THE UNITE GROUP PLC
("UNITE" / "Group" / the "Company")
PRELIMINARY RESULTS FOR THE YEAR TO 31 DECEMBER 2008

UNITE REPORTS STRONG OPERATIONAL PERFORMANCE WITH RECORD OCCUPANCY LEVELS AND STRONG RENTAL GROWTH ACROSS ITS PORTFOLIO

The UNITE Group plc, the UK's leading developer and manager of student accommodation, today announces its preliminary results for the year ended 31 December 2008.

Against an extremely challenging economic backdrop, UNITE has delivered strong operational performance whilst adopting a proactive approach to managing its balance sheet.

Financial Highlights:

- Adjusted, fully diluted net asset value per share for the year fell 21% to 325 pence at December 2008 from 410 pence at December 2007. On an IFRS basis, net assets excluding minority interests fell to £320 million (258 pence per share) from £450 million (364 pence per share) a year earlier, principally as a result of the decline in property values.
- Investment portfolio valuation fell by only 5%, compared to an industry average fall of 27%. The outperformance is predominantly attributable to rental growth and rental growth prospects.
- Adjusted loss for the year is £44.8 million compared to a loss of £62.9 million for 2007. Excluding one-off costs, primarily relating to market conditions, the Group's decision to scale back its development activity and actions taken to reduce the overhead base of the business, adjusted profit shows a loss of £5.7 million for 2008 (2007: £3.6 million loss). On an IFRS basis, reported loss of £115.9 million (2007: £37.5 million).
- Adjusted net debt reduced from a peak of £862 million in November 2006 to £531 million at 31 December 2008 as a result of UNITE's evolution to a co-investing asset manager business model.
- Full compliance with all borrowing covenants and a cash balance of £112 million as at 31 December 2008, with £57 million available for general purposes after full provision for committed development expenditure.
- Operational change programme on track to deliver savings ahead of £10 million per annum target across the Group's operations in 2009, with additional savings also arising from a reduction in Group overheads.
- Rental growth and cash resources provide insulation to absorb further yield expansion of 60 bps to 75 bps before recourse to asset sales, compared to 42 bps of yield expansion experienced in 2008. Ongoing asset sale programme increases cushion to range of 90 bps to 125 bps.
- Successful asset sales totalling £154 million of non-core assets to third parties during 2008, well in excess of original target of £100 million. In 2009 to date, further sales totalling £15 million have already been unconditionally exchanged and a further £30 million are in solicitor's hands.

Operational Highlights:

- Record occupancy of 99% achieved for the academic year 2008/09 (92% occupancy in 2007/08) with year on year rental growth of 9.5%.
- Ongoing resilience in student accommodation market demonstrated through strong reservations. 65% reserved for the forthcoming academic year (as at 6 March 2009), up from 62% at an equivalent date last year, and indicating rental growth in the range of 7% to 10%.

- Group remains on track to deliver against its objective set in 2007 to double net operating income from its managed student portfolio within five years. As at 31 December 2008, portfolio net operating income has grown 29% to £99 million, compared to £77 million at 31 December 2006.

- £58 million of new equity raised on behalf of the UNITE UK Student Accommodation Fund ("USAF" / the "Fund") in October 2008. A further £171 million of sales made to USAF in December 2008, enabling the Fund to further increase the size, quality and diversification of its portfolio, whilst allowing the Group to reduce its borrowings.

- In October 2008, in response to the deepening banking crisis, the Group substantially reduced its development commitments for 2010 and 2011 project deliveries. The Group now intends to deliver 1,125 new bed spaces in 2010, all of which are in London, where demand and rental growth prospects are strongest, and are fully funded.

Geoffrey Maddrell, Chairman of The UNITE Group, commented:

"In my ten years as Chairman, UNITE has developed from small beginnings into the UK's leading developer and manager of student accommodation and, in the process, has established student accommodation as a separate asset class. In response primarily to our increasingly research based experience of a discrete customer base, our strategy has continued to evolve, more recently into that of a developer and co-investment manager. I am particularly proud of the depth of professionalism and enthusiasm throughout the organisation evidenced by the increasing strength of our sales and operating performance, and in 2009 we are anticipating operating cashflow to cover all overhead costs, including development. Equally, we are acutely aware of the extreme unpredictability in financial markets and are actively and rigorously managing our assets, balance sheet and cost base.

"I will leave the business later this year and warmly welcome the new Chairman, Phil White. He inherits a robust and experienced Board supporting a strong, driven and talented management team and organisation, well able to ride out the current economic turbulence and deliver growth in the future."

Mark Allan, Chief Executive of The UNITE Group, commented:

"Demand for good quality, well-located student accommodation investment assets remained robust through the majority of 2008. Transactions over the course of 2008, and already this year, provide meaningful valuation evidence across all major segments of the portfolio. Taking this evidence into account, we believe that yield expansion in student accommodation investments will continue to be less pronounced than across the broader property market, with rental growth prospects also providing an effective buffer. Nonetheless, the Group's immediate focus remains the proactive management of its balance sheet in an environment of falling property values.

"With 99% occupancy across our portfolio, annual rental growth of 9.5% achieved last year and reservations for the 2009/10 academic year already at 65%, student accommodation performance is clearly standing up well in the face of a severe recession. We plan to capitalise on this resilience to ensure that the Group is as well placed as possible for the challenging times ahead."

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CHAIRMAN'S STATEMENT

Overview and financial performance

For the academic year 2008/09 UNITE has achieved record occupancy across its portfolio of 99% and secured year on year rental growth of 9.5%. This performance is testament to the resilience of student accommodation during a recession and the professionalism of the Group's operational business, in particular its on-line platform. However, as a business with investment in and management responsibility for a £1.8billion student accommodation property portfolio, UNITE has not been immune to the severe deterioration in the condition of global capital markets and the resultant impact on valuations across the commercial property market.

