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 2021 which comprise the Consolidated and Parent Company's Balance Sheets, the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, the Consolidated and Parent Company's Statement's of Changes in Equity, and the related notes, including the accounting policies in note 1.

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 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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 to the extent applicable.

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 first appointed as auditor by the shareholders on 14 July 2017. The period of total uninterrupted engagement is for the 4 financial years ended 31 March 2021. 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: group financial statements as a whole	£25.5m (2020: £26.7m) 1% (2020: 1%) of total Group assets	
Coverage	100% (2020: 100%) of total Group assets	
Key audit matters		vs 2020
Recurring risks	**Group:** Valuation of Investment property	–
	New: Group: Revenue recognition	^
	Parent: Valuation of derivatives	–

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WORKSPACE GROUP PLC CONTINUED

2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT CONTINUED

	The risk	Our response
Valuation of investment property (Group) (Group: £2,349.9 million; 2020: £2,586.3 million) *Refer to* page 159 *(Audit Committee Report),* page 214 *(accounting policy) and* page 222 *(financial disclosures).*	**Subjective valuation** Investment properties is the largest balance in the financial statements and is held at fair value in the Group's financial statements, representing 90.6% (2020: 95%) of total assets. 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, an allowance for developer's profit and forecast of construction costs. 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. Furthermore, each property valuation includes source data provided by directors 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. The effect of these matters is that, as part of our risk assessment, we determined that the investment properties value has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. **Disclosure quality** The financial statements (note 10) disclose the sensitivity estimated by the Group. The Directors' assessment of the extent of the disclosure is based on an evaluation of the inherent risks to the valuation, including the possible economic effect of the coronavirus pandemic. The risk for our audit is whether or not those disclosures adequately address the uncertainties within the valuation, and if so, whether those uncertainties are fundamental to the users' understanding of the financial statements.	We performed the tests below rather than seeking to rely on any of the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures, assisted by our own property valuation specialist (for procedures 1, 2 and 3), 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 considering whether the valuation report is in accordance with the RICS Valuation Professional Standards 'the Red Book' and accounting standards. – **Benchmarking assumptions:** 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 appropriateness of 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 and to industry benchmarks. – **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 directors' project appraisals. – **Assessing transparency:** Assessing whether the Group's disclosures about the sensitivity of the valuation of investment properties to changes in key assumptions adequately reflected the related risks. **Our results** – We found the valuation of investment properties and the disclosure of the associated level of uncertainty to be acceptable (2020 result: acceptable).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WORKSPACE GROUP PLC CONTINUED

2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT CONTINUED

	The risk	Our response
Revenue recognition (Rental income: Group: £118 million; 2020: £132.7 million) *Refer to* page 216 *(accounting policy)* *and* page 217 *(financial disclosure)*	**Increased complexity** Rental income and significant lease incentives provided to customers are recognised on a straight line basis over individual lease terms. We do not consider rental income to contain a high risk of significant misstatement, or to be subject to a significant level of judgement. However, due to the materiality of Revenue in the context of the financial statements as a whole, it is considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit. In addition, as a result of the COVID-19 pandemic, the Group offered customers rental discounts and deferrals of £19.9m (2020:£nil). The non-standard nature of these transactions resulted in an increased inherent risk of error which warrants additional audit focus.	We performed the tests below rather than seeking to rely on any of the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: – **Completeness and accuracy of tenancy data** – **Test of detail:** We performed sample testing of tenancy data to supporting lease agreements to gain comfort over the accuracy of the data in the property management system. – **Data and analytics:** We calculated an expectation of the total rental income for the year based on individual lease information recorded in the property management system. – **Rental discounts:** – **Test of detail:** We tested a sample of rental deferrals offered to tenants as a result of COVID-19 to assess whether they had been correctly accounted for within the requirements of IFRS 16 (Leases) and IFRS 9 (Financial instruments). – **Test of detail:** We recalculated total rental discounts for the year by using tenancy data and publicly available company announcements. – **Assessing transparency:** We assessed the Group's disclosures in relation to rental discounts and the provision for expected credit losses. **Our results:** We found that the recognition of revenue acceptable.
Valuation of derivatives (Parent) (Parent: £8.7 million; 2020: £18.5 million) *Refer to* page 226 *(financial disclosures).*	**Subjective estimate** The Parent Company has derivative financial instruments of £8.7 million (2020: £18.5 million). The cash flow hedge is against a $100 million/£64.5 million loan (2020: $100 million/ £64.5 million). The Parent Company has a cross currency swap to ensure the US Dollar liability streams generated from the US Dollar Notes are fully hedged and have a fixed rate liability totalling £64.5 million (2020: £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. 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, this is considered to be the area that had the greatest effect on our overall parent company audit.	We performed the tests below rather than seeking to rely on any of the group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: – **Test of detail:** We agreed the carrying value of derivatives to valuations obtained directly from the counter-party valuers. – **Benchmarking assumptions:** using our own specialists, assessed the key assumptions used in the valuations, such as foreign exchange rates, against our own knowledge of the market and industry. – **Reperformance:** using our own specialists, independently reperformed the valuation calculation and compared to the company's results. **Our results** – We found the valuation of derivatives to be acceptable (2020:acceptable).

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WORKSPACE GROUP PLC CONTINUED

2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT CONTINUED

We continue to perform procedures over going concern. However, following refinancing in the year, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

In the prior year we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. Following the trade agreement between the UK and the EU, and the end of the EU-exit implementation period, the nature of these uncertainties has changed. We continue to perform procedures over material assumptions in forward looking assessments such as going concern and impairment tests however we no longer consider the effect of the UK's departure from the EU to be a separate key audit matter.

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 £25.5 million (2020: £26.7 million), determined with reference to a benchmark of total Group assets of £2,593.6 million (2020: £2,735.5 million), of which it represents 0.98% (2020: 0.98%).

In addition, we applied materiality of £3.75 million (2020: £4 million) to Group components of adjusted trading profit after interest 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 £15.64 million (2020: £15.5 million), determined with reference to a benchmark of company total assets, of which it represents 1% (2020: 1%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £19.1m (2020: £20.0) for the group and £11.73m (2020: £11.61) for the parent company.

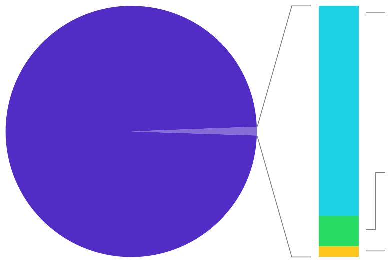
We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.27 million (2020: £1.3 million) for the Group and exceeding £0.78 million (2020: £0.77 million) for the Parent Company; or £0.19 million (2020: £0.2 million) for misstatements relating to accounts to which the lower materiality was applied, 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 below.

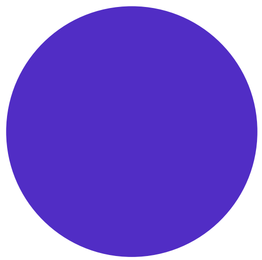
The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The Group team performed the parent company audit. The audit was performed using the materiality levels set out above.

TOTAL GROUP ASSETS AND MATERIALITY



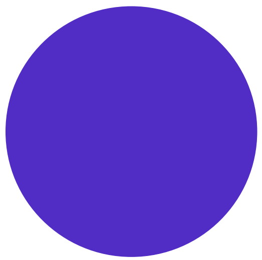
Total Group assets (2020: £2,735.5m)	**£2,547.5m**
Group Materiality (2020: £26.7m)	**£25.5m**

GROUP REVENUE



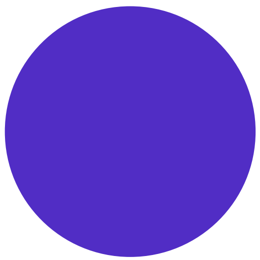
Group revenue (2020: 100%)	**100%**

GROUP PROFIT BEFORE TAX



Group profit before tax (2020: 100%)	**100%**

GROUP TOTAL ASSETS



Group total assets (2020: 100%)	**100%**

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WORKSPACE GROUP PLC CONTINUED

4. GOING CONCERN

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:
- tenant default and significant reduction in rent collections impacting cash flow and earnings;
- compliance with loan covenants; and
- significant reduction in property values

We considered whether these risks could plausibly affect the liquidity or availability of borrowings and debt refinancing in the going concern period by assessing the degree of downside assumption that, individually and collectively, could result in a liquidity issue, taking into account the Group's current and projected cash and facilities (a reverse stress test).

We considered the completeness and accuracy of the matters covered in the going concern disclosures and assessed whether they reflect the position of the Group's financing and the risks associated with the Group's ability to continue as a going concern.

