans in respect of two Directors (2017: two).

6. Taxation

| | 2018 £m | 2017 £m |
|--|--------------|------------|
| Current tax: | | |
| UK corporation tax | - | 0.6 |
| Adjustments to tax in respect of previous periods | (0.1) | (0.3) |
| | (0.1) | 0.3 |
| Deferred tax: | | |
| On origination and reversal of temporary differences | (0.9) | (0.2) |
| | (0.9) | (0.2) |
| Total taxation (credit)/charge | (1.0) | 0.1 |

The tax on the Group's profit for the year differs from the standard applicable corporation tax rate in the UK of 19% (2017: 20%). The differences are explained below:

| | 2018 £m | 2017 £m |
|--|---------------|------------|
| Profit before taxation | 170.4 | 88.8 |
| Adjusted gains from share in joint ventures | - | (0.1) |
| | 170.4 | 88.7 |
| Tax at standard rate of corporation tax in the UK of 19% (2017: 20%) | 32.4 | 17.7 |
| Effects of: | | |
| REIT exempt income | (17.1) | (10.3) |
| Changes in fair value not subject to tax as a REIT | (15.7) | (7.9) |
| Share based payment adjustments | (0.4) | (0.5) |
| Overage income subject to tax when received | 0.6 | 1.2 |
| Adjustments to tax in respect of previous periods | (0.1) | (0.3) |
| Losses carried forward previously unrecognised | 0.1 | - |
| Utilisation of losses unrecognised brought forward | (0.8) | - |
| Other non-taxable expenses | - | 0.2 |
| Total taxation (credit)/charge | (1.0) | 0.1 |

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 £0.6m (2017: £2.1m) has been recorded this year (note 3(c)). £0.1m (2017: £0.8m) of this income is subject to 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.

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 unrecognised asset in relation to tax losses carried forward of £0.3m (2017: £1.0m) calculated at a corporation tax rate of 19% (2017: 19%).

| | 2018 £m | 2017 £m |
|---|--------------|------------|
| Deferred tax assets: | | |
| - Deferred tax to be recovered within 12 months | 0.8 | 0.9 |
| Deferred tax liabilities: | | |
| - Deferred tax liabilities to be recovered within 12 months | (0.8) | (1.8) |
| Deferred tax liabilities (net) | - | (0.9) |

Notes to the financial statements

continued

6. Taxation continued

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 2016 | 4.2 | 4.2 |
| Charged to income statement | (2.4) | (2.4) |
| At 31 March 2017 | 1.8 | 1.8 |
| Credited to income statement | (1.0) | (1.0) |
| At 31 March 2018 | 0.8 | 0.8 |

| | Expenses (share based payment) £m | Tax losses £m | Total £m |
|-----------------------------|-----------------------------------|---------------|----------|
| Deferred tax assets | | | |
| At 1 April 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) |
| Charged to income statement | 0.1 | - | 0.1 |
| At 31 March 2018 | (0.8) | - | (0.8) |

7. Dividends

| | Payment date | Per share | 2018 £m | 2017 £m |
|---|---------------|-----------|--------------|---------|
| For the year ended 31 March 2016: | | | | |
| Final dividend | August 2016 | 10.19p | - | 16.5 |
| For the year ended 31 March 2017: | | | | |
| Interim dividend | February 2017 | 6.80p | - | 11.2 |
| Final dividend | August 2017 | 14.27p | 23.3 | - |
| For the year ended 31 March 2018: | | | | |
| Interim dividend | February 2018 | 8.84p | 14.5 | - |
| Dividends for the year | | | 37.8 | 27.7 |
| Timing difference on payment of withholding tax | | | (0.4) | (0.3) |
| Dividends cash paid | | | 37.4 | 27.4 |

In addition, the Directors are proposing a final dividend in respect of the financial year ended 31 March 2018 of 18.55 pence per ordinary share which will absorb an estimated £30.4m of revenue reserves and cash. If approved by the Shareholders at the AGM, it will be paid on 3 August 2018 to Shareholders who are on the register of members on 6 July 2018. The dividend will be paid as a REIT Property Income Distribution ('PID') net of withholding tax where appropriate.

8. Earnings per share

| | 2018 £m | 2017 £m |
|--|---------------|---------|
| Earnings used for calculating earnings per share: | | |
| Basic and diluted earnings | 171.4 | 88.7 |
| Change in fair value of investment properties | (82.5) | (39.5) |
| Profit/(loss) on disposal of investment properties | (26.6) | 0.6 |
| Loss on disposal of joint venture | - | 0.2 |
| EPRA earnings | 62.3 | 50.0 |
| Adjustment for non-trading items: | | |
| Group's share of joint venture other expenses | - | 0.1 |
| Other expenses | - | 1.2 |
| Exceptional finance costs | - | 1.4 |
| Other income | (0.6) | (2.1) |
| Taxation (credit)/charge | (1.0) | 0.1 |
| Adjusted trading profit after interest | 60.7 | 50.7 |

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.

| | 2018 Number | 2017 Number |
|--|--------------------|-------------|
| Number of shares used for calculating earnings per share: | | |
| Weighted average number of shares (excluding own shares held in trust) | 163,495,793 | 162,833,428 |
| Dilution due to share option schemes | 1,293,620 | 2,892,100 |
| Weighted average number of shares for diluted earnings per share | 164,789,413 | 165,725,528 |

| In pence: | 2018 | 2017 |
|---|---------------|-------|
| Basic earnings per share | 104.8p | 54.5p |
| Diluted earnings per share | 104.0p | 53.5p |
| EPRA earnings per share | 37.8p | 30.2p |
| Adjusted underlying earnings per share ¹ | 36.8p | 30.6p |