Values across the Group's total operational portfolio (including those assets held in co-investment vehicles) fell by 5% during 2008, despite the Group's success in increasing occupancy and rent levels. The value of the Group's investment in this portfolio also fell by 5% and expected margins on the Group's development programme have also fallen, the impact of which has been fully recognised in the independent valuation of the Group's development portfolio as at 31 December 2008. It is worth noting, however, that this performance is considerably better than the returns achieved on UK commercial property generally, where capital values fell by an average of 27% according to the IPD index. In addition we have taken a provision of £28 million against the value of land held for development. Following the decision to scale back our development commitments in light of the prevailing market conditions, it was necessary to make the provision to ensure that the land is carried at the lower of the cost and net realisable value.

There continues to be solid interest from investors interested in purchasing student accommodation investments, particularly for smaller transaction sizes. Investment transaction volumes held up well during 2008, with a total of approximately £550 million of property being bought and sold in the sector. This compares with 2007, when transaction volumes totalled £700 million, and has given a degree of certainty and transparency to pricing not available in other sectors of the market.

As a result of the decline in property values, the Group reported a 21% fall in adjusted fully diluted net asset value per share for the year, to 325 pence at December 2008 from 410 pence at December 2007. On an IFRS basis, net assets excluding minority interests fell to £320 million (258 pence per share) from £450 million (364 pence per share) a year earlier.

The Group's adjusted profit for the year to 31 December 2008 reflects the continued shift of the Group towards its developer and co-investing manager model, in particular the dilution of its share in the rental performance of stabilised assets (the majority of which have been sold to USAF, in which UNITE had an average stake of 20% during the year). Adjusted profit for the year shows a loss of £44.8 million compared to a loss of £62.9 million for 2007. The reported loss for the year after minority interests is £115.9 million (2007: £37.5 million) and includes £25.3 million of losses on the revaluation of investment properties and a negative £32.4 million movement in the fair value of ineffective hedges. Excluding one-off costs, primarily relating to the market conditions, the Group's decision to scale back its development activity and actions taken to reduce the overhead base of the business, adjusted profit shows a loss of £5.7 million for 2008 (2007: £3.6 million loss). This is stated after pre-contract and abortive development costs of £6.3 million (2007:£3.7 million).

Strategy

Since late 2006 UNITE has pursued a strategy to establish itself as a developer and co-investing manager specialising in student accommodation. The successful execution of this strategy means that the Group has been, and remains in, a stronger position to weather the ongoing economic challenges. Adjusted net debt has been reduced from a peak of £862 million in November 2006 to £531 million at December 2008 and the Group has shifted the focus of its equity investment into stronger markets, particularly London, where it believes it will achieve better long term returns. At 31 December 2008 40% of the Group's gross property assets were invested in London, up from 12 % at June 2006 and 30% at December 2007.

As the economy continued to deteriorate in 2008, particularly in the last quarter, and financing conditions became extremely challenging, the Board took a number of decisive steps to mitigate the potentially significant impact on the Group:

- In January 2008 the Group launched a full scale operational change programme, designed to improve customer service whilst also reducing operating costs across the portfolio. Savings of £10 million per annum are being targeted across the entire operational portfolio and the Group is on track to achieve this in 2009. Approximately 70% of these savings will benefit the Group directly, including a £4 million reduction in operating overhead, with the remainder of savings accruing to our co-investment partners.

- The Group successfully raised £58 million of new equity into the UNITE UK Student Accommodation Fund ("USAF") in October 2008 and subsequently sold a £171 million portfolio to the Fund in December 2008, enabling USAF to increase further the size, quality and diversification of its portfolio whilst allowing the Group to reduce its borrowings.

- In addition to asset sales made to USAF, the Group successfully sold £154 million of non-core assets to third parties during the year, well in excess of its original target for the year of £100 million. In total, proceeds from asset sales by the Group of £325 million in the year (including those to USAF) exceeded total cash spent on the development programme of £302 million and the cash released from these sales, after the repayment of associated senior debt, totalled £77 million.

- In October 2008, in response to the deepening banking crisis, the Group substantially reduced its development commitments for 2010 and 2011 project deliveries. The Group now intends to deliver 1,125 new bed spaces in 2010, all of which are in London and are fully funded. The total capital expenditure of £155 million on these projects represents a reduction of approximately 50% from the programme that was originally planned. UNITE is unlikely to commit to any new developments for delivery in 2011 and is now more likely to focus on securing attractive opportunities for delivery in 2012 and beyond.

- In response to the scaling back of its planned development activity, the Group reduced the number of roles in its development and group support functions by 29% during December 2008. Since the year end, it has also commenced consultation to reduce the number of roles at its modular manufacturing facility by 27%. Taken together with the £4 million operational overhead savings outlined above, these steps will reduce the Group's total annual overhead costs by approximately £9 million to £36 million.

The Group remains committed to development as a driver of long term growth and the programme of 2010 deliveries is strong, with yields on cost in excess of 8%. However, given the extreme uncertainty in financing markets at this time, the Group is not currently committing to any new development projects and will not do so until markets stabilise. Instead, it is focusing on generating and conserving cash to enable it to manage its balance sheet effectively.

We remain confident that, in time, the Group will be able to secure extremely attractive development opportunities for delivery in 2012 and beyond, and we are currently evaluating the most effective way to finance such development activity, including the possibility of investing alongside other parties in a logical extension of our co-investment model.

Financial position

Given the sharp fall in general commercial property values during 2008 and the recent rights issues by a number of quoted property companies, the financing arrangements of companies have understandably become a key focus for investors and we include full details of UNITE's debt structure later in this statement. The Board views the current financial instability extremely seriously, but it is important to note the following:

- At 31 December 2008 the Group was, and it remains, in full compliance with all of its borrowing covenants and had cash balances of £112 million at the same date, of which £57 million was available for general purposes, after full provision for committed development expenditure.

- The Group has continued to successfully raise new debt facilities throughout the latter part of 2008 and into 2009 – a total of £250 million since December 2008. It has two facilities with debt totalling £97 million expiring later in 2009, for which it has already received satisfactory credit approved terms to refinance. The Group has no further material facilities scheduled for repayment before summer 2011.

- Following the proactive sharp reduction in the Group's future development plans, the restructure of its operating business, and in light of the certainty of refinancing outlined above, the Group has sufficient cash resources available to it to meet all of its remaining development commitments, and meet its expected deleveraging requirements over the next 12 months, before recourse to asset sales. Taking into account the cash buffer and the anticipated rental growth performance across the portfolio, we estimate that the Group could withstand an expansion of yields of between 60bps and 75bps without breaching its borrowing covenants and before recourse to asset sales.

