



Risk Management FAQ's

The Board and the management of Workspace Group pay careful attention to the identification and control of risks associated with the Group's activities. At Board level regular reports are given addressing all risk areas. These are supplemented by reviews by the Audit Committee. As with other aspects of the Group, all identified areas of risk are allocated to an Executive Director for monitoring and management.

To illustrate the Company's view on the impact of various areas of risk to its activities and the actions being taken to control this impact, a number of frequently asked questions (FAQ's) have been answered below.

1. Market Risk

- (a). Will Workspace Group's product continue to be relevant and in demand?
- (b). What competitive pressures are there from new market entrants?
- (c). What competitive pressures are there from increased availability of competing property?
- (d). What impact do changes in occupational patterns (downsizing, outsourcing, home-working, internet) have?
- (e). What exposures does a focus on the London and South East market carry?
- (f). Is Workspace's customer market (the SME sector) sustainable?
- (g). What impact would recession have on Workspace's activities?

2. Operating/Trading Risks

- (a). With a management intensive formula is Workspace able to continue to grow without losing focus or control?
- (b). Investment in "recycled property" attracts environmental and other acquisition risks. How are these managed?
- (c). Can Workspace stretch its offer to match developing customer requirements?
- (d). What contingency arrangements does the business have to deal with disasters?
- (e). Staff are key to Workspace. How does Workspace protect itself against loss of key individuals?
- (f). Does Workspace have any "off-balance sheet" activities?
- (g). Does Workspace operate a proper system of governance and checks?

3. Political Risk

- (a). What impact would changes in regional policies have?
- (b). What impact would political interference have (e.g. change in policy with regard to SMEs, price controls)?
- (c). What impact would changes in fiscal and macro-economic policy have?
- (d). What difference would a change in Government have?

4. Financial Risks

- (a). Secondary property is perceived as a high-risk investment. What action does the company take to manage this risk?
- (b). The Group is relatively highly geared and advises that it is comfortable with 100% - 120% gearing. What risk does this bring?
- (c). What risks does Workspace Group's treasury policy carry?
- (d). What scope is there for fraud or other financial impropriety in Workspace's activities?



(e). From an investor viewpoint, as a company with a small market capitalisation, how does Workspace Group ensure fair recognition of share value and liquidity of stock?

5. Legal Risks

- (a). Landlord and Tenant?
- (b). Acquisitions?
- (c). Planning?
- (d). Environment?
- (e). Health & Safety (including Disability Discrimination Act)?
- (f). Taxation (including business rates and congestion charging)?

6. Brand/Reputation Risks

- (a). What exposure to brand damage does the Group have?
- (b). Does the Group engage in any activities that may be regarded as not "socially responsible"?
- (c). Do any of the Group's tenant's present brand/reputational risks?

1. MARKET RISKS

(a). Will Workspace Group's product continue to be relevant and in demand?

Most SMEs require simple, affordable accommodation, provided on flexible "easy-in easy-out" terms. Their building requirements are generally quite "low tech" in that whilst key facilities of power, telephony etc are necessary, more sophisticated services such as raised floors for communications purposes etc are not generally necessary. As such, the Company believes that, given the continued existence of SMEs and the likelihood that their requirements will not change markedly, its properties will continue to be relevant to its consumer market and its offering attractive. In this respect we regard the Group's properties as carrying low risk of obsolescence. The addition of broadband connectivity to its principal business centres has provided a further assurance with regard to potential obsolescence on these properties. We believe that the SME sector itself remains viable (see 6) and believe we can stretch the product as the market develops (see 10).

(b). What competitive pressures are there from new market entrants?

With a very large market (in terms of numbers of SMEs and in terms of available property) there are relatively low hurdles to entry. However, small operators have a relatively narrow visibility of the market and do not have an established brand comparable with Workspace Group. The fragmentation of the market therefore works to discourage major new entrants to the market, as does the management complexity of the business (compared with prime real estate). It has taken a number of years for Workspace to assemble its portfolio, establish the systems to run such a portfolio efficiently and effectively, and to create brand identity. These requirements of a significant competitor act effectively as a barrier to entry. With the possible introduction of REITs capital structures will exist that would assist new entrants. These would not however address the management issues.

(c). What competitive pressures are there from increased availability of competing property?