1. Adjusted underlying earnings per share is calculated on a diluted basis.

Notes to the financial statements

continued

9. Net assets per share

| | 2018 £m | 2017 £m |
|---|----------------|------------|
| Net assets used for calculating net assets per share: | | |
| Net assets at end of year (basic) | 1,712.9 | 1,578.5 |
| Derivative financial instruments at fair value | (2.5) | (12.1) |
| EPRA net assets | 1,710.4 | 1,566.4 |

| | 2018 Number | 2017 Number |
|--|--------------------|----------------|
| Number of shares used for calculating net assets per share: | | |
| Shares in issue at year-end | 163,806,591 | 163,199,045 |
| Less own shares held in trust at year-end | (163,874) | (118,274) |
| Dilution due to share option schemes | 1,262,717 | 1,227,537 |
| Number of shares for calculating diluted adjusted net assets per share | 164,905,434 | 164,308,308 |

| | 2018 | 2017 |
|---------------------------|---------------|-------|
| EPRA net assets per share | £10.37 | £9.53 |

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

10. Investment properties

| | 2018 £m | 2017 £m |
|---|----------------|------------|
| Balance at 1 April | 1,839.0 | 1,749.4 |
| Purchase of investment properties | 382.4 | - |
| Capital expenditure | 75.6 | 57.1 |
| Acquisition of finance lease | 9.1 | - |
| Capitalised interest on refurbishments (note 4) | 1.6 | 1.5 |
| Disposals during the year | (101.5) | (8.5) |
| Change in fair value of investment properties | 82.5 | 39.5 |
| Balance at 31 March | 2,288.7 | 1,839.0 |

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

During the year the Group acquired three properties, Salisbury House, 13-17 Fitzroy Street and Centro Buildings for a combined £382m, including acquisition costs of £14m.

Capitalised interest is included at a rate of capitalisation of 4.4% (2017: 5.2%). The total amount of capitalised interest included in investment properties is £9.6m (2017: £8.2m).

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

Investment properties include buildings with a carrying amount of £291m (2017: £105m) held under finance leases with a carrying amount of £16.1m (2017: £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 2018 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.

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:

| | 2018 £m | 2017 £m |
|--|----------------|------------|
| Total per CBRE valuation report | 2,279.6 | 1,844.0 |
| Deferred consideration on sale of property | (7.0) | (12.1) |
| Head leases treated as finance leases under IAS 17 | 16.1 | 7.1 |
| Total investment properties per balance sheet | 2,288.7 | 1,839.0 |

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.

Notes to the financial statements

continued

10. Investment properties continued

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 | 1,112 | 1 | £12–£80 | £40 | 4.8%–7.4% | 6.5% |
| Completed projects | 290 | 1 | £26–£60 | £48 | 5.1%–6.9% | 5.8% |
| Refurbishments | 308 | 2 | £19–£75 | £44 | 5.0%–6.8% | 5.8% |
| Redevelopments | 180 | 2 | £13–£40 | £23 | 5.1%–7.1% | 6.1% |
| Acquisitions | 383 | 1 | £20–£72 | £60 | 4.3%–6.6% | 5.6% |
| Head leases | 16 | n/a | | | | |
| Total | 2,289 | | | | | |

1 = Income capitalisation method.

2 = Residual value method.

Key unobservable inputs for redevelopments at planning stage and refurbishment is a Developer's profit. The range is 13%–20% with a weighted average of 18%.

Costs to complete is a key unobservable input for redevelopments at planning stage with a range of £186–£273 per sq. ft. and a weighted average of £203 per sq. ft.

Costs to complete are not considered to be a significant unobservable input for refurbishments due to the high percentage that is already 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 | +111/-111 | -42/+45 |
| Completed projects (refurbishments) | +29/-29 | -12/+13 |
| Refurbishments | +44/-44 | -13/+23 |
| Redevelopments | +13/-13 | -5/+6 |
| Acquisitions | +38/-38 | -16/+18 |

11. Property, plant and equipment

| Cost or valuation | Equipment and fixtures £m |
|---|---------------------------------|
| 1 April 2016 | 5.1 |
| Additions during the year | 1.8 |
| Disposals during the year | (0.8) |
| Balance at 31 March 2017 | 6.1 |
| Additions during the year | 1.1 |
| Balance at 31 March 2018 | 7.2 |
| Accumulated depreciation | |
| 1 April 2016 | 3.1 |
| Charge for the year | 0.9 |
| Disposals during the year | (0.8) |
| Balance at 31 March 2017 | 3.2 |
| Charge for the year | 1.1 |
| Balance at 31 March 2018 | 4.3 |
| Net book amount at 31 March 2018 | 2.9 |
| Net book amount at 31 March 2017 | 2.9 |

12. Investments

(a) Investment in joint ventures

The Group's investment in joint ventures represents:

| | 2018 £m | 2017 £m |
|--|------------|------------|
| Balance at 1 April | 0.3 | 22.3 |
| Capital distributions received* | - | (2.7) |
| Payment of loans to joint ventures | 0.1 | - |
| Share of gains | - | 0.1 |
| Income distributions received* | (0.3) | (0.6) |
| Disposal of joint ventures (note 3(b)) | - | (18.9) |
| Realisation of profits on sale of properties out of joint ventures (note 3(a)) | - | 0.1 |
| Balance at 31 March | 0.1 | 0.3 |