- Notwithstanding the headroom outlined above, during 2009 the Group intends to continue as planned to sell stabilised investment assets, either to USAF or to third parties, and is seeking to sell approximately £150 million of such assets during the year. This would increase the Group's yield expansion headroom to a range of 90 bps to 125 bps. Investor demand for smaller investment assets (less than £20 million) remains relatively robust, and it is worth noting that the average value of UNITE's on balance sheet assets was £14 million at the year end. As at 6 March 2009, asset sales with a value of £15 million had been unconditionally exchanged, at consideration levels supportive of December 2008 values, and a further £30 million of asset sales are in solicitors' hands. This provides encouraging evidence of continued demand for student accommodation assets, despite the broader economic challenges. The extent to which USAF has capacity to acquire assets from UNITE in 2009 will depend upon yield movements and whether it is able to access cash resources on deposit with Landsbanki, the Icelandic bank that is in a form of administration. Consequently, the Group is not relying on such capacity being available.

To the extent that the Board feels the Group would benefit from additional capital in the future it intends at this time that such capital be raised through asset sales and the extension of existing, or creation of new, co-investment vehicles along the lines of USAF or UCC (the Group's joint venture with GIC Real Estate). The Group has established a strong track record in executing such transactions in recent years and is actively considering a number of options at this time.

Dividend

In light of the Group's desire to conserve capital, the Board does not recommend the payment of a final dividend for the year (2007: 1.67 pence per share). This means that the total dividend for the year to 31 December 2008 will be 0.83 pence per share (2007: 2.5 pence per share).

Operations

A key element of UNITE's strategy has been to improve the professionalism of the Group's operating platform. Through its focus on this area, UNITE is seeking to improve the customer experience that it offers whilst enhancing the efficiency with which this service is delivered. During 2008 the primary advance has been the successful integration of the Group's on-line booking and payment engine, which has emphatically met both the customer service and efficiency objectives. For 2009, and reflecting customer feedback, the Group's priorities are to build on this success with major improvements to our internet provision and maintenance service, both working with specialist partner providers, and refining our city staffing model to provide a more responsive, yet efficient, service.

People

Unlike most property companies UNITE has a significant operational business and, even with systems investment and process redesign, the business' value is fundamentally tied to the quality of services its employees provide to the Group's customers.

During 2008 our 'Blueprint' business change programme has provided us with an opportunity to refine our core people processes and provide a more structured approach to learning and development. This is best signified with the opening of our national training academy in Birmingham, which is supported by a range of multi-media training tools, where the Group's core service standards will be trained.

Periods of change are always testing times for employees of an organisation and, with important asset disposals in a number of cities and a large scale operational business change programme well under way, UNITE is certainly undergoing change. It is testament to the commitment and professionalism of our people that the business has been able to perform strongly through this period.

Board Change

As announced at the Group's preliminary results in March 2008, I will step down as Chairman of the Company of this year's Annual General Meeting, after almost ten years in the role. In January 2009 the Group announced the appointment of Phil White as an additional Non-Executive Director and Chairman Designate of the Company. He will assume the chairmanship at the AGM. Phil is also Non-Executive Chairman of Kier Group PLC, the support services and property development group and Non-Executive Chairman of Lookers plc, the franchised motor dealership group. We are delighted to welcome him to the Board and are confident that we will benefit from his broad range of experience across a number of industries, both in the public and private sector.

Outlook

The Board expects the outlook for 2009 to remain positive from an operational perspective but challenging from a financing perspective.

- According to UCAS statistics released on 16 February 2009, University applications for 2009/2010 have increased by 7.8% year on year.

- As at 6 March 2009, reservations had been received for 65% of the Group's operational portfolio for the forthcoming academic year at rental levels that suggest rental growth in the range of 7% to 10% year on year. This compares to 62% reservations at the same point in 2008, which itself resulted in record occupancy and rental growth.

- This strong sales performance, coupled with the annualised impact of the cost savings arising from the restructure in 2008, means that, with effect from 2009 the Group expects to be able to cover all operational and corporate overhead costs out of cash flow arising from operating activities.

- The Group will continue to focus on generating and conserving cash to maintain its balance sheet strength whilst the uncertain financial market conditions remain. Consequently, the Group will retain an extremely cautious stance to new development commitments, and will continue its programme of asset disposals.

- The Board recognises that the ongoing deleveraging of the property sector is likely to persist for a number of years and is planning accordingly. To the extent that we feel the Group would benefit from additional capital in the future, in light of this, and also the compelling development opportunities that are likely to emerge in due course, it remains our preference to raise such capital at the asset level, through individual asset sales and by raising new capital through co-investment vehicles.

The Board's immediate priority is to ensure that the Group remains in a position to withstand further deterioration in the wider economic environment. With a clear financing and cash position at the start of 2009, strong operating performance and clear plans to protect the Group's balance sheet from further falls in property values, the Board believes that this objective is well in hand; and, in due course, the Group will be able to secure a position to benefit from the attractive development opportunities that we expect to emerge.

Geoffrey Maddrell
Chairman
9 March 2009

BUSINESS REVIEW

Executing our strategy

Since 2006 UNITE has set out to establish itself as a developer and co-investing manager of student accommodation, based around a scalable financing and operating platform well suited to its resilient core market. The transition to this business model is substantially complete and has enabled the Group to reduce its adjusted net debt considerably, from a peak of £862 million in November 2006 to £531 million as at 31 December 2008, and to focus its capital investment in areas that are expected to deliver higher returns over time, particularly development activity and London.

At the beginning of 2007 the Group set itself a very clear growth strategy – to double the net operating income from the UK student portfolio it manages within five years. Two years in, and despite challenging economic circumstances, UNITE remains on track to deliver against that objective, with portfolio net operating income having already grown 29% from £77 million in 2006 to £99 million in the year to December 2008. Taking into account its committed development programme and the rental growth the Group expects to achieve in the coming years, its £150 million net operating income target is firmly in range.

The key events in executing this strategy have been:

- The successful establishment of the UNITE UK Student Accommodation Fund ("USAF") in December 2006 and subsequent sale of assets to it at that time and also in 2007 and 2008. In total UNITE has sold assets totalling £988 million to USAF since its formation.