Our conclusions based on this work:
- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period;
- we have nothing material to add or draw attention to in relation to the directors' statement in note 1 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 the going concern period, and we found the going concern disclosure in note 1 to be acceptable; and
- the related statement under the Listing Rules set out on page 81 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. FRAUD AND BREACHES OF LAWS AND REGULATIONS – ABILITY TO DETECT

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:
- Enquiring of directors and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes, Executive Committee minutes and attending Group audit committee meetings.
- Considering remuneration incentive schemes and performance targets for management, including total shareholder return, total property return, performance compared to IPD and growth in trading profit after interest targets for management remuneration.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as significant assumptions used in the valuation of investment properties, including estimated rental values and market based yields. On this audit we do not believe there is a fraud risk related to revenue recognition because of the relative simplicity of revenue streams.

We also identified a fraud risk related to management's potential manipulation of tenancy data when determining property valuations in response to possible pressures to meet profit targets.

We performed procedures including:
- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted and approved by the same user and those posted to unusual accounts.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), the policies and procedures regarding compliance with laws and regulations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WORKSPACE GROUP PLC CONTINUED

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

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation (including conditions to maintain UK Real Estate Investment Trust ("REIT")) status in accordance with the REIT regime) and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, environmental and sustainability legislation, and certain aspects of company legislation recognising the financial nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We assessed the legality of the distributions made by the Company in the period based on comparing the dividends paid to the distributable reserves prior to each distribution, including consideration of interim accounts filed during the year.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. 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 emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:
- the directors' confirmation within the viability statement page 81 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Emerging and Principal Risks disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the 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.

We are also required to review the viability statement, set out on page 81 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WORKSPACE GROUP PLC CONTINUED

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:
- 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;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in this respect.

7. 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.

8. RESPECTIVE RESPONSIBILITIES

Directors' responsibilities

As explained more fully in their statement set out on page 202, 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 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 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.

9. 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
2 June 2021

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2021

	Notes	2021 £m	2020 £m
Revenue	1	142.3	161.4
Direct costs	1	(60.8)	(39.4)
Net rental income	1	81.5	122.0
Administrative expenses	2	(19.0)	(17.7)
Trading profit		62.5	104.3
Loss on disposal of investment properties	3(a)	(0.1)	(0.8)
Other expenses	3(b)	(0.2)	(0.2)
Change in fair value of investment properties	10	(257.7)	(7.5)
Operating (loss)/ profit	2	(195.5)	95.8
Finance costs	4	(23.8)	(23.3)
Exceptional finance costs	4	(16.4)	–
(Loss)/ profit before tax		(235.7)	72.5
Taxation	6	–	(0.4)
(Loss)/ profit for the financial year after tax		(235.7)	72.1
Basic (loss)/ earnings per share	8	(130.3)p	40.0p
Diluted (loss)/ earnings per share	8	(130.3)p	39.7p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2021

	2021 £m	2020 £m
(Loss)/ profit for the financial year	(235.7)	72.1
Other comprehensive income:		
Items that may be classified subsequently to profit or loss:		
Change in fair value of other investments	–	(1.9)
Cash flow hedge – transfer to income statement	8.6	(4.2)
Cash flow hedge – change in fair value	(9.8)	8.3
Other comprehensive (loss)/ income in the year	(1.2)	2.2
Total comprehensive (loss)/ income for the year	(236.9)	74.3

The notes on pages 213 to 235 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 2021

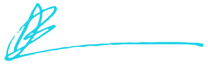
	Notes	2021 £m	2020 £m
Non-current assets			
Investment properties	10	2,349.9	2,586.3
Intangible assets		2.4	2.0
Property, plant and equipment	11	4.0	4.8
Other investments	12	7.9	7.9
Derivative financial instruments	16(e) & (f)	8.7	18.5
Deferred tax	6	0.4	0.6
		2,373.3	2,620.1
Current assets			
Trade and other receivables	13	29.3	25.2
Assets held for sale	10	–	11.0
Cash and cash equivalents	14	191.0	79.2
		220.3	115.4
Total assets		2,593.6	2,735.5
Current liabilities			
Trade and other payables	15	(95.0)	(83.1)
Borrowings	16(a)	(156.6)	(9.0)
		(251.6)	(92.1)
Non-current liabilities			
Borrowings	16(a)	(596.2)	(617.2)
Lease obligations	17	(26.3)	(28.2)
		(622.5)	(645.4)
Total liabilities		(874.1)	(737.5)
Net assets		1,719.5	1,998.0

	Notes	2021 £m	2020 £m
Shareholders' equity			
Share capital	20	181.1	180.7
Share premium	20	295.5	295.4
Investment in own shares	22	(9.6)	(9.6)
Other reserves	21	33.1	32.2
Retained earnings		1,219.4	1,499.3
Total shareholders' equity		1,719.5	1,998.0

The notes on pages 213 to 235 form part of these financial statements.

The financial statements on pages 210 to 235 were approved and authorised for issue by the Board of Directors on 2 June 2021 and signed on its behalf by:

Graham Clemett
Director



Dave Benson
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2021

		Attributable to owners of the Parent					
	Notes	Share capital £m	Share premium £m	Investment in own shares £m	Other reserves £m	Retained earnings £m	Total share-holders' equity £m
Balance at 31 March 2019		180.4	295.1	(9.3)	27.4	1,488.4	1,982.0
Profit for the financial year		–	–	–	–	72.1	72.1
Other comprehensive income for the year	21	–	–	–	2.2	–	2.2
Total comprehensive income		–	–	–	2.2	72.1	74.3
Transactions with owners:							
Share issues	20	0.3	0.3	(0.3)	–	–	0.3
Dividends paid	7	–	–	–	–	(61.2)	(61.2)
Share based payments	23	–	–	–	2.6	–	2.6
Balance at 31 March 2020		180.7	295.4	(9.6)	32.2	1,499.3	1,998.0
Profit for the financial year		–	–	–	–	(235.7)	(235.7)
Other comprehensive loss for the year	21	–	–	–	(1.2)	–	(1.2)
Total comprehensive loss		–	–	–	(1.2)	(235.7)	(236.9)
Transactions with owners:							
Share issues	20	0.4	0.1	–	(0.4)	–	0.1
Dividends paid	7	–	–	–	–	(44.2)	(44.2)
Share based payments	23	–	–	–	2.5	–	2.5
Balance at 31 March 2021		181.1	295.5	(9.6)	33.1	1,219.4	1,719.5

The notes on pages 213 to 235 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2021

	Notes	2021 £m	2020 £m
Cash flows from operating activities			
Cash generated from operations	19	62.4	108.7
Interest paid		(23.4)	(24.1)
Tax (paid)/ received		(0.6)	0.1
Net cash inflow from operating activities		38.4	84.7
Cash flows from investing activities			
Capital expenditure on investment properties		(23.6)	(59.7)
Proceeds from disposal of investment properties (net of sale costs)		11.0	75.0
Purchase of intangible assets		(1.2)	(0.9)
Purchase of property, plant and equipment		(1.2)	(2.3)
Other income (overage receipts)		0.1	2.0
Purchase of investments		–	0.5
Net cash (outflow)/ inflow from investing activities		(14.9)	14.6
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	20	0.1	0.6
Finance costs for new/ amended borrowing facilities		(2.0)	–
Repayment of bank borrowings and Private Placement Notes	16(h)	(217.0)	(90.1)
Draw down of bank borrowings	16(h)	54.0	104.0
Green bond proceeds		299.5	–
Own shares purchase (net)		–	(0.3)
Dividends paid	7	(46.3)	(61.0)
Net cash inflow/ (outflow) from financing activities		88.3	(46.8)
Net increase in cash and cash equivalents		111.8	52.5
Cash and cash equivalents at start of year	19	79.2	26.7
Cash and cash equivalents at end of year	19	191.0	79.2

The notes on pages 213 to 235 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

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 Accounting Standards in conformity with the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006. In addition the Group financial statements are required under the UK Disclosure and Transparency Rules 4.1.6, to be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union ("IFRSs as adopted by the EU").

The extended impact of the Covid-19 pandemic on the operations of the Group has been a key consideration when assessing the appropriateness of applying the going concern basis in the preparation of the financial statements. There is still some uncertainty as to how the economy will recover and whether there will be any long term impact on the demand for office space. We have therefore modelled a number of different scenarios considering a period of 12 months from the date of signing of these financial statements. These scenarios include a severe, but realistically possible, scenario which includes the following key assumptions:

- A gradual recovery period of two years from summer 2021 to return pre-pandemic levels of 90% occupancy.
- New lettings continue to be below the average price per sq. ft. of vacating customers until like for-like occupancy levels reach 90%.
- Continued higher levels of counterparty risk, with bad debt significantly higher than pre-pandemic levels.
- A further two months of Government restrictions on public movement in the winter of 2021 ("lockdown").
- The forecast assumes there will be no movement in yield, but the property valuation will decrease further in line with the fall in rent psf.