As noted above, there is a large existing pool of assets available to this sector. The scale of new build is relatively low due to the fact that cost to produce, often exceed completed value. As such, many schemes only proceed with financial assistance. The other source of competitive stock may be "newly obsolescent" office/factory



buildings. However, in an already large pool of accommodation this is unlikely to cause major distortions. Further, part of this pool of accommodation will be taken out through re-development to higher value uses (e.g. residential).

(d). What impact do changes in occupational patterns (downsizing, outsourcing, home-working, internet) have?

Downsizing and outsourcing are generally factors more relevant to larger companies. Home working applies more frequently to either very small or larger companies - small companies because individuals set up and work from home, larger companies because it is regarded as a more efficient way of managing and operating staff. For the SME customer base of Workspace (generally businesses who have been trading for a number of years and who have reached the stage where they employ others) working from home, whilst potentially featuring as part of their administrative arrangements, will not necessarily affect their business occupation requirements. Many Workspace Group tenants trade from just one location and as such downsizing is not a realistic option. These businesses may however be the beneficiaries of the downsizing and outsourcing activities of larger companies since these may create opportunities for them to service these larger company clients. With only [8] properties within the congestion charging zone and most central properties convenient for public transport routes the Group believes that the impact of transportation policy changes should be at worst neutral to it and its customers.

(e). What exposures does a focus on the London and South East market carry?

London and South East is the most active part of the SME market with 35% of UK SMEs located within this area and 25% within London itself (over 300,000 businesses employing 1 or more staff). London also has the highest rate of formations of SMEs in the UK. With the substantial growth of London over recent periods and its anticipated continuing growth (as detailed in the Mayor's Plan for London) it is expected that these patterns will continue.

(f). Is Workspace's customer market (the SME sector) sustainable?

The SME sector has grown steadily over the last 20 years and over this time has demonstrated considerable resilience. Research indicates over time an increasing inclination towards self-employment rather than employment by companies. The UK "entrepreneurial" rate is substantially less than that of the USA and Canada. DTI forecasts are that numbers of SMEs will grow substantially over future periods. It recognises the importance of SMEs in the development and continuing regeneration of the economy.

(g). What impact would recession have on Workspace's activities?

Workspace Group activities reflect patterns within its customer market place. Consequently, it will follow the economic cycle but will tend to be late cycle and, as a result of a number of influencing factors, smoothed cycle. These influences include government activity in downturns to stimulate growth primarily in the small business sector and the inclination of redundant employees to set up businesses on their own account (linked often to encouragement from employers to employees to set up outsourced businesses). Most SMEs trade from single units and so in a recession will generally endeavour to trade through. As such, failures generally occur late cycle. Because of the flexibility of its space and the dynamics of the SME sector the Group and its customer base is able to respond to changing circumstances through the economic cycle.



2. OPERATING/TRADING RISKS

(a). With a management intensive formula is Workspace able to continue to grow without losing focus or control?

The key focus in management of workspace is on service delivery to customers. The Group's systems are streamlined and simple to replicate. Consequently, enlargement through the addition of properties does not present problems at the individual property level. Through a tiered management structure, portfolio groupings and regions are managed to ensure service standards are maintained across the business. Use of streamlined systems enables faster processing of the substantial transaction volumes.

(b). Investment in "recycled property" attracts environmental and other acquisition risks. How are these managed?

All acquisitions are subject to careful due diligence involving property title, tenancy, building structure and environmental (both current and historic use) checks. Once acquired, focused on-site management linked to the Group's insurance risk management scheme minimises new risks.

(c). Can Workspace stretch its offer to match developing customer requirements?

Workspace Group already offers a wide range of accommodation related services. From simple shed units through to managed offices, its service offering extends to bureau facilities in certain centres, conference rooms and the provision of power, business insurance and broadband connectivity in others. The Company is therefore positioned to provide a wide range of property related services, but will continue to do this in its niche market. It believes it is positioned well to flex its offering of simple flexible affordable space as customers requirements develop. Indeed, with 6,000 + enquiries per annum it is able to detect developing trends at an early stage and respond.

(d). What contingency arrangements does the business have to deal with disasters?

The Group, in conjunction with its insurers, has undertaken a risk analysis of both its head office and of all its investment properties. Identified risks have been addressed and ongoing reviews take place, thereby reducing the exposure to catastrophe. The Company has an established Disaster Plan which is subject to frequent review and testing. Its IT infrastructure incorporates 2 layers of back-up facilities. Disaster Recovery procedures are integrated within IT processes. Indeed, the Group has investigated means by which it can provide temporary housing to its customers and others in an emergency. In addition to the Corporate Disaster Plan, plans for individual properties have been developed.