- Subsequent capital raisings into USAF in April 2007 and October 2008, which have increased third party equity commitments to a total of £428 million and allowed the Group to dilute its own stake down to its intended target of approximately 20%.

- The disposal of £183 million of non-core assets to third parties during 2007 and 2008.

- The reinvestment of a proportion of asset sale proceeds into the London market, primarily through new development activity.

During 2008, despite the deteriorating economic environment, the Group continued to successfully execute its strategy, raising an additional £58 million of third party equity into USAF, selling a £171 million portfolio of assets to USAF and disposing of £154 million of further, non-core, assets to third parties. These steps have helped to strengthen the business in the face of broader economic challenges, particularly through the reduction in net debt from the various asset sales and the reinvestment of proceeds into London, the largest and most resilient student market in the UK.

The following table summarises the shift in the Group's investment profile and net debt levels since 30 June 2006 (the last reported balance sheet prior to the formation of USAF):

UNITE share of gross assets	30 Jun 2006		31 Dec 2007		31 Dec 2008	
	£m		**£m**		**£m**	
London	157	12%	380	30%	447	40%
Major provincial	727	55%	460	37%	422	37%
Other provincial	395	30%	331	26%	169	15%
Varsity cities	35	3%	82	7%	85	8%
Total	**1,314**		**1,253**		**1,123**	
Development	156	12%	390	31%	326	29%
Investment	1,158	88%	863	69%	797	71%
	1,314		**1,253**		**1,123**	
Adjusted net debt	*745*		*540*		*531*	
Adjusted gearing (net debt/equity)	*145%*		*106%*		*131%*	

The student accommodation market

The market for student accommodation in the UK continues to be characterised by strong and growing demand and a lack of supply of good quality, well located and managed accommodation. For 2008/09 the number of new entrants to Universities increased by 10.4%, equating to 43,197 additional students (source: UCAS 15 January 2009) and taking the total number of full time students living away from home to over 1.2 million for the first time. The net new supply of bed spaces was 9,200 year on year (source: Savills research), leading to a substantial widening of the demand/supply imbalance. This is reflected in high occupancy across the sector and UNITE's portfolio in particular.

This trend looks set to continue, with the latest UCAS statistics indicating that, as at 16 February 2009, University applications were up a further 7.8% year on year. At the same time, the level of new supply will be declining for the next few years as financing constraints impact development feasibility.

The latest UCAS application statistics, and our own reservations data, support the notion that student numbers typically increase during a recession. However, it is important to note that UK Higher Education is now less subsidised than in previous downturns, such as the early 1990s, and levels of both student debt and parental support are much higher than previously. We are monitoring all lead indicators of demand very closely and, at this time, all are tracking positively year on year. Whilst we will continue to examine these indicators closely, we attribute the continued positive market outlook to three main factors:

- Full time student numbers have more than doubled since the early 1990s, equating to approximately 600,000 additional students. Over the same period, we estimate that purpose built accommodation supply increased by only 45%, or 120,000 bed spaces. The demand/supply imbalance is, and will remain, acute.

- The profile of a typical student's parent is likely to be resilient to the immediate pressures of a recession, in terms of their age, earnings and financial position. This is supported by a detailed customer profiling exercise undertaken on our database of parental guarantors.

- Demand for UK Higher Education amongst international students remains high and is likely to be further supported by the relative weakness of sterling.

This market data is clearly positive on a national scale. However, as in earlier years, there will continue to be local variations and a clear understanding of these is vital in forming and developing investment strategy. UNITE's investment strategy has always been research-led and will remain so in the future. Of particular note is the Group's continued, successful focus on London as its core market. With over 250,000 full time students, London accounts for approximately 21% of the UK's total full time student population but has only approximately 50,000 purpose built beds, or 12% of the UK total. This situation has translated into consistently high occupancy and rental growth which we expect to continue for the foreseeable future.

Financial results

The financial performance of each element of the Group's business model (development and co-investing asset management) is not easily presented under International Financial Reporting Standards ("IFRS") and, as in previous years, we have provided a detailed segmental analysis within the notes to the consolidated financial statements as well as a thorough commentary within this review.

We consider the key measure of the Group's financial performance to be growth in adjusted fully diluted net asset value per share together with, to a lesser extent, adjusted profit. The adjustments made to the reported IFRS numbers are intended to provide a clearer understanding of the Group's financial performance and are consistent with the guidelines laid down by The European Public Real Estate Association ("EPRA").

Adjusted net asset value

General commercial property values in the UK have fallen dramatically during 2008 (by 27% according to the IPD index). Despite achieving record occupancy levels of 99% and rental growth of 9.5% across its portfolio, the value of the Group's student accommodation related investments correspondingly fell during the year, by an average of 5%. Primarily as a result of this, the Group's adjusted net asset value also decreased during 2008.

Reported net asset value after minority interests was £320 million (258 pence per share) at 31 December 2008 (2007: £450 million, 364 pence per share). The Group's adjusted net asset value was £406 million or 325 pence per share on a fully diluted basis, compared to 410 pence per share at 31 December 2007, representing a fall of 21% across the year.

The main factors affecting the NAV performance were the outward movement in property valuations yields to an average of 6.2% at 31 December 2008 (2007: 5.8%) and UNITE's decision to scale back its development pipeline during the year in order to preserve cash and minimise the impact of valuation falls on gearing. The component parts, which are explained later in this statement, of the movement in adjusted, fully diluted net asset value during 2008 are shown in the table below:

	Six months to 30 Jun 2008	**Six months to 31 Dec 2008**	**Total 2008**	**Six months to 30 Jun 2008**	**Six months to 31 Dec 2008**	**Total 2008**
	£m	**£m**	**£m**	**pps**	**pps**	**pps**
Land write downs	(8)	(20)	**(28)**	(6)	(16)	**(22)**
Net valuation gains/(losses) in period						
- Rental growth	26	4	**30**	20	3	**23**
- Yield movement	(34)	(38)	**(72)**	(27)	(30)	**(57)**
Losses on asset sales	(6)	(9)	**(15)**	(5)	(7)	**(12)**
Impact of valuation reduction	(22)	(63)	**(85)**	(18)	(49)	**(68)**
Development value recognised in period	16	(9)	**7**	12	(7)	**5**
Share of Landsbanki provision	-	(6)	**(6)**	-	(5)	**(5)**
Restructuring costs	-	(5)	**(5)**	-	(4)	**(4)**
Adjusted loss before one off items and development asset sales	(4)	(8)	**(12)**	(3)	(6)	**(9)**
Swap costs and dividends	(2)	(1)	**(3)**	(3)	(1)	**(4)**
Total adjusted, fully diluted NAV movement in period	**(12)**	**(92)**	**(104)**	**(12)**	**(73)**	**(85)**

Proceeds from asset sales during 2008 totalled £325 million, whilst cash spent on the development programme was £302 million. Primarily as a result of this, the Group's adjusted net debt fell to £531 million from £540 million at 31 December 2007. Gearing (adjusted net debt as a percentage of adjusted net assets) increased in the year to 131% (31 December 2007: 106%) as a result of the reduction in asset values during the period.

Adjusted profit

In the year to 31 December 2008, the Group reported a loss excluding minority interests of £115.9 million compared to a loss of £37.5 million in 2007. £71 million of this loss was attributable to movements in asset valuations (both properties and financial instruments) and the associated tax impact of these movements. Adjusted profit, which excludes these items, showed a loss of £44.8 million, compared to a loss of £62.9 million in 2007 and is stated after several one-off items, primarily relating to market conditions, the Group's decision to scale back its development activity and actions taken to reduce the overhead base of the business. These items are summarised and explained below:

	Note	**2008** **£m**	**2007** **£m**
Adjusted loss		(44.8)	(62.9)
One-off Items			
- Write down in carrying value of land	1	27.7	-
- Restructuring costs	2	4.8	-
- Provision against Landsbanki cash deposit	3	6.1	-
- Loan break costs and costs written off on refinancing		0.5	57.4
2- Interest rate swap cancellation		-	1.9
Adjusted loss before one off items		**(5.7)**	**(3.6)**

Notes

1. As a result of the dramatic deterioration in the economic conditions, particularly in the last quarter of 2008, UNITE took the decision to significantly scale back its development commitments in order to preserve cash. As a result of this decision, several of the Group's development sites are unlikely to be built out for some time and may be sold. To reflect this uncertainty, and to ensure that the land is carried at the lower of cost and net realisable value, the carrying value of this land was reduced by £27.7 million during the year, to a value of £26.7 million.
2. Restructuring costs of £4.8 million have been incurred as a result of a substantial reorganisation of the Group that is expected to result in annual overhead savings of £12 million. Further detail of these savings is provided later in this statement.
3. Following the sale of assets by USAF in September 2008, £30 million of its cash resources were placed on deposit with Landsbanki for a period of two months. Following the extraordinary events in the global banking sector in late 2008, precipitated by the collapse of Lehman Brothers, Landsbanki was placed into a form of administration on 8 October and, as a result, the funds are currently not accessible. Whilst work is ongoing to recover the cash deposit and initial indications point to substantial recovery, a full provision has been made in USAF until such time as any recovery is made. UNITE's share of this provision is £6.1 million.

As highlighted in previous years, the Group's business model involves the sale of revenue-generating stabilised investment assets to external parties (most notably USAF) and the reinvestment of proceeds into development activity (non revenue-generating). As a result, the Group's share of revenues from its stabilised investment portfolio has fallen in recent years, although its earnings will grow over time as management fees increase.

The following table summarises the impact of this shift in recent years:

	2006 £m	2007 £m	2008 £m
Total net operating income from managed portfolio	77.2	88.4	98.8
UNITE's share of income	90%	64%	53%
UNITE's net operating income	69.8	56.7	52.0
Management fee income	1.1	6.9	4.9
Interest costs (including lease costs)	(53.1)	(44.5)	(42.3)
Operational and corporate overhead	(15.7)	(17.4)	(20.0)
Net portfolio contribution	2.1	1.7	(5.4)

Net portfolio contribution is an important performance measure for the Group as it represents the net profit to UNITE from managing the entire operational portfolio.

In the current economic climate, the Board recognises the importance of ensuring that the Group's net portfolio contribution is positive such that the business can cover all corporate overhead, regardless of whether it relates to operations or development. Following the restructuring of the business in 2008, and in light of the continuing strong reservations performance, the Board believes that the business is on track to achieve this in 2009.

The operating and investment portfolio

For the 2008/09 academic year UNITE is operating 36,700 bed spaces across 119 properties. The Group's ownership stake in these assets varies from the management of sale and leaseback assets to full ownership, depending upon the type of asset and its phase of operation. Assets in which the Group has a minority stake are as follows:

- Stabilised direct let assets, other than those in London and Edinburgh, are typically held in USAF. At 31 December 2008 UNITE had a beneficial interest of 18.6% in USAF.
- The majority of stabilised direct let assets in London and Edinburgh are held in the UNITE Capital Cities joint venture ("UCC") with GIC RE. At 31 December 2008 UNITE had a 30% stake in UCC.
- One asset remains in the UNITE Student Village joint venture with Lehman Brothers ("USV") where UNITE has a 51% interest. Lehman Brothers was placed in administration in October 2008 and the administrators are currently marketing their 49% share of the joint venture.

Investment assets held wholly on the Group's balance sheet fall into three principal categories:

- Stabilising assets; these are properties that have recently been completed and are not yet generating their optimal net operating income. Historically, the impact of lower initial occupancy and asset mobilisation costs have tended to reduce net operating income by approximately 30% compared to a stabilised asset. However, recent improvements in our sales and operational platforms have significantly improved the performance of these assets. Once these assets stabilise fully, our intention is to sell them to USAF, subject to it having sufficient investment capacity, or to other co-investment vehicles. A total of £171 million of assets were sold to USAF in 2008.
- Assets with redevelopment or active asset management potential.
- Non-core legacy assets; these are properties which do not fit with the Group's long term investment strategy, either because of their location or because they are let to universities under long term agreements and deliver lower ongoing returns. Since commencing a disposal programme of these assets in 2007, the Group has completed sales totalling £183 million from its balance sheet. This disposal programme will continue throughout 2009 as the Group completes its business model transition.