The Directors fully considered the Principal risks of the Company and how they may impact the model. Further details of the principal risks can be found on pages 63 to 70.

The appropriateness of the going concern basis is reliant on the continued availability of borrowings and compliance with loan covenants. The Group issued a £300m green bond and extended two thirds of the £250m revolving loan facility in March 2021. At 31 March 2021, the Group had a fully unsecured loan portfolio of £748.5m, which subsequently reduced to £684m following the early prepayment in April 2021 of the private placement loan notes due in 2023. All outstanding borrowings require compliance with LTV and Interest Cover covenants. As at the tightest test date in the scenarios modelled, the Group could withstand a reduction in net rental income of 55% and a fall in the asset valuation of 51% compared to 31 March 2021 before these covenants are breached, assuming no mitigating actions are taken.

As at 31 March 2021, the Company had significant headroom on its facilities with £184m of cash and undrawn facilities of £250m. Of the undrawn facilities, £83m is due to expire in June 2022. There is no other debt due to be refinanced until June 2023. For the full period of the scenario tested, the Group maintains sufficient headroom in its cash and loan facilities and loan covenants are met.

Consequently, the Directors are confident that the Group and Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

NEW ACCOUNTING STANDARDS, AMENDMENTS AND GUIDANCE

a) During the year to 31 March 2021 the Group adopted the following accounting standards and guidance:

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

There was no material impact from the adoption of these accounting standard amendments on the financial statements.

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

IFRS 17	Insurance contracts
IAS 1 (amended)	Classification of liabilities as current or non-current
IFRS 10 and IAS 28 (amended)	Sale or Contribution of Assets between an investor and its Associate or Joint Venture
IFRS 3 (amended)	Reference to the Conceptual Framework
IAS 16 (amended)	Property, Plant and Equipment: Proceeds before intended use

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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.

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 2021. 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 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 leases are subsequently carried at fair value plus an adjustment for the carrying amount of the 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 consolidated 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 consolidated 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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 contracts by the balance sheet date and its carrying amount is highly probable to be recovered within one year.

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 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 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 IFRS 15 are met under the five-step model and recognised in the period they were earned.

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 expense.

Acquisitions
An acquisition is recognised when the risks and rewards of ownership have transferred. This is usually on completion of the transaction. Business combinations are accounted for using the acquisition method. Any excess of the purchase consideration over the fair value of the net assets acquired is recognised as goodwill, and reviewed annually for impairment. Any discount received or acquisition-related costs are recognised in the consolidated income statement.

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 and impairment. 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 ten 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.

Other investments
Investments in unlisted shares are accounted for under IFRS 9 at fair value, using a valuation multiple and financial information. Changes in fair value are shown in the consolidated statement of comprehensive income.

Trade and other receivables
Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment based on the expected credit loss, which uses a lifetime expected loss allowance for all trade receivables based on the individual occupiers' circumstance. 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 expense.

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

Cash and cash equivalents
Cash is represented by cash in hand, restricted cash in the form of tenants' deposits and deposits held on call with banks. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. Bank overdrafts are included in current liabilities but within cash and cash equivalents for the purpose of the consolidated cash flow statement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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 the consolidated statement of 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 consolidated balance sheet. In accordance with IFRS 16, rental income from 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. If the Group provides significant 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.

Following the outbreak of Covid-19, Workspace provided assistance to its customers in the form of rent deferrals and rent discounts. Rent deferrals are recognised on a straight line basis over the life of the lease. Rent discounts were provided to customers retrospectively and after the rent had been invoiced. These discounts are considered to be a partial extinguishment of the rent receivable and are treated as a derecognition of a financial asset in accordance with IFRS 9 in the period to which they relate to.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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 are relevant to the financial year.

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.
- 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.

1. ANALYSIS OF NET RENTAL INCOME AND SEGMENTAL INFORMATION

	2021			2020		
	Revenue £m	Direct costs £m	Net rental income £m	Revenue £m	Direct costs £m	Net rental income £m
Rental income	118.0	(24.4)	93.6	132.7	(2.2)	130.5
Service charges	20.3	(24.6)	(4.3)	21.8	(25.5)	(3.7)
Empty rates and other non-recoverables	–	(7.1)	(7.1)	–	(6.3)	(6.3)
Services, fees, commissions and sundry income	4.0	(4.7)	(0.7)	6.9	(5.4)	1.5
	142.3	(60.8)	81.5	161.4	(39.4)	122.0

Included within direct costs for rental income and service charge in the period are amounts of £17.8m (2020: £nil) and £2.1m (2020: £nil) respectively, relating to discounts provided to customers, accounted for in accordance with IFRS 9. Additionally, a charge of £4.2m (2020: £0.4m) for expected credit losses in respect of receivables from customers is recognised in direct costs of rental income in the period.

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:

	2021 £m	2020 £m
Depreciation[1]	2.0	0.9
Staff costs (including share based costs)[1] (note 5)	20.1	18.7
Repairs and maintenance expenditure on investment properties	2.5	2.4
Trade receivables impairment (note 13)	3.5	0.8
Amortisation of intangibles	0.9	0.5
Audit fees payable to the Company's Auditor	0.2	0.2

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. OPERATING PROFIT CONTINUED

Auditor's remuneration: services provided by the Company's Auditor and its associates	2021 £000	2020 £000
Audit fees:		
Audit of Parent Company and consolidated financial statements	207	178
Audit of subsidiary financial statements	33	31
	240	209
Fees for other services:		
Audit-related assurance services	96	31
Total fees payable to Auditor	336	240

	2021 £m	2020 £m
Total administrative expenses are analysed below:		
Staff costs	11.3	9.8
Cash-settled share based costs	0.2	–
Equity settled share based costs	2.3	2.6
Other	5.2	5.3
	19.0	17.7

3(A). LOSS ON DISPOSAL OF INVESTMENT PROPERTIES

	2021 £m	2020 £m
Proceeds from sale of investment properties (net of sale costs)	11.0	79.5
Book value at time of sale	(11.1)	(80.3)
Loss on disposal	(0.1)	(0.8)

3(B). OTHER EXPENSES

	2021 £m	2020 £m
Change in fair value of deferred consideration	0.2	0.2
	0.2	0.2

The value of deferred consideration (cash and overage) from the sale of investment properties has been revalued by CBRE Limited at 31 March 2021 and 31 March 2020. This resulted in a reduction in the fair value of deferred consideration of £0.2m at 31 March 2021 (31 March 2020: £0.2m). The amounts receivable are included in the consolidated balance sheet under current trade and other receivables (note 13).

4. FINANCE COSTS

	2021 £m	2020 £m
Interest payable on bank loans and overdrafts	(3.1)	(4.1)
Interest payable on other borrowings	(18.6)	(18.6)
Amortisation of issue costs of borrowings	(0.9)	(0.7)
Interest payable on leases	(1.6)	(1.7)
Interest capitalised on property refurbishments (note 10)	0.4	1.8
Foreign exchange (losses)/ gains on financing activities	(8.6)	4.2
Cash flow hedge – transfer from/ (to) equity	8.6	(4.2)
Finance costs	(23.8)	(23.3)
Exceptional finance costs	(16.4)	–
Total finance costs	(40.2)	(23.3)

The exceptional finance costs relate to the refinancing of the $100m & £84m private placement notes due 2023 which were repaid early in April 2021. An irrevocable notice for the repayment was given in March 2021. The costs included a £16.3m premium on redemption and £0.1m of unamortised finance costs. The costs have been calculated in accordance with IFRS 9, re-estimating the cash flows based on original effective interest rate with the adjustment being taken through P&L.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. EMPLOYEES AND DIRECTORS

Staff costs for the Group during the year were:	2021 £m	2020 £m
Wages and salaries	16.3	15.3
Social security costs	2.1	1.8
Other pension costs (note 27)	0.8	0.7
Cash-settled share based costs (note 23)	0.2	–
Equity settled share based costs (note 23)	2.3	2.6
	21.7	20.4
Less costs capitalised	(1.6)	(1.7)
	20.1	18.7

The monthly average number of people employed during the year was:	2021 Number	2020 Number
Head office staff (including Directors)	121	117
Estates and property management staff	118	118
	239	235

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 167 to 197. These form part of the financial statements.

Total Directors' emoluments for the financial year were £1.7m (2020: £2.9m), comprising of £1.6m (2020: £1.4m) of Directors' remuneration, nil (2020: £1.4m) gain on exercise of share options and £0.1m (2020: £0.1m) of cash contributions in lieu of pension in respect of two Directors (2020: two).