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

The Group had one joint venture during the year, Generate Studio Limited, which is engaged in the design and project management of office fit outs and workplace consultancy both for Group properties and third parties. The Group sold its share in Generate Studio Limited in March 2018. A dividend was paid to Workspace of £0.3m, of which £0.1m is being repaid by Generate Studio Limited to Workspace over the next financial year.

| | Partner | Established | Ownership | Measurement method |
|-------------------------|---------------------------|---------------|-----------|-----------------------|
| Generate Studio Limited | Whitebox Creative Limited | February 2014 | 50% | Equity |

(b) Other investments

The Group holds the following investment:

| | 2018 £m | 2017 £m |
|--|------------|------------|
| 10% of share capital of The Excell Group plc | 3.2 | 3.1 |
| | 3.2 | 3.1 |

Notes to the financial statements

continued

13. Trade and other receivables

| | 2018 £m | 2017 £m |
|---|------------|------------|
| Non-current trade and other receivables | | |
| Prepayments, other receivables and accrued income | - | 3.0 |
| Deferred consideration on sale of investment properties (see below) | - | 4.3 |
| | - | 7.3 |

| | 2018 £m | 2017 £m |
|--|------------|------------|
| Deferred consideration on sale of investment properties: | | |
| Balance at 1 April | 4.3 | 7.0 |
| Cash received | (2.4) | (1.7) |
| Additions | 4.7 | - |
| Less: classified as current | (7.0) | - |
| Change in fair value | 0.4 | (1.0) |
| Balance at 31 March | - | 4.3 |

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 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 profit of £0.4m (31 March 2017: £0.5m loss) (note 3(c)).

| | 2018 £m | 2017 £m |
|---|------------|------------|
| Current trade and other receivables | | |
| Trade receivables | 3.8 | 3.5 |
| Less provision for impairment of receivables | (0.6) | (0.3) |
| Trade receivables - net | 3.2 | 3.2 |
| Prepayments, other receivables and accrued income | 12.2 | 14.2 |
| Deferred consideration on sale of investment properties | 7.0 | 7.8 |
| | 22.4 | 25.2 |

Receivables at fair value:

Included within deferred consideration (both current and non-current) on sale of investment properties is £0.9m (2017: £9.4m) of overage which is held at fair value through profit and loss. In the current year, as the amounts receivable are due within the following 12 months it has been classified as 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:

| | 2018 £m | 2017 £m |
|---|------------|------------|
| Balance at 1 April | 0.3 | 0.4 |
| Increase in provision for impairment of trade receivables | 0.5 | 0.2 |
| Receivables written off during the year | (0.2) | (0.3) |
| Balance at 31 March | 0.6 | 0.3 |

14. Cash and cash equivalents

| | 2018 £m | 2017 £m |
|--|------------|------------|
| Cash at bank and in hand | 13.9 | 2.7 |
| Restricted cash - tenants' deposit deeds | 4.1 | 3.8 |
| | 18.0 | 6.5 |

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

| | 2018 £m | 2017 £m |
|--|------------|------------|
| Trade payables | 6.0 | 4.6 |
| Other tax and social security payable | 4.4 | 2.0 |
| Corporation tax payable | - | 0.3 |
| Tenants' deposit deeds (note 14) | 4.1 | 3.8 |
| Tenants' deposits | 24.0 | 18.0 |
| Accrued expenses | 28.5 | 20.2 |
| Deferred income - rent and service charges | 8.5 | 3.3 |
| | 75.5 | 52.2 |

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

Notes to the financial statements

continued

16. Borrowings

(a) Balances

| | 2018 £m | 2017 £m |
|--|--------------|------------|
| Non-current | | |
| Bank loans (unsecured) | 113.9 | 28.4 |
| 6% Retail Bond (unsecured) | 57.2 | 57.1 |
| 5.6% Senior US Dollar Notes 2023 (unsecured) | 71.5 | 80.1 |
| 5.53% Senior Notes 2023 (unsecured) | 83.8 | 83.8 |
| Senior Floating Rate Notes 2020 (unsecured) | 9.0 | 9.0 |
| 3.07% Senior Notes (unsecured) | 79.7 | - |
| 3.19% Senior Notes (unsecured) | 119.6 | - |
| Finance lease obligations | 16.1 | 7.1 |
| | 550.8 | 265.5 |

In June 2017, the Group exercised the options to extend the maturity of our revolver bank facility by a year to 2022 and increase the quantum of the facility from £150m to £250m.

In August 2017, we completed the placing of £200m of Private Placement Notes.

(b) Net Debt

| | 2018 £m | 2017 £m |
|------------------------------------|--------------|------------|
| Borrowings per (a) above | 550.8 | 265.5 |
| Adjust for: | | |
| Finance leases | (16.1) | (7.1) |
| Cost of raising finance | 3.4 | 2.3 |
| Foreign exchange differences | (7.1) | (15.7) |
| | 531.0 | 245.0 |
| Cash at bank and in hand (note 14) | (13.9) | (2.7) |
| Net Debt | 517.1 | 242.3 |

At 31 March 2018 the Group had £134m (2017: £120m) of undrawn bank facilities, a £2m overdraft facility (2017: £4m) and £13.9m of unrestricted cash (2017: £2.7m).