The following table summarises the Group's operating and investment portfolio by segment at 31 December 2008:

	USAF*	UCC*	USV*	Owned stabilising	Other	Leased	Total
London							
- Value	£54m	£347m	-	£55m	£46m	-	**£502m**
- Beds	270	2,427	-	502	466	260	**3,925**
Major provincial							
- Value	£600m	-	£58m	£137m	£97m	-	**£892m**
- Beds	12,876	-	1,383	2,634	2,551	1,644	**21,088**
Other provincial							
- Value	£218m	-	-	-	£129m	-	**£347m**
- Beds	5,128	-	-	-	3,379	1,785	**10,292**
Varsity							
- Value	£25m	£43m	-	£11m	£9m	-	**£88m**
- Beds	289	437	-	135	218	316	**1,395**
Total at 31 December 2008							
- Value	£897m	£390m	£58m	£203m	£281m	-	**£1,829m**
- Beds	18,563	2,864	1,383	3,271	6,614	4,005	**36,700**
UNITE investment	**19%**	**30%**	**51%**	**100%**	**100%**	**-**	**-**

** The value shown represents the gross value (as opposed to UNITE's share)*

Extremely strong rental growth was delivered across UNITE's operating and investment portfolio during 2008 with like for like sales growth of 9.5% achieved for the 2008/09 academic year compared to 6.2% in 2007/08. The average stabilised yield across the portfolio was 6.2% as at 31 December 2008, compared to 6.0% at 30 June 2008 and 5.8% at 31 December 2007. The portfolio is 99% let for the current academic year, compared to 92% in 2007/08.

Sales performance for the 2009/10 academic year is very strong across the portfolio. As at 6 March 2009, reservations had been received for 25,285 bed spaces, or 65% of the portfolio, compared to 62% a year earlier. This is summarised in the table below:

	Beds	% Reserved 09/10 year	% Reserved 08/09 year	Like for like rental growth 08/09
Joint venture				
- USAF	18,563	59%	55%	8.9%
- UCC	2,864	50%	68%	6.7%
- USV	1,383	56%	28%	8.0%
	22,810	58%	55%	8.6%
Wholly owned				
- Stabilising	5,972	44%	57%	16.8%
- Other	6,144	92%	81%	8.6%
	12,116	68%	69%	9.0%
Leased	4,005	98%	94%	6.1%
Total	38,931	65%	62%	9.5%

Operating costs and overhead

As identified at the end of 2007, over recent years the Group's operating costs and overheads have grown at a faster rate than revenues, principally reflecting insufficient infrastructure required to cope with nationwide growth and difficulty in delivering sustainable economies of scale. The financial impact of this has been emphasised more recently with the establishment of our developer and co-investing asset manager business model, which distinguishes more effectively between the economics of asset ownership and asset management.

The Group began to address this in 2007 with the successful launch of its on-line accommodation management system, which has been further supported through the creation of a national sales framework. The results of this investment are clearly evident in the strong sales performance for academic year 2008/09 and 2009/10, reported in this statement.

Since January 2008, we have extended the reach of this programme to encompass a more comprehensive process re-engineering and organisational change exercise – to define and deliver our operational 'Blueprint' and in late 2008 we accelerated the implementation of certain elements of the programme to improve the Group's cash generation. The following table summarises the positive impact of these initiatives on the Group's cost base:

	2008 £m	Identified savings 2009* £m
Cost of sales	49	6
UNITE share	26	3
Overheads		
- Development	5	2
- UMS	8	2
- Operations and Group	32	5
	45	9
Impact on UNITE		
Profit and Loss	51	6
Balance Sheet	20	6
Total	71	12

**The total cost of the restructure was £4.8 million in 2008 with a further £1.4 million to be incurred in 2009*

It is important to note that the objectives of our Blueprint programme extend beyond cost savings. Our detailed feasibility work identified clear opportunities to improve customer service whilst becoming more cost effective and we will continue to progress this in 2009:

- Our most significant progress in 2008 related to our on-line accommodation booking and payment engine, which has transformed the way in which students search for and book accommodation. Usage of the www.unite-students.com website has increased dramatically and in January and February 2009, for example, the site recorded 134,000 visits.
- Our main priorities in 2009 are to improve the quality of our maintenance service and internet provision, both in response to customer feedback. In both cases we have been working with specialist partners on long term solutions since early 2008 and will launch our revised offering fully for the 2009/10 academic year.
- In addition, we are substantially revising our city staffing model for the 2009/10 academic year to provide a more responsive service tailored to the times preferred by our customers. This important step, which will improve both service and efficiency, is only possible as a result of our earlier progress with systems and process development.

Investment portfolio valuation

The Group's investment portfolio, including those assets held in co-investment vehicles, has been independently valued at 31 December 2008 by CB Richard Ellis Ltd, Jones Lang LaSalle Ltd and Messrs King Sturge. As expected, we have seen yield expansion across most of the portfolio offset by strong rental growth in our direct let assets. Performance has been weakest in properties subject to long term agreements and strongest in high quality direct let assets (see table below):

	Dec 2007 £m	Asset classification changes £m	Sales, completions and redevelopment £m	Yield shift £m	Rental growth £m	Dec 2008 £m
Leased/nominations assets	317	(79)	(28)	(21)	9	198
Direct let assets *						
London	50	45	68	(12)	13	164
Major Provincial	304	24	13	(27)	2	316
Other Provincial	172	10	(98)	(9)	5	80
Varsity Cities	21	-	15	(3)	1	34
Total	864	-	(30)	(72)	30	792

** Includes UNITE's share of JVs*

The average net initial yield of the portfolio at 31 December 2008 is 6.20% (2007: 5.78%). The expansion of 42 basis points, representing a 7% movement, has been positively impacted by the increased proportion of London assets, where valuation declines have been less pronounced. The average net initial yield for assets outside London increased by an average of 75 basis points. These yield movements were partially offset by the rental growth of 9.5%. UNITE's consistent record of delivering rental growth, together with the continued demand/supply imbalance, has been a significant factor in supporting the valuation yields to a greater extent than in other commercial property sectors.