6. TAXATION

	2021 £m	2020 £m
Current tax:		
UK corporation tax	–	0.8
Adjustments to tax in respect of previous periods	–	–
	–	0.8
Deferred tax:		
On origination and reversal of temporary differences	–	(0.4)
	–	–
Total taxation charge	–	0.4

Taxation chargeable in the year relates to income from non REIT activities such as overage, meeting room income and utilities recharges.

The tax on the Group's profit for the year differs from the standard applicable corporation tax rate in the UK of 19% (2020: 19%). The differences are explained below:

	2021 £m	2020 £m
(Loss)/ profit before taxation	(235.7)	72.5
Tax at standard rate of corporation tax in the UK of 19% (2020: 19%)	(44.8)	13.8
Effects of:		
REIT exempt income	(8.0)	(14.3)
Changes in fair value not subject to tax as a REIT	49.0	1.4
Share based payment adjustments	(0.1)	–
Overage income subject to tax when received	–	(0.1)
Unrecognised losses carried forward	3.8	–
Utilisation of losses unrecognised brought forward	–	(0.4)
Other non-taxable expenses	0.1	–
Total taxation charge	–	0.4

The Group is a Real Estate Investment Trust ('REIT'). The Group's UK property rental business (both income and capital gains) is exempt from tax. The Group estimates that as the majority of its future profits will be exempt from tax, future tax charges are likely to be low.

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

The Group currently has an unrecognised asset in relation to tax losses carried forward of £5.6m (2020: £1.3m) calculated at a corporation tax rate of 19% (2020: 19%).

	2021 £m	2020 £m
Deferred tax assets:		
– Deferred tax to be recovered within 12 months	0.5	0.8
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered within 12 months	(0.1)	(0.2)
Deferred tax assets (net)	0.4	0.6

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:

Deferred tax liabilities	Other income (overage receipts) £m	Total £m
At 1 April 2019	0.6	0.6
Credited to income statement	(0.4)	(0.4)
At 31 March 2020	0.2	0.2
Credited to income statement	(0.1)	(0.1)
At 31 March 2021	0.1	0.1

Deferred tax assets	Expenses (share based payment) £m	Tax losses £m	Total £m
At 1 April 2019	(0.6)	(0.2)	(0.8)
Charged to income statement	–	–	–
At 31 March 2020	(0.6)	(0.2)	(0.8)
Other movement	–	0.2	0.2
Charged to income statement	0.1	–	0.1
At 31 March 2021	(0.5)	–	(0.5)

7. DIVIDENDS

	Payment date	Per share	2021 £m	2020 £m
For the year ended 31 March 2019:				
Final dividend	August 2019	22.26p	–	40.1
For the year ended 31 March 2020:				
Interim dividend	February 2020	11.67p	–	21.1
Final dividend	August 2020	24.49p	44.2	–
Dividends for the year			44.2	61.2
Timing difference on payment of withholding tax			2.1	(0.2)
Dividends cash paid			46.3	61.0

The Directors are proposing a final dividend in respect of the financial year ended 31 March 2021 of 17.75p pence per ordinary share which will absorb an estimated £32.1m of revenue reserves and cash. If approved by the shareholders at the AGM, it will be paid on 6 August 2021 to shareholders who are on the register of members on 2 July 2021. The dividend will be paid as a REIT Property Income Distribution ('PID') net of withholding tax where appropriate.

8. EARNINGS PER SHARE

Earnings used for calculating earnings per share:	2021 £m	2020 £m
Basic and diluted earnings	(235.7)	72.1
Change in fair value of investment properties	257.7	7.5
Exceptional finance costs	16.4	–
Profit on disposal of investment properties	0.1	0.8
EPRA earnings	38.5	80.4
Adjustment for non-trading items:		
Other expenses	0.2	0.2
Taxation	–	0.4
Trading profit after interest	38.7	81.0

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.

Number of shares used for calculating earnings per share:	2021 Number	2020 Number
Weighted average number of shares (excluding own shares held in trust)	180,839,945	180,465,649
Dilution due to share option schemes	–	981,867
Weighted average number of shares for diluted earnings per share	180,839,945	181,447,516

In pence:	2021	2020
Basic (loss)/ earnings per share	(130.3p)	40.0p
Diluted (loss)/ earnings per share	(130.3p)	39.7p
EPRA earnings per share	21.3p	44.5p
Adjusted underlying earnings per share[1]	21.3p	44.6p

1. Adjusted underlying earnings per share is calculated by trading profit after interest on a diluted weighted average number of shares of 181,831,833 (2020: 181,447,516).

The diluted loss per share for the period to 31 March 2021 has been restricted to a loss of 130.3p per share, as the loss per share cannot be reduced by dilution in accordance with IAS 33, Earnings per Share.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. NET ASSETS PER SHARE AND TOTAL ACCOUNTING RETURN

Net assets used for calculating net assets per share:	2021 £m	2020 £m
Net assets at end of year (basic)	1,719.5	1,998.0
Derivative financial instruments at fair value	(8.7)	(18.5)
EPRA net assets	1,710.8	1,979.5

Number of shares used for calculating net assets per share:	2021 Number	2020 Number
Shares in issue at year end	181,113,594	180,747,868
Less own shares held in trust at year end	(159,139)	(174,719)
Dilution due to share option schemes	1,116,127	1,232,747
Number of shares for calculating diluted adjusted net assets per share	182,070,582	181,805,896

	2021	2020
EPRA net assets per share	£9.40	£10.89
Basic net assets per share	£9.50	£11.07
Diluted net assets per share	£9.44	£10.99

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

EPRA Net Asset Value Metrics

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

	March 2021			March 2020		
	EPRA NRV £m	EPRA NTA £m	EPRA NDV £m	EPRA NRV £m	EPRA NTA £m	EPRA NDV £m
IFRS Equity attributable to shareholders	1,719.5	1,719.5	1,719.5	1,998.0	1,998.0	1,998.0
Fair value of derivative financial instruments	(8.7)	(8.7)	–	(18.5)	(18.5)	–
Intangibles per IFRS balance sheet	–	(2.3)	–	–	(2.0)	–
Excess of fair value of debt over book value	–	–	22.2	–	–	11.9
Purchasers' costs	158.1	–	–	187.8	–	–
New EPRA measure	1,868.9	1,708.5	1,741.7	2,167.3	1,977.5	2,009.9
New EPRA measure per share	£10.26	£9.38	£9.57	£11.92	£10.88	£11.06

Reconciliation to previously reported EPRA NAV

	March 2021			March 2020		
	EPRA NRV £m	EPRA NTA £m	EPRA NDV £m	EPRA NRV £m	EPRA NTA £m	EPRA NDV £m
EPRA NAV	1,710.8	1,710.8	1,710.8	1,979.5	1,979.5	1,979.5
Include fair value of derivative financial instruments	–	–	8.7	–	–	18.5
Exclude intangibles per IFRS balance sheet	–	(2.3)	–	–	(2.0)	–
Excess of fair value of debt over book value	–	–	22.2	–	–	11.9
Purchasers' costs	158.1	–	–	187.8	–	–
New EPRA measure	1,868.9	1,708.5	1,741.7	2,167.3	1,977.5	2,009.9

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. NET ASSETS PER SHARE AND TOTAL ACCOUNTING RETURN CONTINUED

Total accounting return

Total Accounting Return	2021 £	2020 £
Opening EPRA net tangible assets per share (A)	10.88	10.85
Closing EPRA net tangible assets per share	9.38	10.88
(Decrease)/ Increase in EPRA net tangible assets per share	(1.50)	0.03
Ordinary dividends paid in the year	0.24	0.34
Total return (B)	(1.26)	0.37
Total accounting return (B/A)	(11.5%)	3.4%

The total accounting return for the year comprises the growth in absolute EPRA net tangible assets per share plus dividends paid in the year as a percentage of the opening EPRA net tangible assets per share. The total return for the year ended 31 March 2021 was (11.5%) (31 March 2020: 3.4%).

10. INVESTMENT PROPERTIES

	2021 £m	2020 £m
Balance at 1 April	2,586.3	2,591.4
Purchase of investment properties	–	–
Capital expenditure	22.8	53.5
Change in value of lease obligations	(1.9)	12.4
Capitalised interest on refurbishments (note 4)	0.4	1.8
Disposals during the year	–	(65.3)
Change in fair value of investment properties	(257.7)	(7.5)
Less: Reclassified as deferred consideration	–	–
Less: Classified as assets held for sale	–	–
Balance at 31 March	2,349.9	2,586.3

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

Capitalised interest is included at a rate of capitalisation of 3.7% (2020: 4.0%). The total amount of capitalised interest included in investment properties is £14.5m (2020: £14.1m).