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

| | 2018 £m | 2017 £m |
|--|--------------|------------|
| Repayable between one year and two years | 57.5 | - |
| Repayable between two years and three years | 9.0 | 57.5 |
| Repayable between three years and four years | - | 9.0 |
| Repayable between four years and five years | 116.0 | 30.0 |
| Repayable in five years or more | 348.5 | 148.5 |
| | 531.0 | 245.0 |
| Cost of raising finance | (3.4) | (2.3) |
| Foreign exchange differences | 7.1 | 15.7 |
| | 534.7 | 258.4 |
| Finance leases: | | |
| Repayable in five years or more | 16.1 | 7.1 |
| | 550.8 | 265.5 |

(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 |
| 3.07% Senior Notes | 80.0 | 3.07% | Half yearly | August 2025 |
| 3.19% Senior Notes | 120.0 | 3.19% | Half yearly | August 2027 |
| Revolver loan | 116.0 | LIBOR+1.65% | Monthly | June 2022 |
| 6% Retail Bond | 57.5 | 6.0% | Half yearly | October 2019 |
| | 531.0 | | | |

(e) Derivative financial instruments

The following derivative financial instruments are held:

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

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.

(f) Financial instruments and fair values

| | 2018 Book value £m | 2018 Fair value £m | 2017 Book value £m | 2017 Fair value £m |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| Financial liabilities held at amortised cost | | | | |
| Bank loans | 113.9 | 116.0 | 28.4 | 28.4 |
| 6% Retail Bond | 57.2 | 60.2 | 57.1 | 61.7 |
| Private Placement Notes | 363.6 | 379.4 | 172.9 | 172.9 |
| Finance lease obligations | 16.1 | 16.1 | 7.1 | 7.1 |
| | 550.8 | 571.7 | 265.5 | 270.1 |
| Financial (assets)/liabilities at fair value through other comprehensive income | | | | |
| Derivative financial instruments: | | | | |
| Cash flow hedge – derivatives used for hedging | (2.5) | (2.5) | (12.1) | (12.1) |
| | (2.5) | (2.5) | (12.1) | (12.1) |
| Financial assets at fair value through profit or loss | | | | |
| Deferred consideration (overage) | 0.9 | 0.9 | 9.4 | 9.4 |
| Other investments | 3.2 | 3.2 | 3.1 | 3.1 |
| | 4.1 | 4.1 | 12.5 | 12.5 |

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. The fair value of the Retail Bond has been established from the quoted market price at 31 March 2018 and is thus a Level 1 valuation. 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.

Notes to the financial statements

continued

16. Borrowings continued

(g) Financial instruments by category

| Assets | 2018 £m | 2017 £m |
|--|-------------|-------------|
| a) Assets at value through profit or loss | | |
| Deferred consideration (overage) | 0.9 | 9.4 |
| Other investments | 3.2 | 3.1 |
| | 4.1 | 12.5 |
| b) Loans and receivables | | |
| Cash and cash equivalents | 18.0 | 6.5 |
| Trade and other receivables excluding prepayments ¹ | 15.1 | 9.6 |
| | 33.1 | 16.1 |
| Total | 37.2 | 28.6 |

| Liabilities | 2018 £m | 2017 £m |
|---|------------|------------|
| Other financial liabilities at amortised cost | | |
| Borrowings (excluding finance leases) | 534.7 | 258.4 |
| Finance lease liabilities | 16.1 | 7.1 |
| Trade and other payables excluding non-financial liabilities ² | 63.0 | 46.6 |
| | 613.8 | 312.1 |

1. Trade and other receivables exclude prepayments of £6.4m (2017: £6.4m) and non-cash deferred consideration of £0.9m (2017: £9.4m).

2. Trade and other payables exclude other tax and social security of £4.4m (2017: £2.0m), corporation tax of £Nil (2017: £0.3m) and deferred income of £8.5m (2017: £3.3m).

(h) Finance leases

Finance lease liabilities are in respect of leased investment property.

Minimum lease payments under finance leases fall due as follows:

| | 2018 £m | 2017 £m |
|--|------------|------------|
| Within one year | 1.0 | 0.5 |
| Between two and five years | 3.9 | 1.8 |
| Beyond five years | 95.3 | 48.3 |
| | 100.2 | 50.6 |
| Future finance charges on finance leases | (84.1) | (43.5) |
| Present value of finance lease liabilities | 16.1 | 7.1 |

(i) Changes in liabilities from financing activities

| | Bank loans and borrowings £m | Finance lease liabilities £m | Derivatives used for hedging- assets £m |
|---|---------------------------------------|---------------------------------------|---|
| Deferred tax assets | | | |
| Balance at 1 April | 258.4 | 7.1 | (12.1) |
| Changes from financing cash flows: | | | |
| Proceeds from bank borrowings and Private Placement Notes | 580.0 | - | - |
| Repayment of bank borrowings | (294.0) | - | - |
| Finance costs for new/amended borrowing facilities | (1.9) | - | - |
| Settlement of derivative financial instruments | - | - | 0.1 |
| Total changes from cash flows | 284.1 | - | 0.1 |
| Changes in fair value of derivative financial instruments | - | - | 9.5 |
| Foreign exchange differences | (8.5) | - | - |
| Amortisation of issue costs of borrowing | 0.7 | - | - |
| New finance leases | - | 9.0 | - |
| Interest payable/(receivable) | 18.5 | 0.9 | (0.6) |
| Interest paid/(received) | (18.5) | (0.9) | 0.6 |
| Total other changes | 0.7 | 9.0 | - |
| Balance at 31 March 2018 | 534.7 | 16.1 | 2.5 |

17. Financial risk management objectives and policy

The Group has identified exposure to the following financial risks:

- Market risk.
- Credit risk.
- Liquidity risk.
- Capital risk 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 2018 77% (2017: 84%) 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 by £0.6m (2017: £0.2m).