Demand for good quality, well-located investment assets remained robust for the majority of 2008, and transactions over the course of the year provided meaningful valuation evidence across all major segments of the portfolio. Looking forward, demand for smaller investment assets (up to £20 million) in the student sector remains solid whereas the market for larger assets is more challenging. This is firmly reflected in our asset sale strategy and it is worth noting that the average value of UNITE's on balance sheet investment assets is £14 million. Taking this into account, we believe that yield expansion in student accommodation investments will continue to be less pronounced than across the broader property market, with rental growth prospects providing an effective buffer. Nonetheless, we expect values to continue to decline until such time as banking markets stabilise. Typical yields as at 31 December 2008 were as follows:

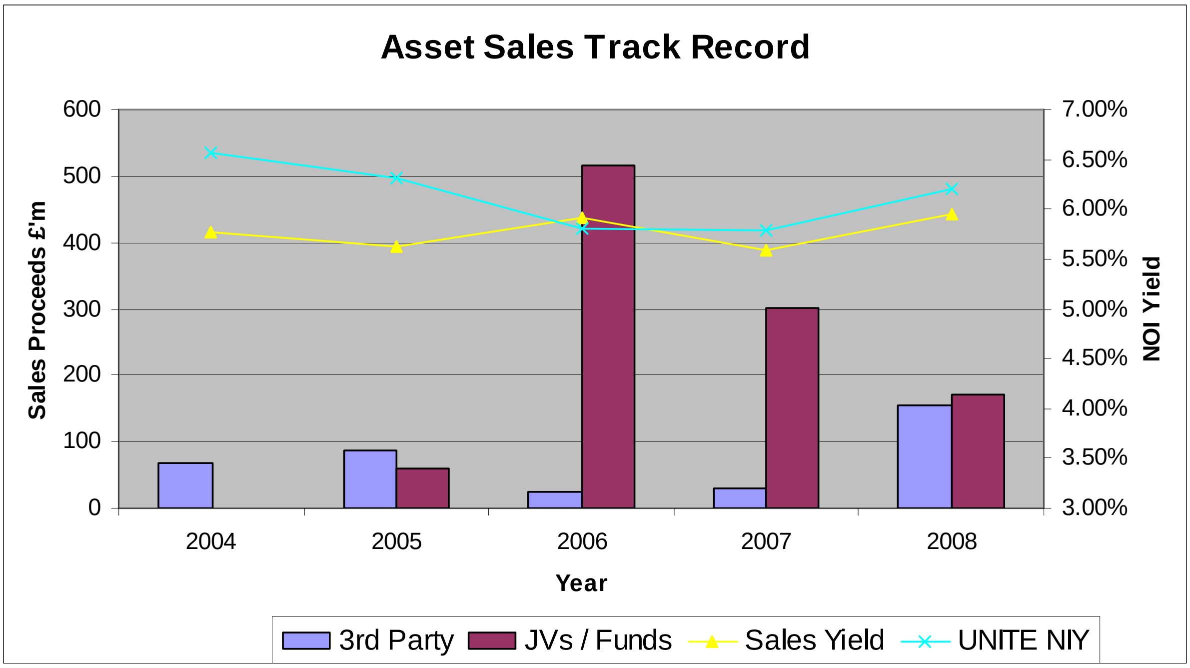
Typical stabilised yield range	**Dec 06**	**Dec 07**	**Dec 08**
London			
Direct let	5.5%-6.0%	5.0%-5.5%	5.6%-6.0%
University agreement	4.75%-5.25%	5.0%-5.75%	5.5%-6.25%
Major provincial			
Direct let	5.6%-6.1%	5.5%-6.0%	6.0%-6.75%
University agreement	5.0%-5.5%	5.5%-6.0%	6.0%-6.75%
Other provincial			
Direct let	5.65%-6.25%	5.75%-6.25%	6.25%-7.0%
University agreement	5.25%-5.75%	5.5%-6.0%	6.25%-7.0%
'Varsity' cities			
Direct let	5.5%-6.0%	5.25%-5.75%	5.75%-6.25%
Portfolio average	**5.80%**	**5.78%**	**6.20%**
IPD All Property benchmark	4.55%	5.00%	6.87%

During 2008, UNITE sold a total of £325 million of investment properties at an average yield of 5.9%, of which £171 million were sold to USAF and the remainder to external parties. In addition to this £63 million of investment assets were sold by USAF during the year at an average yield of 5.7%. Particulars relating to these disposals were as follows:

	Valuation £m *	**Gross proceeds £m**	**Profit/ (loss) investment assets £m**	**Profit/ (loss) on disposal assets held at cost £m**	**Average Yield**
UNITE sales					
Sale and Leaseback transactions	51.0	47.5	(4.4)	-	5.7%
Non-core sales	106.2	106.5	(0.8)	-	5.8%
Sales to USAF					
- Investment Assets	111.9	106.8	(6.7)	-	6.2%
- Assets held at cost	51.4	64.5	-	13.1	6.2%
		325.1	(12.4)	13.1	
USAF sales	62.4	62.9	(0.2)	-	5.7%

** Valuation figures represent last balance sheet valuation prior to sale i.e. 31 December 2007 or 30 June 2008*

Asset sales have been an integral part of UNITE's business strategy in recent years and the graph below illustrates the level of sales achieved and the pricing of those transactions:



Co-investing asset management

UNITE acts as co-investing manager of two significant specialist student accommodation investment vehicles which it established: The UNITE UK Student Accommodation Fund ("USAF") and the UNITE Capital Cities joint venture ("UCC"). In addition, one asset remains in the UNITE Student Village joint venture ("USV") with Lehman Brothers.

USAF was established in December 2006 to invest in direct let student accommodation across the UK. It is a semi open-ended, infinite life vehicle with a carefully structured redemption mechanism designed to protect the interests of non-redeeming investors. Redemptions are not permissible before December 2009. Any redemption requests received will be met by either cash or increased gearing in the first instance and then through the proceeds from asset sales, although these are limited to 10% of gross asset value per annum. The main reason for adopting an open-ended structure was to allow the Fund to increase in size through further injections of capital. Upon establishment, USAF acquired a £515 million portfolio of direct let accommodation from UNITE and during 2007 and 2008, it acquired a further £425 million of assets from the Group.