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

Investment properties include buildings with a carrying amount of £271m (2020: £305m) held under leases with a carrying amount of £26.3m (2020: £28.2m). Investment property lease commitment details are shown in note 17.

Valuation

The Group's investment properties are held at fair value and were revalued at 31 March 2021 by the external valuer, CBRE Limited, a firm of independent qualified valuers in accordance with the Royal Institution of Chartered Surveyors Valuation – Global Standards at this balance sheet date. All the properties are revalued at period end regardless of the date of acquisition. 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 review appropriate assumptions have been applied. Meetings are held with the valuers to review and challenge the valuations, to confirm that they have considered all relevant information, and rigorous reviews are performed to check that valuations are sensible. In particular, they discussed the impact on the valuation of the Covid-19 rent reductions. They are satisfied with the valuers conclusions.

The valuation as at 31 March 2020, was subject to a material valuation uncertainty clause due to the uncertainty in the property market following the outbreak of Covid-19. In addition, to allow for the immediate impact of the pandemic, the valuers reflected in their assessment a £32m deduction that a buyer might expect to allow for the risk of increased customer defaults and non-payment of rent. This deduction was calculated based on the assumption that two quarters of rent would be discounted by 50%. The valuation as at 31 March 2021 does not include a material uncertainty clause and does not include a similar deduction.

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 and market comparatives whilst also considering the occupancy and timing of rent reviews at each property. Although occupancy and rent review timings are known, and there is market evidence for transaction prices for similar properties, there is still a significant element of estimation and judgement in estimating ERVs. 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10. INVESTMENT PROPERTIES CONTINUED

Valuation continued

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:

	2021 £m	2020 £m
Total per CBRE valuation report	2,324.2	2,574.4
Deferred consideration on sale of property	(0.6)	(5.3)
Head leases treated as leases under IFRS 16	26.3	28.2
Less: Reclassified as assets held for sale	–	(11.0)
Total investment properties per balance sheet	2,349.9	2,586.3

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2 – Use of a model with inputs (other than quoted prices included in Level 1) that are directly or indirectly observable market data.
Level 3 – Use of a model with inputs that are not based on observable market data.

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

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

Key unobservable inputs:

			ERVs – per sq. ft.		Equivalent yields	
Property category	Valuation £m	Valuation technique	Range	Weighted average	Range	Weighted average
Like-for-like	1,790.5	A	£12-£68	£42	4.5%-7.4%	5.8%
Completed projects	180.7	A	£19-£48	£31	4.5%-6.5%	5.7%
Refurbishments	255.7	A/B	£20-£70	£36	3.8%-6.6%	5.1%
Redevelopments	96.7	A/B	£14-£33	£20	3.9%-6.7%	5.3%
Head leases	26.3	n/a	–	–	–	–
Total	2,349.9					

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

A key unobservable input for redevelopments at planning stage and refurbishments is developer's profit. The range is 14%–19% with a weighted average of 16%.

Costs to complete is a key unobservable input for redevelopments at planning stage with a range of £213–£242 per sq. ft. and a weighted average of £232 per sq. ft.

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

Sensitivity analysis:

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

£m	+/- 10% in ERVs	+/- 25 bps in yields
Like-for-like	+179/-179	-74/+81
Completed projects	+18/-18	-8/+8
Refurbishments	+28/-28	-16/+17
Redevelopments	+9/-7	-3/+5

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11. PROPERTY, PLANT AND EQUIPMENT

Cost or valuation	Equipment and fixtures £m
1 April 2019	8.7
Additions during the year	2.3
Balance at 31 March 2020	11.0
Additions during the year	1.2
Disposals during the year	(1.6)
Balance at 31 March 2021	**10.6**
Accumulated depreciation	
1 April 2019	5.3
Charge for the year	0.9
Balance at 31 March 2020	6.2
Charge for the year	2.0
Disposals during the year	(1.6)
Balance at 31 March 2021	**6.6**
Net book amount at 31 March 2021	**4.0**
Net book amount at 31 March 2020	4.8

12. OTHER INVESTMENTS

The Group holds the following investment:

	2021 £m	2020 £m
15% of share capital of Excell Holdings Limited (2020: 15%)	7.9	7.9
	7.9	7.9

In accordance with IFRS 9 the valuation of the share in Excell Holdings has been adjusted to fair value, resulting in no movement in the financial year (2020: a reduction of £1.9m), recognised in the consolidated statement of comprehensive income.

13. TRADE AND OTHER RECEIVABLES

Current trade and other receivables	2021 £m	2020 £m
Trade receivables	16.0	11.1
Less provision for impairment of receivables	(4.6)	(1.1)
Trade receivables – net	11.4	10.0
Prepayments, other receivables and accrued income	12.8	9.9
Deferred consideration on sale of investment properties	5.1	5.3
	29.3	25.2

Receivables at fair value

Included within deferred consideration on sale of investment properties is £0.6m (2020: £0.8m) of overage which is held at fair value through profit and loss. In the current year, as the amounts receivable are expected within the following 12 months they have been classified as current receivables.

The deferred consideration arising on the sale of investment properties relates to cash and overage. The overage has been fair valued by CBRE Limited using appropriate discount rates, and will be revalued on a regular basis. This is a Level 3 valuation of a financial asset, as defined by IFRS 13. The change in fair value recorded in the consolidated income statement, including both current and non-current elements, was a loss of £0.2m (31 March 2020: £0.2m) (note 3(b)).

	2021 £m	2020 £m
Deferred consideration on sale of investment properties:		
Balance at 1 April	5.3	2.9
Cash received	–	(1.9)
Additions/reclassifications	–	4.5
Change in fair value	(0.2)	(0.2)
Balance at 31 March	5.1	5.3

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.

Trade receivables and the corresponding provision for bad debts have increased in the year to 31 March 2021 as a result of delayed payments from customers impacted by Covid-19. Receivables outstanding for more than 30 days amount to £8.1m and are subject to a provision for bad debt of £4.0m. The balance of £4.1m, not subject to a bad debt provision, has either been received post year end or is covered by available tenants deposits.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. TRADE AND OTHER RECEIVABLES CONTINUED

Receivables at amortised cost continued

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

	2021 £m	2020 £m
Balance at 1 April	1.1	0.7
Increase in provision for impairment of trade receivables	4.3	0.8
Receivables written off during the year	(0.8)	(0.4)
Balance at 31 March	4.6	1.1

14. CASH AND CASH EQUIVALENTS

	2021 £m	2020 £m
Cash at bank and in hand	183.6	70.3
Restricted cash – tenants' deposit deeds	7.4	8.9
	191.0	79.2

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

15. TRADE AND OTHER PAYABLES

	2021 £m	2020 £m
Trade payables	10.4	4.8
Other tax and social security payable	3.6	5.6
Corporation tax payable	–	0.8
Tenants' deposit deeds (note 14)	7.4	8.9
Tenants' deposits	20.7	25.6
Accrued expenses	43.4	26.6
Deferred income – rent and service charges	9.5	10.8
	95.0	83.1

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

16. BORROWINGS

(a) Balances

	2021 £m	2020 £m
Current		
Senior Floating Rate Notes 2020 (unsecured)	–	9.0
5.6% Senior US Dollar Notes 2023 (unsecured)	72.6	–
5.53% Senior Notes 2023 (unsecured)	84.0	–
Non-current		
Bank loans (unsecured)	(0.8)	153.0
5.6% Senior US Dollar Notes 2023 (unsecured)	–	81.0
5.53% Senior Notes 2023 (unsecured)	–	83.9
3.07% Senior Notes (unsecured)	79.8	79.8
3.19% Senior Notes (unsecured)	119.7	119.7
3.6% Senior Notes (unsecured)	99.8	99.8
Green Bond (unsecured)	297.7	–
	752.8	626.2

In March 2021, the Group issued a green bond of £300m. At year end the bank loan facility had been fully repaid, there are unamortised finance costs of £0.8m (2020: £1.0m) included within borrowings.

(b) Net debt

	2021 £m	2020 £m
Borrowings per (a) above	752.8	626.2
Adjust for:		
Cost of raising finance	3.8	1.9
Foreign exchange differences	(8.1)	(16.6)
	748.5	611.5
Cash at bank and in hand (note 14)	(183.6)	(70.3)
Net debt	564.9	541.2

At 31 March 2021 the Group had £250m (2020: £96m) of undrawn bank facilities, a £2m overdraft facility (2020: £2m) and £183.6m of unrestricted cash (2020: £70.3m).