Interest cover covenants in relation to Group borrowings range between 1.5x and 2.0x and the Group targets a minimum cover of 2.0x. As at 31 March 2018 interest cover was 5.1x. Interest cover is calculated as net rental income divided by finance costs.

(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 3,000 tenants over 66 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 £28.1m (2017: £21.8m). 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.

Notes to the financial statements

continued

17. Financial risk management objectives and policy continued

(b) Credit risk continued

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:

| | 2018 £m | 2017 £m |
|--|-------------|------------|
| Cash and cash equivalents (note 14) | 13.9 | 6.5 |
| Trade receivables – current (note 13) | 3.2 | 3.2 |
| Deferred consideration – current (note 13) | 7.0 | 7.8 |
| Deferred consideration – non-current (note 13) | - | 4.3 |
| | 24.1 | 21.8 |

(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. 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.

To ensure it can effectively manage its liquidity risk, the Group has an overdraft facility of £2m (2017: £4m) and a revolving loan facility of £250m (2017: £150m). At 31 March 2018 headroom excluding overdraft and cash was £134m (31 March 2017: £120m).

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 2018 | 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 | 116.0 | 2.5 | 2.5 | 2.5 | 118.9 | 126.4 |
| 6% Retail Bond | 57.5 | 3.5 | 59.4 | - | - | 66.4 |
| Private Placement Notes | 357.5 | 14.9 | 14.9 | 23.7 | 400.6 | 454.1 |
| Finance lease liabilities | 16.1 | 1.0 | 1.0 | 1.0 | 97.2 | 100.2 |
| Trade and other payables† | 62.6 | 62.6 | - | - | - | 62.6 |
| | 609.7 | 84.5 | 77.8 | 27.2 | 616.7 | 809.7 |

| 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 |

† Trade and other payables exclude other tax and social security of £4.4m (2017: £2.0m), corporation tax of £nil (2017: £0.3m) and deferred income of £8.5m (2017: £3.3m).

* Excludes unamortised borrowing costs.

(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 2018 Group equity was £1,712.9m (2017: £1,578.5m) and Group net debt (debt less cash at bank and in hand) was £517.1m (2017: £242.3m). Group gearing at 31 March 2018 was 30% (2017: 17%).

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. Loan to value at 31 March 2018 was 23%. This is calculated using the total CBRE investment property valuation (as per note 10) and the current net debt (as per note 16b). Our target is to maintain loan to value below 30%. This may from time-to-time be exceeded up to a maximum of 40% as steps are taken to reduce loan to value to below 30%.

18. Notes to cash flow statement

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

| | 2018 £m | 2017 £m |
|---|-------------|------------|
| Profit before tax | 170.4 | 88.8 |
| Depreciation | 1.1 | 0.9 |
| Amortisation of intangibles | 0.3 | 0.2 |
| (Profit)/loss on disposal of investment properties | (26.6) | 0.6 |
| Loss on disposal of joint ventures | - | 0.2 |
| Other income | (0.6) | (2.1) |
| Other expenses | - | 1.2 |
| Net gain from change in fair value of investment property | (82.5) | (39.5) |
| Equity settled share based payments | 1.7 | 1.9 |
| Finance income | - | (0.1) |
| Finance costs | 18.8 | 13.7 |
| Exceptional finance costs | - | 1.4 |
| Gains from share in joint ventures | - | (0.1) |
| Changes in working capital: | | |
| Increase in trade and other receivables | (7.9) | (2.2) |
| Increase in trade and other payables | 18.5 | 4.8 |
| Cash generated from operations | 93.2 | 69.7 |

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

| | 2018 £m | 2017 £m |
|--|-------------|------------|
| Cash at bank and in hand | 13.9 | 2.7 |
| Restricted cash – tenants' deposit deeds | 4.1 | 3.8 |
| | 18.0 | 6.5 |

Notes to the financial statements

continued

19. Share capital and share premium

| | 2018 £m | 2017 £m |
|---|--------------|------------|
| Issued: Fully paid ordinary shares of £1 each | 163.8 | 163.2 |

| Movements in share capital were as follows: | 2018 Number | 2017 Number |
|---|--------------------|----------------|
| Number of shares at 1 April | 163,199,045 | 162,404,600 |
| Issue of shares | 606,546 | 794,445 |
| Number of shares at 31 March | 163,806,591 | 163,199,045 |

The Group issued 606,526 shares (2017: 794,445 shares) during the year to satisfy the exercise of share options with net proceeds of £0.5m (2017: £0.2m).

| | Share Capital | | Share Premium | |
|---------------------|---------------|------------|---------------|------------|
| | 2018 £m | 2017 £m | 2018 £m | 2017 £m |
| Balance at 1 April | 163.2 | 162.4 | 135.4 | 135.9 |
| Issue of shares | 0.6 | 0.8 | (0.1) | (0.5) |
| Balance at 31 March | 163.8 | 163.2 | 135.3 | 135.4 |

20. Other reserves

| | Equity settled share based payments £m | Merger reserve £m | Hedging reserve £m | Total £m |
|--|---|-------------------------|--------------------------|-------------|
| Balance at 1 April 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 |
| Share based payments | 1.7 | - | - | 1.7 |
| Change in fair value of derivative financial instruments (cash flow hedge) | - | - | (1.0) | (1.0) |
| Balance at 31 March 2018 | 15.7 | 8.7 | (5.0) | 19.4 |

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. At 31 March 2018 the number of shares held by the ESOT totalled 75,226 (2017: 75,226).