(e). Staff are key to Workspace. How does Workspace protect itself against loss of key individuals?

The Company adopts a positive approach to the engagement and retention of staff. It is an accredited Investor in People and runs training and development programmes for all staff. Its remuneration packages are comprehensive and competitive. Staff are recognised as key stakeholders in the business. Through newsletters, team briefings and other means staff at all levels are advised on the Group's progress and developments, their interest is maintained.

(f). Does Workspace have any "off-balance sheet" activities?

The Company has no off-balance sheet activities. All property activities are owned 100% by the Company. The Company's policies for capitalisation of costs and

income recognition are conservative. Profits are only taken on contractually binding tenancies and completed disposals and costs are fully expensed at the time of benefit.

(g). Does Workspace operate a proper system of governance and checks?

The Group is Model Code compliant. It has always been at the forefront in terms of disclosure to stakeholders. In particular, its accounts have won awards for the quality of its reporting. It undertakes six-monthly external valuations, benchmarks its activities against IPD as well as internal key performance or benchmark standards. It sets targets for itself each year, reporting in the following year on its achievements against these targets. Quarterly statements are sent to shareholders and all announcements and financial presentations logged on the Company's website. It publishes statements on its social and environmental policies which incorporate benchmarking against external standards. It sets and publishes targets for environmental and social activity and reports on the attainment of these targets.

3. POLITICAL RISKS

(a). What impact would changes in regional policies have?

Workspace Group's activity is focused solely on London and the South East. The London economy is broadly equivalent to that of the whole of Sweden. The Company believes that there are few reasons to expect that there will be a major change in this focus in London and the South East. Projections for London by the Mayor and others tend to support this. Consequently, aid and other forms of support for other regions are unlikely to damage the Group's market.

(b). What impact would political interference have (e.g. change in policy with regard to SMEs, price controls)?

As noted in (18) all political groups recognise the importance of SMEs. Further, all have policies encouraging urban regeneration. As such, where policy changes are made, these will generally be structured to benefit rather than damage the SME sector. Consequently, change, where it comes, will generally have a less significant damaging affect on Workspace by comparison with those servicing larger customers. By its engagement in key agencies representing SMEs and regeneration in London and the South East, the Group is able to monitor potential developments and express views. The introduction of a Lease Code, shortening the life of leases and preventing "upwards only" rent review provisions would have a restricted impact on the Group's activities since most its leases are short and tenants have rights to break which keep pricing current.

(c). What impact would changes in fiscal and macro-economic policy have?

The CBI has observed that SMEs can deal with progressive change. However, they are vulnerable to rapid and substantial swings in policy. All major political groupings have recognised the importance of benign interest rate and exchange rate policies.

(d). What difference would a change in Government have?

All major political parties recognise the importance of SMEs and in various ways and at various levels have packages to support them. The Group monitors policies and proposals of these groups so that, where appropriate, representations can be made.



4. FINANCIAL RISKS

(a). Secondary property is perceived as a high-risk investment. What action does the company take to manage this risk?

The higher initial returns earned by secondary property are a reflection of this perceived higher risk. The Company believes that careful “hands-on” management of its stock, from its in-house lettings activity through to estate management, enables it to manage this risk. Arguably the Company buys its properties at one of the lower points in the “use cycle”. As such, the likelihood of values declining further is restricted, whereas the opportunity for improvement through positive management or change of use may be significantly greater. Historic performance of the Group indicates that it has been able to secure substantially better than average returns from its properties, whilst retaining growth potential. Certainly benchmarking against IPD (the Investment Property Databank) has shown the long term performance of the Group’s properties to be consistently in the 1st percentile.

(b). The Group is relatively highly geared and advises that it is comfortable with 100% - 120% gearing. What risk does this bring?

With its high yielding investments the level of debt service is good. Typically, the Company operates with 2 times interest cover in its secured facilities. With its constant potential for growth of earnings, either through the management formula or through property improvements these returns can be enhanced and cover improved. By working to maintain high levels of occupancy the Group shelters its interest cover risk. Secondary property has often been regarded as illiquid. The Group has demonstrated the ability to buy and sell substantial amounts of this property - completing aggregate acquisitions and disposals in excess of £60m in each of the last 4 years.

(c). What risks does Workspace Group's treasury policy carry?