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16. BORROWINGS CONTINUED

(c) Maturity

	2021 £m	2020 £m
Repayable within one year	148.5	9.0
Repayable between one year and two years	–	–
Repayable between two years and three years	–	154.0
Repayable between three years and four years	–	148.5
Repayable between four years and five years	80.0	–
Repayable in five years or more	520.0	300.0
	748.5	611.5
Cost of raising finance	(3.8)	(1.9)
Foreign exchange differences	8.1	16.6
	752.8	626.2

(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
Private Placement Notes:				
5.6% Senior US Dollar Notes	64.5	5.6%	Half year	April 2021
5.53% Senior Notes	84.0	5.53%	Half year	April 2021
Non-current				
Private Placement Notes:				
3.07% Senior Notes	80.0	3.07%	Half yearly	August 2025
3.19% Senior Notes	120.0	3.19%	Half yearly	August 2027
3.6% Senior Notes	100.0	3.6%	Half yearly	January 2029
Bank Loan	–	LIBOR+1.65%	Monthly	June 2022 & June 2023
Green Bond	300.0	2.25%	Half yearly	March 2028
	748.5			

Irrevocable notice was given on 31 March 2021 to repay the private placement notes due for repayment in June 2023 on 30 April 2021, the termination costs have been reflected in exceptional finance costs.

(e) Derivative financial instruments

The Group has cross currency swaps to ensure the US Dollar liability streams generated from the US Dollar Notes are fully hedged into Sterling for the life of the transaction. Through entering into cross currency swaps the Group has created a synthetic Sterling fixed rate liability totalling £64.5m.

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

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

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

	2021	2020
Carrying amount of derivative	8.7	18.5
Change in fair value of designated hedging instrument	(9.8)	8.3
Change in fair value of designated hedged item	8.6	(4.2)
Notional amount £m	64.5	64.5
Notional amount ($m)	100	100
Rate payable (%)	5.66%	5.66%
Maturity	June 2023	June 2023
Hedge ratio	1:1	1:1

The cash flow hedge was terminated in line with the repayment of the US Dollar Notes.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16. BORROWINGS CONTINUED

(f) Financial instruments and fair values

	2021 Book value £m	2021 Fair value £m	2020 Book value £m	2020 Fair value £m
Financial liabilities held at amortised cost				
Bank loans	(0.8)	(0.8)	153.0	154.0
Private Placement Notes	455.9	478.1	473.2	484.1
Lease obligations	26.3	26.3	28.2	28.2
Green bond	297.7	297.7	–	–
	779.1	801.3	654.4	666.3
Financial assets at fair value through other comprehensive income				
Derivative financial instruments:				
Cash flow hedge – derivatives used for hedging	8.7	8.7	18.5	18.5
Other investments	7.9	7.9	6.9	6.9
	16.6	16.6	25.4	25.4
Financial assets at fair value through profit or loss				
Deferred consideration (overage)	5.1	5.1	5.3	5.3
	5.1	5.1	5.3	5.3

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

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

(g) Financial instruments by category

Assets	2021 £m	2020 £m
a) Assets at value through profit or loss		
Deferred consideration (overage)	5.1	5.3
	5.1	5.3
b) Loans and receivables		
Cash and cash equivalents	191.0	79.2
Trade and other receivables excluding prepayments[1]	14.5	11.7
	205.5	90.9
c) Assets at value through other comprehensive income		
Cash flow hedge – derivatives used for hedging	8.7	18.5
Other investments	7.9	6.9
	16.6	25.4
Total	227.2	121.6

Liabilities	2021 £m	2020 £m
Other financial liabilities at amortised cost		
Borrowings	752.8	626.2
Lease liabilities	26.3	28.2
Trade and other payables excluding non-financial liabilities[2]	81.9	65.9
	861.0	720.3

1. Trade and other receivables exclude prepayments of £9.7m (2020: £8.2m) and non-cash deferred consideration of £5.1m (2020: £5.3m).
2. Trade and other payables exclude other tax and social security of £3.6m (2020: £5.6m), corporation tax of nil (2020: £0.8m) and deferred income of £9.5m (2020: £10.8m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16. BORROWINGS CONTINUED

(h) Changes in liabilities from financing activities

	Bank loans and borrowings £m	Lease liabilities £m	Derivatives used for hedging-assets £m
Balance at 1 April 2020	626.2	28.2	18.5
Changes from financing cash flows:		–	–
Proceeds from bank borrowings and Private Placement Notes	54.0	–	–
Repayment of bank borrowings and Private Placement Notes	(217.0)	–	–
Proceeds from green bond	299.5	–	–
Total changes from cash flows	136.5	–	–
Changes in fair value of derivative financial instruments	–	–	(9.8)
Foreign exchange differences	(8.5)	–	–
Amortisation of issue costs of borrowing	(1.4)	–	–
Changes in leases	–	(1.9)	–
Interest payable	21.7	1.6	–
Interest paid	(21.7)	(1.6)	–
Total other changes	(9.9)	(1.9)	(9.8)
Balance at 31 March 2021	752.8	26.3	8.7

17. LEASE OBLIGATIONS

Lease liabilities are in respect of leased investment property.

Minimum lease payments under leases fall due as follows:

	2021 £m	2020 £m
Within one year	1.6	1.7
Between two and five years	6.6	6.8
Beyond five years	148.4	156.0
	156.6	164.5
Future finance charges on leases	(130.3)	(136.3)
Present value of lease liabilities	26.3	28.2

Following the adoption of IFRS 16 lease obligations, which were previously included in borrowings, have been shown separately on the face of the balance sheet. The balance represents a non-current liability as the payment shown within one year of £1.6m (2020: £1.7m) is offset by future finance charges on leases of £1.6m (2020: £1.7m).

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICY

The Group has identified exposure to the following financial risks:

- Market risk.
- Credit risk.
- Liquidity risk.
- Capital risk 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 2021 100% (2020: 73%) 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. As at year end all our borrowings drawn were all at fixed interest rate, a reasonably possible interest rate movement of +/-0.5% would have increased and decreased net interest payable by nil (2020: £0.8m).

Interest cover covenants in relation to Group borrowings is a ratio of 2.0x and the Group targets a minimum cover of 2.5x. As at 31 March 2021 interest cover was 3.8x. Interest cover is calculated as net rental income divided by finance costs (excluding exceptional finance costs).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICY CONTINUED

(b) Credit risk

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

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

The Group's exposure to credit risk in relation to receivables from tenants is influenced mainly by the characteristics of individual tenants occupying its rental properties. The Group has around 4,196 lettable units with overall occupancy of 77.8% at 58 properties. The largest 10 single tenants generate around 20% 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 (2020: £34.5m). 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 debt recovery is consistently high and as such is deemed a low risk area.

In light of Covid-19 the Group's exposure to credit risk may be higher in the short term as customers deal with the unprecedented impact of the pandemic.

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:

	2021 £m	2020 £m
Cash and cash equivalents (note 14)	191.0	79.2
Trade receivables – current (note 13)	11.4	10.0
Deferred consideration – current (note 13)	5.1	5.3
	207.5	94.5

(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 target a minimum headroom on loan facilities of £50m, so as to enable it to have sufficient funds to meet financial 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 manage its liquidity effectively, the Group has an overdraft facility of £2m (2020: £2m) and a revolving loan facility of £250m (2020: £250m). At 31 March 2021 headroom excluding overdraft and cash was £250m (31 March 2020: £96m).

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 2021	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	–	–	–	–	–	–
Private placement notes	448.5	158.4	9.9	9.9	332.3	510.5
Green bond	300.0	6.8	6.8	6.8	326.1	346.5
Lease liabilities	26.3	1.6	1.6	1.6	151.8	156.6
Trade and other payables[1]	95.0	95.0	–	–	–	95.0
	869.8	261.8	18.3	18.3	810.2	1,108.6

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICY CONTINUED

(c) Liquidity risk continued

31 March 2020	Carrying[2] 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	154.0	2.7	2.7	2.7	151.8	159.9
Private Placement Notes	457.5	27.5	17.9	18.2	492.1	555.7
Lease liabilities	28.2	1.7	1.7	1.7	162.7	167.8
Trade and other payables[1]	65.9	65.9	–	–	–	65.9
	705.6	97.8	22.3	22.6	806.6	949.3

1 Trade and other payables exclude other tax and social security of £3.6m (2020: £5.6m), corporation tax of nil (2020: £0.8m) and deferred income of £9.5m (2020: £10.8m).
2 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 public bond, revolving loan facilities from banks, 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 2021 Group equity was £1,719.5m (2020: £1,998.0m) and Group net debt (debt less cash at bank and in hand) was £564.9m (2020: £541.2m). Group gearing at 31 March 2021 was 33% (2020: 27%).

The Group's borrowings are all unsecured. The loan to value covenant applicable to these borrowings is 60% and compliance is being met comfortably. Loan to value at 31 March 2021 was 24%. 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%.