The SIP is governed by HMRC rules (note 22). At 31 March 2018 the number of shares held for the SIP totalled 76,183 (2017: 43,048).

| | 2018 £m | 2017 £m |
|---------------------------------|------------|------------|
| Balance at 1 April | 8.9 | 8.9 |
| Shares purchased for the Trusts | 0.4 | - |
| Balance at 31 March | 9.3 | 8.9 |

22. Share based payments

The Group operates a number of share schemes:

(a) Long term equity incentive plan ('LTIP')

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

For the 2017 scheme these were:

- Relative TSR.
- Total Property Return compared to the IPD benchmark.

For the 2015 and 2016 schemes these were relative TSR, absolute TSR and relative NAV.

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

Under the 2017 LTIP scheme 495,009 performance and matching shares were awarded in June 2017 to Directors and Senior Management (2016 LTIP scheme: 479,057).

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

| | LTIP Number |
|-------------------------|------------------|
| At 1 April 2016 | 1,722,815 |
| Granted | 479,057 |
| Exercised | (740,263) |
| Lapsed | (67,714) |
| At 31 March 2017 | 1,393,895 |
| Granted | 473,947 |
| Exercised | (495,009) |
| Lapsed | (72,488) |
| At 31 March 2018 | 1,300,345 |

For the 2014 LTIP Scheme, which vested in June 2017, the average closing share price at the date of exercise of shares exercised during the year was £9.07 (2013: £6.85).

A binomial model was used to determine the fair value of the LTIP grant for the Absolute TSR and Relative TSR elements of the 2016 LTIP scheme and Relative TSR for the 2017 scheme.

Assumptions used in the model were as follows:

| | 2017 LTIP | 2016 LTIP | 2015 LTIP |
|--|-------------|-----------|-----------|
| Share price at grant | 890p | 828p | 914p |
| Exercise price | Nil | Nil | Nil |
| Average expected life (years) | 3 | 3 | 3 |
| Risk free rate | 1% | 1% | 1% |
| Expected dividend yield | 3% | 2% | 2% |
| Average share price volatility | 29% | 28% | 25% |
| Fair value per option - Absolute TSR element | n/a | 316p | 305p |
| Fair value per option - Relative TSR element | 333p | 306p | 306p |

The Total Property Return compared to the IPD benchmark is a non-market based condition and the intrinsic value is therefore the share price at date of grant of 890 pence. At each balance sheet date, the Directors will 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 Total Return 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.

Notes to the financial statements

continued

22. Share based payments continued

(b) 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 | |
|-------------------------|----------------|-------------------------|
| | Number | Weighted exercise price |
| Options outstanding | | |
| At 1 April 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 |
| Options granted | 89,488 | £7.09 |
| Options exercised | (111,517) | £2.37 |
| Options lapsed | (18,059) | £5.85 |
| At 31 March 2018 | 265,123 | £5.82 |

The average closing share price at the date of exercise for the SAYE options exercised (for the three-year 2014 and the five-year 2012 schemes) during the year was £8.84 (2017: £7.16).

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

| | 2018 SAYE 3 year | 2018 SAYE 5 year | 2017 SAYE 3 year | 2017 SAYE 5 year |
|--|------------------------|------------------------|------------------------|------------------------|
| Weighted average share price at grant | 851p | 851p | 622p | 622p |
| Exercise price | 709p | 709p | 518p | 518p |
| Expected volatility | 28% | 28% | 28% | 28% |
| 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:

| | 2018 | | 2017 | |
|-------------------|---------------------|---------------------|--------------|---------------------|
| | Grant date | Fair value of award | Grant date | Fair value of award |
| SAYE - three year | 26 July 2017 | 204p | 27 July 2016 | 149p |
| SAYE - five year | 26 July 2017 | 225p | 27 July 2016 | 164p |

(c) Share incentive plan ('SIP')

All staff were granted £1,000 worth of shares in both March 2013 and September 2015 and £2,000 in August 2017. 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. 46,968 new shares were granted in the year (2017: nil). 12,179 (2017: 4,088) shares were exercised in the year and 6,102 (2017: 3,930) shares lapsed.