All the Group’s borrowings appear on the face of its balance sheet. It is the Group’s policy to hedge at least 50% of its interest rate exposure. Of late this has been secured by interest rate collars. Details of its interest rate collars are provided in its report and accounts. The Group borrows on medium term arrangements. Its view is that by borrowing in this, the most popular sector of the lending market, it is able to secure best terms and has greater flexibility for re-arranging its financial provisions as it progresses. Apart from its original debenture and convertible loan stock all other borrowings have been procured with five-year terms. However, it is anticipated that the term of these individual facilities will be extended as the Group’s requirements expand.

(d). From an investor viewpoint, as a company with a small market capitalisation, how does Workspace Group ensure fair recognition of share value and liquidity of stock?

The Group maintains an active investor relations programme. It has always complied with requirements on governance and reporting and adopts disclosure practices (quarterly reporting, six-monthly external independent valuations, independent performance benchmarking, ethical and environmental reporting) that are amongst the best. Through this active programme and fulsome disclosure the Group has secured the interest of a number of analysts who track and report on the Company. Such reporting, together with the Group’s activities in maintaining a stream of press releases keeps its activities in the public eye and assists in promoting trade in its shares.



5. LEGAL RISKS

(a). Landlord and Tenant?

Tenants receive protected rights with their tenancy. Consequently, should the Group require to develop properties then these rights may require negotiation (although with, ordinarily, a 3-year term the Group does not have to wait long before being able to exercise its rights under the act). Against this, protection of rights given to tenants provides comfort to them in taking the lease commitment. Government proposals for restricting the use of bailiff action may increase risks associated with rent collection. The Company is lobbying on this matter. The Company is concerned that changes in the regulatory framework may be to the disadvantage of SMEs since if bailiff action were denied then Landlords would seek other security such as greater cash deposits which would not be the interests of the Group's SME customers.

(b). Acquisitions?

All acquisitions are subject to detailed due diligence investigation into title and tenancies. These are supported by building and environmental surveys.

(c). Planning?

Given the importance of SMEs to the economy, the Group's role in accommodating these businesses and the importance of London and the South East economy to the UK, it is unlikely that the Government would legislate in any way proscribing against its activities. Indeed, it is felt that as developments take place and legislation moves forward, these will generally be supportive and sympathetic to the Group's activities rather than against them.

(d). Environment?

The Company undertakes careful studies prior to acquisition and through its risk management programmes, monitors activities on site to ensure no new environmental hazards are brought to its properties. The Group provides advice to its customers on energy management and ensures that wherever possible in the areas it controls (i.e. common parts of buildings) it applies energy efficient practices, consistent with safety and security requirements. It operates waste management and recycling facilities on behalf of its customers across its estates.

(e). Health & Safety (including Disability Discrimination Act)?

The Group operates a scheme of risk management on all of its properties in conjunction with its insurer and has a designated health and safety officer who visits sites on a regular basis with a view to reviewing safety issues. Health and safety issues are further addressed by the Group's approach to security and on-site management. Where new risks are identified surveys are undertaken to ensure proper and safe management of these risks.

(f). Taxation (including business rates and congestion charging)?

Clearly, changes to any fiscal system will have an impact on companies. However, these risks are not regarded as being extraordinary in the context of the business's overall risks.

6. BRAND/REPUTATION RISKS

(a). What exposure to brand damage does the Group have?

The Group has made a substantial investment in developing and protecting its identity. This identity is clearly identified with its product and it is important therefore

to protect it. The Group's practices in careful site management and customer care, not only protect the profits earned by it but support its image (brand) and therefore, its reputation.

(b). Does the Group engage in any activities that may be regarded as not "socially responsible"?

On the contrary, the Group considers that its activities are in most respects very socially responsible. By "recycling" buildings or through redevelopment of urban sites it can argue its credentials on urban regeneration and sustainability. With its trading focus on supplying accommodation and services to SMEs, it can also argue social responsibility. Its business processes and in particular, on-site management, support this social responsible methodology. The Group publishes a separate Ethical and Environmental statement which may be found in the Corporate Responsibility section of the Investors Relations part of the Group's website (www.workspacegroup.co.uk).

(c). Do any of the Group's tenants present brand/reputational risks?

With a broadly based portfolio the Group attracts a similarly broad customer mix. It is careful to avoid customers whose activities may damage their occupied environment or cause a nuisance to others. Its focused management formula supports this control. However, it does not discriminate against individual customers. The Group considers that its active management facilitates the recognition of its distinct position as landlord versus that of its customers as tenants.