19. NOTES TO CASH FLOW STATEMENT

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

	2021 £m	2020 £m
(Loss)/ profit before tax	(235.7)	72.5
Depreciation	2.0	0.9
Amortisation of intangibles	0.9	0.5
(Loss)/ profit on disposal of investment properties	0.1	0.8
Other expenses	0.2	0.2
Net loss from change in fair value of investment property	257.7	7.5
Equity settled share based payments	2.5	2.6
Finance costs	23.8	23.0
Exceptional finance costs	16.4	–
Changes in working capital:		
Increase in trade and other receivables	(4.4)	(9.5)
(Decrease)/ Increase in trade and other payables	(1.1)	10.2
Cash generated from operations	62.4	108.7

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

	2021 £m	2020 £m
Cash at bank and in hand	183.6	70.3
Restricted cash – tenants' deposit deeds	7.4	8.9
	191.0	79.2

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20. SHARE CAPITAL AND SHARE PREMIUM

	2021 £m	2020 £m
Issued: Fully paid ordinary shares of £1 each	181.1	180.7

Movements in share capital were as follows:	2021 Number	2020 Number
Number of shares at 1 April	180,747,868	180,385,498
Issue of shares	365,726	362,370
Number of shares at 31 March	181,113,594	180,747,868

The Group issued 365,726 shares (2020: 362,370 shares) during the year to satisfy the exercise of share options with net proceeds of £0.1m (2020: £0.7m).

	Share capital		Share premium	
	2021 £m	2020 £m	2021 £m	2020 £m
Balance at 1 April	180.7	180.4	295.4	295.1
Issue of shares	0.4	0.3	0.1	0.3
Balance at 31 March	181.1	180.7	295.5	295.4

21. OTHER RESERVES

	Other Investment Reserve £m	Equity settled share based payments £m	Merger reserve £m	Hedging reserve £m	Total £m
Balance at 1 April 2019	4.0	17.6	8.7	(2.9)	27.4
Share based payments	–	2.6	–	–	2.6
Change in fair value of other investments (note 12)	(1.9)	–	–	–	(1.9)
Change in fair value of derivative financial instruments (cash flow hedge)	–	–	–	4.1	4.1
Balance at 31 March 2020	2.1	20.2	8.7	1.2	32.2
Share based payments	–	2.5	–	–	2.5
Issue of shares	–	(0.4)	–	–	(0.4)
Change in fair value of other investments (note 12)	–	–	–	–	–
Change in fair value of derivative financial instruments (cash flow hedge)	–	–	–	(1.2)	(1.2)
Balance at 31 March 2021	2.1	22.3	8.7	–	33.1

22. 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 2021 the number of shares held by the ESOT totalled 75,226 (2020: 75,226).

The SIP is governed by HMRC rules (note 22). At 31 March 2021 the number of shares held for the SIP totalled 83,913 (2020: 96,026).

	2021 £m	2020 £m
Balance at 1 April	9.6	9.3
Shares purchased for the trusts	–	0.3
Balance at 31 March	9.6	9.6

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23. SHARE BASED PAYMENTS

The Group operates a number of share schemes:

(a) Long Term 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.

The performance measures are:
- Relative TSR.
- Total Property Return compared to the IPD benchmark.

The shares are issued at nil cost to the individuals provided the performance conditions are met.

Under the 2020 LTIP scheme 650,475 performance shares were awarded in June 2020 to Directors and Senior management (2019 LTIP scheme: 449,250).

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

	LTIP Number
At 1 April 2019	1,347,009
Granted	449,250
Exercised	(228,358)
Lapsed	(348,519)
At 31 March 2020	1,219,382
Granted	650,475
Exercised	(357,428)
Lapsed	(146,137)
At 31 March 2021	1,366,292

For the 2017 LTIP scheme, which vested in June 2020, the average closing share price at the date of exercise of shares exercised during the year was £5.85 (2016 LTIP scheme: £8.89).

A binomial model was used to determine the fair value of the LTIP grant for the Relative TSR element of the schemes.

Assumptions used in the model were as follows:

	2020 LTIP	2019 LTIP	2018 LTIP
Share price at grant	706p	862p	1100p
Exercise price	Nil	Nil	Nil
Average expected life (years)	3	3	3
Risk free rate	0.61%	0.52%	0.79%
Average share price volatility	35%	21%	28%
Correlation	46%	49%	48%
TSR starting factor	0.65	0.92	1.14
Fair value per option – Relative TSR element	207p	322p	695p

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 706p for the 2020 LTIP Scheme. 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 for the 2020 LTIP Scheme was that up to 50% of the Total Property Return element will vest (LTIP 2019: 50%, LTIP 2018: 50%).

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 zero-coupon bonds with outstanding terms equal to the average expected term to exercise for each relevant grant.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23. 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 years' saving. In accordance with UK practice, the majority of options under the SAYE schemes are granted at a price 20% below the market price ruling at the date of grant.

Details of the movements for the SAYE schemes during the year were as follows:

	SAYE	
Options outstanding	Number	Weighted exercise price
At 1 April 2019	257,454	£6.25
Options granted	122,486	£7.02
Options exercised	(138,804)	£5.17
Options lapsed	(29,115)	£7.08
At 31 March 2020	212,021	£7.21
Options granted	339,896	£5.31
Options exercised	(8,298)	£6.96
Options lapsed	(179,770)	£6.90
At 31 March 2021	363,849	£5.60

The average closing share price at the date of exercise for the SAYE options exercised (for the three-year 2017 and the five-year 2015 schemes) during the year was £7.37 (2020: £9.26).

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

	2021 SAYE 3 year	2021 SAYE 5 year	2020 SAYE 3 year	2020 SAYE 5 year
Weighted average share price at grant	551p	551p	878p	878p
Exercise price	531p	531p	702p	702p
Expected volatility	34%	33%	21%	26%
Average expected life (years)	3	5	3	5
Risk free rate	0%	0%	1%	1%
Expected dividend yield	7%	7%	4%	4%
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:

	2021		2020	
	Grant date	Fair value of award	Grant date	Fair value of award
SAYE – three year	27 July 2020	78p	25 July 2019	154p
SAYE – five year	27 July 2020	75p	25 July 2019	178p

(c) Share incentive plan ('SIP')

All staff were granted £1,000 worth of shares in September 2015, £2,000 in August 2017 and £2,000 in September 2019. These shares are held in trust under an HMRC approved SIP. The shares can be exercised following three years of employment but must be held for a further two years in order to qualify for tax advantages. No shares were granted in the year (2020: 49,396). 12,113 (2020: 14,090) shares were exercised in the year and 3,951 (2020: 6,211) shares lapsed.

(d) Year end summary

At 31 March 2021 in total there were 1,814,054 (2020: 1,528,429) 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					
22 June 2018	–	332,154	–	22.06.2021	–
18 June 2019	–	388,591	–	18.06.2022	–
18 June 2020	–	645,547	–	18.06.2023	–
SAYE					
20 July 2016 – five year	£5.18	347	–	01.09.2021	01.03.2022
26 July 2017 – five year	£7.08	–	–	01.09.2022	01.03.2023
26 July 2018 – three year	£8.60	11,246	–	01.09.2021	01.03.2022
26 July 2018 – five year	£8.60	174	–	01.09.2023	01.03.2024
25 July 2019 – three year	£7.02	38,822	–	01.09.2022	01.03.2023
25 July 2019 – five year	£7.02	256	–	01.09.2024	01.03.2025
27 July 2020 – three year	£5.31	254,483	–	01.09.2023	01.03.2024
27 July 2020 – five year	£5.31	58,521	–	01.09.2025	01.03.2026
SIP					
18 September 2015	–	8,620	8,620	18.09.2018	–
10 August 2017	–	30,324	30,324	10.08.2020	–
5 September 2019	–	44,969	–	05.09.2022	–
Total		1,814,054	38,944		

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23. SHARE BASED PAYMENTS CONTINUED

(d) Year end summary continued

The share awards/options outstanding at 31 March 2021 had a weighted average remaining contractual life of: LTIP – 1.5 years (2020: 1.3 years), SAYE – 2.6 years (2020: 1.7 years), SIP – 0.8 years (2020: 1.4 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 share price at the balance sheet date. 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:

	2021 £m	2020 £m
Equity settled share based payments	2.3	2.6
Cash-settled share based payments	0.2	–
	2.5	2.6

The total liability at the end of the year in respect of cash-settled share based schemes was £0.4m (2020: £0.5m).