(d) Year end summary

At 31 March 2018 in total there were 1,649,658 (2017: 1,733,960) 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 2015 | - | 374,545 | - | 26.06.2018 | - |
| 26 June 2016 | - | 459,860 | - | 26.06.2019 | - |
| 26 June 2017 | - | 473,947 | - | 26.06.2020 | - |
| SAYE | | | | | |
| 31 July 2013 - five year | £3.47 | 8,644 | - | 01.09.2018 | 01.03.2019 |
| 25 July 2014 - three year | £4.59 | 1,960 | 1,960 | 01.09.2017 | 01.03.2018 |
| 25 July 2014 - five year | £4.59 | 392 | - | 01.09.2019 | 01.03.2020 |
| 25 July 2015 - three year | £7.27 | 11,996 | - | 01.09.2018 | 01.03.2019 |
| 25 July 2015 - five year | £7.27 | 247 | - | 01.09.2020 | 01.03.2021 |
| 20 July 2016 - three year | £5.18 | 157,941 | - | 01.09.2019 | 01.03.2020 |
| 20 July 2016 - five year | £5.18 | 347 | - | 01.09.2021 | 01.03.2022 |
| 26 July 2017 - three year | £7.08 | 82,834 | - | 01.09.2020 | 01.03.2021 |
| 26 July 2017 - five year | £7.08 | 762 | - | 01.09.2022 | 01.03.2023 |
| SIP | | | | | |
| 18 September 2015 | - | 32,635 | - | 18.09.2018 | 18.09.2020 |
| 10 August 2017 | - | 43,548 | - | 10.08.2020 | 10.08.2022 |
| Total | | 1,649,658 | 1,960 | | |

The share awards/options outstanding at 31 March 2018 had a weighted average remaining contractual life of: LTIP - 1.2 years (2017: 1.2 years), SAYE - 1.7 years (2017: 1.6 years), SIP - 1.6 years (2017: 0.8 years).

(e) 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.

(f) Share based payment charges

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

| | 2018 £m | 2017 £m |
|-------------------------------------|------------|------------|
| Equity settled share based payments | 1.7 | 1.9 |
| Cash-settled share based payments | 0.6 | 0.4 |
| | 2.3 | 2.3 |

The total liability at the end of the year in respect of cash-settled share based schemes was £0.8m (2017: £0.8m).

Notes to the financial statements

continued

23. Related party transactions

| | 2018 £m | 2017 £m |
|---|--------------|------------|
| Transactions for the year ended 31 March: | | |
| Capital distributions received from joint ventures (note 12(a)) | - | 2.7 |
| Repayment/payment of loans to joint ventures (note 12(a)) | (0.1) | - |
| Fee income and recharges to joint ventures (including performance fees) | - | 0.4 |
| Fee income and recharges from joint ventures | - | (1.4) |
| Income distributions received from joint ventures (note 12(a)) | 0.3 | 0.6 |
| Balances with joint ventures at 31 March: | | |
| Amounts receivable from joint venture | 0.1 | - |

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:

| | 2018 £m | 2017 £m |
|------------------------------|------------|------------|
| Key management compensation: | | |
| Short-term employee benefits | 3.8 | 3.2 |
| Share based payments | 1.2 | 1.1 |
| | 5.0 | 4.3 |

24. Capital commitments

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

| | 2018 £m | 2017 £m |
|--|-------------|------------|
| Construction or redevelopment of investment property | 49.7 | 27.9 |

25. Subsidiary and other related undertakings

The Company's subsidiary and other related undertakings at 31 March 2018, 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.

UK subsidiaries

The registered address of all UK 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 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 10 Limited | Dormant |
| Workspace 11 Limited | Dormant |
| Workspace 15 Limited | Dormant |
| Workspace Holdings Limited | Dormant |
| Anyspacedirect.co.uk 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.

Non-UK subsidiaries

| Name | Country of incorporation | Registered address | Nature of business |
|-------------------------------|--------------------------|---|---------------------------|
| Workspace 16 (Jersey) Limited | Jersey | Gaspé House, 66-72 The Esplanade, St Helier, Jersey JE2 3QT | Investor in joint venture |
| Workspace 17 (Jersey) Limited | Jersey | 44 Esplanade, St Helier, Jersey JE4 9WQ | Holding Company |
| Workspace Salisbury Limited* | Jersey | 44 Esplanade, St Helier, Jersey JE4 9WQ | Property Investment |
| Centro Property Limited* | Guernsey | Martello Court, Admiral Park, St Peter Port, Guernsey GY1 3HB | Property Investment |

* 100% of the ordinary share capital of these subsidiaries is held by other Group companies.

Notes to the financial statements

continued

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 £0.8m (2017: £0.7m) 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 199 (2017: 177).

27. Operating leases

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

| | 2018 £m | 2017 £m |
|--------------------------------------|------------|------------|
| Motor vehicles and office equipment: | | |
| Due within one year | 0.1 | 0.1 |
| Due between two and five years | 0.1 | 0.1 |
| | 0.2 | 0.2 |

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 to six-month tenant break clause, however the recent property acquisitions in the financial year have included customer leases which are much longer, with fewer break clauses. The future minimum non-cancellable rental receipts under operating leases granted to tenants are shown below.

| | 2018 £m | 2017 £m |
|----------------------------|------------|------------|
| Land and buildings: | | |
| Within one year | 69.1 | 41.2 |
| Between two and five years | 49.0 | 6.4 |
| Beyond five years | 24.8 | 1.5 |
| | 142.9 | 49.1 |

28. Post balance sheet events

On 20 April 2018 the Group acquired Centro Buildings 1 & 2 in Camden for £76.5m.

Parent Company balance sheet

As at 31 March 2018

| | Notes | 2018 £m | 2017 £m |
|--|-------|------------|------------|
| Fixed assets | | | |
| Investments | C | 795.5 | 703.8 |
| Derivative financial instruments | F | 2.5 | 12.1 |
| | | 798.0 | 715.9 |
| Current assets | | | |
| Debtors: amounts falling due within one year | D | 564.4 | 243.6 |
| Cash and cash equivalents | | 0.2 | 0.2 |
| | | 564.6 | 243.8 |
| Total assets | | 1,362.6 | 959.7 |
| Current liabilities | | | |
| Creditors: amounts falling due within one year | E | (140.1) | (100.1) |
| Creditors: amounts falling due after more than one year | | | |
| Borrowings | F | (534.7) | (258.4) |
| Total liabilities | | (674.8) | (358.5) |
| Net assets | | 687.8 | 601.2 |
| Capital and reserves | | | |
| Share capital | G | 163.8 | 163.2 |
| Share premium | G | 135.3 | 135.4 |
| Investment in own shares | G | (9.3) | (8.9) |
| Other reserves | G | 19.4 | 18.7 |
| Retained earnings | | 378.6 | 292.8 |
| Total shareholders' equity | | 687.8 | 601.2 |

The notes on pages 181 to 183 form part of these financial statements.

The financial statements on pages 179 to 183 were approved by the Board of Directors on 5 June 2018 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 2018

| | Share capital £m | Share premium £m | Investment in own shares £m | Other reserves £m | Retained earnings £m | Total Shareholders' equity £m |
|---|---------------------|---------------------|--------------------------------|----------------------|-------------------------|----------------------------------|
| 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 |
| Other comprehensive income for the year | - | - | - | (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 |
| Profit for the year | - | - | - | - | 123.6 | 123.6 |
| Other comprehensive income for the year | - | - | - | (1.0) | - | (1.0) |
| Total comprehensive income | - | - | - | (1.0) | 123.6 | 122.6 |
| Transactions with owners: | | | | | | |
| Share issues | 0.6 | (0.1) | - | - | - | 0.5 |
| Dividends paid | - | - | - | - | (37.8) | (37.8) |
| Own shares | - | - | (0.4) | - | - | - |
| Share based payments | - | - | - | 1.7 | - | 1.7 |
| Balance at 31 March 2018 | 163.8 | 135.3 | (9.3) | 19.4 | 378.6 | 687.8 |

The notes on pages 181 to 183 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:

- The requirements of IAS 7 to provide a Statement of cash flows and related notes for the year;
- The requirements of IAS 1 to provide a statement of compliance with IFRS;
- The requirements of IAS 1 to disclose information on the management of capital;
- 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;
- 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;
- The requirements of IFRS 7 on financial instruments disclosures; and
- 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 152. 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 152.

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 £123.6m (2017: £9.7m). £130.0m dividends were received in the year from subsidiary undertakings (2017: £23.1m).

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 2017 | 838.1 | 1.2 | 839.3 |
| Additions in the year | 91.7 | - | 91.7 |
| Balance at 31 March 2018 | 929.8 | 1.2 | 931.0 |
| Impairment | | | |
| Balance at 31 March 2017 and 31 March 2018 | 134.3 | 1.2 | 135.5 |
| Net book value at 31 March 2018 | | | |
| Net book value at 31 March 2018 | 795.5 | - | 795.5 |
| Net book value at 31 March 2017 | 703.8 | - | 703.8 |

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

D. Debtors

| | 2018 £m | 2017 £m |
|-------------------------------------|--------------|------------|
| Amounts falling due within one year | | |
| Amounts owed by Group undertakings | 562.0 | 241.6 |
| Corporation tax asset | 2.4 | 2.0 |
| | 564.4 | 243.6 |

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

| | 2018 £m | 2017 £m |
|------------------------------------|--------------|------------|
| Amounts owed to Group undertakings | 133.8 | 95.0 |
| Taxation and social security | 1.4 | 1.0 |
| Accruals and deferred income | 4.9 | 4.1 |
| | 140.1 | 100.1 |

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 | 2018 £m | 2017 £m |
|--------------------------------------|---------------|--------------|--------------|------------|
| Bank loan | LIBOR+1.65% | June 2022 | 116.0 | 30.0 |
| 5.6% Senior US Dollar Notes 2023 | 5.6% | June 2023 | 64.5 | 64.5 |
| 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 |
| 3.07% Senior Notes | 3.07% | August 2025 | 80.0 | - |
| 3.19% Senior Notes | 3.19% | August 2027 | 120.0 | - |
| 6% Retail Bond | 6.0% | October 2019 | 57.5 | 57.5 |
| Total borrowings | | | 531.0 | 245.0 |
| Less cost of raising finance | | | (3.4) | (2.3) |
| Foreign exchange differences | | | 7.1 | 15.7 |
| Net borrowings | | | 534.7 | 258.4 |

All the above borrowings are unsecured.

| Maturity analysis of borrowings: | 2018 £m | 2017 £m |
|--|--------------|------------|
| Repayable between one and two years | 57.5 | - |
| Repayable between two and three years | 9.0 | 57.5 |
| Repayable between three and four years | - | 9.0 |
| Repayable between four and five years | 116.0 | 30.0 |
| Repayable in five years or more | 348.5 | 148.5 |
| | 531.0 | 245.0 |

The following derivative financial instruments are held:

| | Amount | Rate payable (%) | Term/ expiry | 2018 £m | 2017 £m |
|---------------------------------------|---------------|---------------------|-----------------|------------|------------|
| Cash flow hedge – cross currency swap | \$100m/£64.5m | 5.66% | June 2023 | 2.5 | 12.1 |

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 172 to 175 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 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 |
| Share based payments | 1.7 | - | - | 1.7 |
| Change in fair value of derivative financial instruments | - | - | (1.0) | (1.0) |
| Balance at 31 March 2018 | 15.7 | 8.7 | (5.0) | 19.4 |