24. RELATED PARTY TRANSACTIONS

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

Key management compensation:	2021 £m	2020 £m
Short term employee benefits	2.9	3.2
Share based payments	–	1.4
Total	2.9	4.6

25. CAPITAL COMMITMENTS

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

	2021 £m	2020 £m
Investment property construction	4.2	4.3

26. SUBSIDIARY AND OTHER RELATED UNDERTAKINGS

The Company's subsidiary and other related undertakings at 31 March 2021, 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	Non-trading
Glebe Three Limited	Non-trading
LI Property Services Limited	Insurance Agents
Workspace Management Limited	Property Management
Workspace 1 Limited[1]	Dormant
Workspace 10 Limited	Dormant
Workspace 11 Limited	Dormant
Workspace 15 Limited	Dormant
Workspace Holdings Limited	Non-trading
Anyspacedirect.co.uk Limited	Non-trading
Workspace Newco 1 Limited	Dormant
Workspace Newco 2 Limited	Dormant

1 100% of the ordinary share capital of these subsidiaries is held by other Group companies.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26. SUBSIDIARY AND OTHER RELATED UNDERTAKINGS CONTINUED

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	Non-trading
Workspace 17 (Jersey) Limited	Jersey	44 Esplanade, St Helier, Jersey JE4 9WQ	Holding Company
Workspace Salisbury Limited[1]	Jersey	44 Esplanade, St Helier, Jersey JE4 9WQ	Property Investment
Centro Property Limited[1]	Guernsey	Martello Court, Admiral Park, St Peter Port, Guernsey GY1 3HB	Non-trading

1 100% of the ordinary share capital of these subsidiaries is held by other Group companies.

27. 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 (2020: £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 Government auto-enrolment rules. The number of employees, including Directors, in the scheme at the year end was 210 (2020: 202).

28. LEASES

The majority of the Group's tenant leases are granted with a rolling three to six-month tenant break clause, although prior year property acquisitions have included customer leases which are much longer, with fewer break clauses. The future minimum non-cancellable rental receipts under leases granted to tenants are shown below.

Land and buildings:	2021 £m	2020 £m
Within one year	56.3	72.7
Between two and five years	45.4	65.3
Beyond five years	24.3	23.6
	126.0	161.6

29. POST BALANCE SHEET EVENTS

On the 31 March 2021 the Group gave notice to make an early repayment of the $100m & £84m private placement notes due June 2023, which were repaid in April 2021. The costs in relation to the termination are reflected in exceptional finance costs as shown in note 4.

PARENT COMPANY BALANCE SHEET

AS AT 31 MARCH 2021

	Notes	2021 £m	2020 £m
Fixed assets			
Investments	C	928.5	801.0
Derivative financial instruments	F	8.7	18.5
		937.2	819.5
Current assets			
Debtors: amounts falling due within one year	D	542.2	715.3
Cash and cash equivalents		74.0	0.2
		616.2	715.5
Total assets		1,553.4	1,535.0
Current liabilities			
Creditors: amounts falling due within one year	E	(110.8)	(154.4)
Borrowings	F	(156.6)	(9.0)
Creditors: amounts falling due after more than one year		(267.4)	(163.4)
Borrowings	F	(596.2)	(617.3)
Total liabilities		(863.6)	(780.7)
Net assets		689.8	754.3
Capital and reserves			
Share capital		181.1	180.7
Share premium		295.6	295.6
Investment in own shares		(9.6)	(9.6)
Other reserves	G	31.0	29.5
Retained earnings		191.7	258.1
Total shareholders' equity		689.8	754.3

The notes on pages 236 to 238 form part of these financial statements.

The financial statements on pages 235 to 238 were approved by the Board of Directors on 2 June 2021 and signed on its behalf by:

Graham Clemett
Director
Workspace Group PLC
Registered number 2041612

Dave Benson
Director

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2021

	Share capital £m	Share premium £m	Investment in own shares £m	Other reserves £m	Retained earnings £m	Total share-holders' equity £m
Balance at 31 March 2019	180.4	295.1	(9.3)	23.4	321.1	810.7
(Loss)/ profit for the year	–	–	–	–	(1.8)	(1.8)
Other comprehensive income for the year	–	–	–	3.5	–	3.5
Total comprehensive income	–	–	–	3.5	(1.8)	1.7
Transactions with owners:						
Share issues	0.3	0.5	–	–	–	0.8
Dividends paid	–	–	–	–	(61.2)	(61.2)
Own shares	–	–	(0.3)	–	–	(0.3)
Share based payments	–	–	–	2.6	–	2.6
Balance at 31 March 2020	180.7	295.6	(9.6)	29.5	258.1	754.3
(Loss)/ profit for the year	–	–	–	–	(22.2)	(22.2)
Other comprehensive income for the year	–	–	–	(0.6)	–	(0.6)
Total comprehensive income	–	–	–	(0.6)	(22.2)	(22.8)
Transactions with owners:						
Share issues	0.4	–	–	(0.4)	–	–
Dividends paid	–	–	–	–	(44.2)	(44.2)
Own shares	–	–	–	–	–	–
Share based payments	–	–	–	2.5	–	2.5
Balance at 31 March 2021	181.1	295.6	(9.6)	31.0	191.7	689.8

The notes on pages 236 to 238 form part of these financial statements.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

A. ACCOUNTING POLICIES

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

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 these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ('Adopted IFRSs'), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

a) The requirements of IAS 7 to provide a statement of cash flows and related notes for the year.

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

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

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

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

f) The requirements of IFRS 7 on financial instruments disclosures.

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

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

Significant accounting policies

i. Investments

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

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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

A. ACCOUNTING POLICIES CONTINUED

Significant accounting policies continued

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 23 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 216. 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 216.

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 are relevant to the financial year.

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 loss attributable to shareholders, before dividend payments, dealt with in the financial statements of the Company was £22.2m (2020: £1.8m). No dividends were received in the year from subsidiary undertakings (2020: nil).

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

C. INVESTMENTS

	Investment in subsidiary undertakings £m
Cost	
Balance at 31 March 2020	935.3
Additions in the year	127.5
Balance at 31 March 2021	1,062.8
Impairment	–
Balance at 31 March 2020 and 31 March 2021	134.3
Net book value at 31 March 2021	928.5
Net book value at 31 March 2020	801.0

Workspace 14 Limited issued £125m preference shares in the year to Workspace group PLC.

D. DEBTORS

Amounts falling due within one year	2021 £m	2020 £m
Amounts owed by Group undertakings	542.1	715.0
Corporation tax asset	0.1	0.3
	542.2	715.3

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

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
CONTINUED

E. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2021 £m	2020 £m
Amounts owed to Group undertakings	90.0	148.4
Taxation and social security	–	2.1
Accruals and deferred income	20.8	3.9
	110.8	154.4

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

F. BORROWINGS

Borrowings and financial instruments	Interest rate	Repayable	2021 £m	2020 £m
Creditors: amounts falling due within one year				
Senior Floating Rate Notes 2020	LIBOR+3.5%	June 2020	–	9.0
5.6% Senior US Dollar Notes 2023	5.6%	April 2021	64.5	64.5
5.53% Senior Notes 2023	5.53%	April 2021	84.0	84.0
Creditors: amounts falling due after more than one year				
Bank loan	LIBOR+1.65%	June 2022 & June 2023	–	154.0
3.07% Senior Notes	3.07%	August 2025	80.0	80.0
3.19% Senior Notes	3.19%	August 2027	120.0	120.0
3.6% Senior Notes	3.6%	January 2029	100.0	100.0
Green Bond	2.25%	March 2028	300.0	–
Total borrowings			748.5	611.5
Less cost of raising finance			(3.8)	(1.9)
Foreign exchange differences			8.1	16.7
Net borrowings			752.8	626.3

All the above borrowings are unsecured.

Maturity analysis of borrowings:	2021 £m	2020 £m
Repayable within one year	148.5	9.0
Repayable between one and two years	–	–
Repayable between two and three years	–	154.0
Repayable between three and four years	–	148.5
Repayable between four and five years	80.0	–
Repayable in five years or more	520.0	300.0
	748.5	611.5

The following derivative financial instruments are held:

	Amount	Rate payable (%)	Term/expiry	2021 £m	2020 £m
Cash flow hedge – cross currency swap	$100m/£64.5m	5.66%	June 2023	8.7	18.5

The cash flow hedge was terminated in line with the repayment of the US Dollar Notes.

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 20 to 23 on pages 231 to 234 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 2019	17.6	8.7	(2.9)	23.4
Share based payments	2.6	–	–	2.6
Change in fair value of derivative financial instruments	–	–	3.5	3.5
Balance at 31 March 2020	20.2	8.7	0.6	29.5
Share based payments	2.5	–	–	2.5
Issue of shares	(0.4)	–	–	(0.4)
Change in fair value of derivative financial instruments	–	–	(0.6)	(0.6)
Balance at 31 March 2021	22.3	8.7	–	31.0