UCC was established in March 2005 as a joint venture between UNITE and GIC RE. It is a closed-ended fund due to mature in 2013 and was established by UNITE to develop and operate student accommodation in London and Edinburgh, markets in which UNITE's growth was capital constrained at that time. Following an intensive period of acquisition and development activity, UCC equity is now fully invested and all development projects have been completed.
During the year to December 2008, the Group received fees from USAF, UCC and USV as follows:

	2008			2007		
	Management fees £m	Performance fees £m	Total fees £m	Management fees £m	Performance fees £m	Total fees £m
USAF	2.7	-	2.7	2.3	1.5	3.8
UCC	2.5	-	2.5	1.8	-	1.8
USV	-	-	-	-	1.5	1.5
Total	5.2	-	5.2	4.1	3.0	7.1

The performance of USAF during the period was sound on a sector relative basis, generating a total return of -22% in the period compared with an IPD UK Pooled Property Funds Index average of – 32%. The total return includes -8.0% from the impact of the mark to market of interest rate swaps in the year. Given the reduction in property valuations and the mark to market impact of interest rate swaps, USAF did not generate any performance fees in the period, as the Fund's absolute performance was below the level at which such fees become payable. UCC and USV are closed funds and any performance fees only become payable and recognisable on exit.

Net asset value movements (reported on an IFRS basis) and returns in USAF and UCC during 2008 were as follows:

	UCC	USAF
	£m	£m
Fund consolidated net assets at 31 December 2007	125.1	446.1
Revaluation of investment portfolio	3.6	(54.3)
Development profits recognised	7.4	-
Earnings less distributions	2.0	-
Equity issued less costs	-	58.9
Other reserve movements*	(23.5)	(38.0)
Fund consolidated net assets at 31 December 2008	114.6	412.7
UNITE share	30%	18.6%
Return on NAV		
Capital	8.7%	(26.8%)
Income	1.8%	5.2%
Total	10.5%	(21.6%)

**includes non-cash items, market value movements in ineffective hedges & other movements.*

Further details of the financial performance and position of USAF and UCC is provided in notes 2 and 9 to the consolidated financial statements.

UNITE UK Student Accommodation Fund

As at 31 December 2008, USAF's investment portfolio comprised 53 properties in 17 cities with a total of 18,563 bed spaces. The portfolio was independently valued by CBRE at £897 million, resulting in the Fund having net assets (on an IFRS basis) as at that date of £412.7 million as shown above. The Group successfully raised £58 million of new equity into USAF in October, in what proved to be extremely challenging and deteriorating markets. The first signs of a secondary market in the units also began to emerge with £40 million of units trading at the same time at a small discount to net asset value. Across the course of the year, USAF delivered asset sales of £63 million at an average yield of 5.7% and subsequently acquired a portfolio of £171 million of assets from UNITE. This asset management activity is in line with USAF's strategy of focusing on markets that demonstrate the greatest prospects for capital and income growth. Having been at around 20% throughout the year, the Group's stake in USAF was 18.6% at the year end, following the most recent portfolio sale and is likely to remain at around this level for the foreseeable future.

Following the sale of assets by USAF in August 2008, a deposit of £30 million was placed with Landsbanki Islands hf. ("Landsbanki"). Landsbanki was placed into administration under emergency legislation in October 2008 and the funds are currently not accessible. The first public creditors meeting was held on 20 February 2009 where it was confirmed that depositors will be treated as priority creditors. A statement of recoverable assets and liabilities was presented at the meeting, indicating that a substantial recovery of the deposit should be achievable. The timing of recovery, and any legal challenge to the priority status afforded to creditors, remain as the main areas of uncertainty. Whilst work is ongoing to recover the deposit, a full provision has been made in the accounts of USAF and UNITE.

The UNITE Capital Cities Joint Venture

As at 31 December 2008, all of UCC's development projects have been completed and UCC's investment portfolio now comprises 16 properties in London and Edinburgh. The portfolio was independently valued at 31 December 2008 at £389.7 million resulting in UCC having net assets at 31 December of £114.6 million (reported on an IFRS basis). Strong rental growth performance and completion of the final development schemes have ensured a further year of strong returns for UCC, with a total return of 11% in the year.

UNITE Student Village Joint Venture

USV owns one building located in Sheffield which was independently valued at £58.1 million as at 31 December 2008 resulting in USV having net assets of £9.4 million at 31 December 2008 (2007: £15.7 million). The reduction in property valuations resulted in total return of -44% in the year. Lehman Brothers, which owns a 49% stake in USV, was placed in administration in October 2008 and the administrators have informed UNITE that they are currently marketing the 49% stake. UNITE has certain pre-emptive rights within the joint venture agreement and is currently considering its options in this regard.

Development activity

In October 2008, in response to the deepening banking crisis, the Group decided to reduce substantially its development commitments for 2010 and 2011 project deliveries. The Group now intends to deliver 1,125 new bed spaces in 2010, all of which are fully funded. The total capital expenditure of £155 million on these projects represents a reduction of approximately 50% relative to the programme that was originally planned. UNITE is yet to commit to any new developments for delivery in 2011 and is now more likely to focus on securing attractive opportunities for delivery in 2012 and beyond. It is anticipated that a number of favourable opportunities will arise, in light of the widespread re-pricing of assets. The Group's development commitments at 31 December 2008 are summarised below:

	Bed spaces	Total development cost £m	Capex remaining £m	Equity total £m	Equity remaining £m
2009 deliveries	2,701	249	92	49	-
2010 deliveries	1,125	155	80	29	8
	3,826	404	172	78	8

In determining which of its developments to proceed with for 2010 delivery, the Group has prioritised those with the highest anticipated returns and greatest resilience to ongoing adverse economic conditions. As a result of this review, the Group's pipeline of developments for delivery in 2010 is located entirely in London, where demand and rental growth prospects are strongest, and is expected to deliver an initial yield on cost of 8.0%. The programme of 2009 deliveries is expected to show an initial yield on cost of 6.9%.

The outlook for development margins on our secured development pipeline is, of course, more challenging than has historically been the case, and we are actively managing our exposure in this area, as evidenced by the deferral or cancellation of certain projects. However, the outlook for occupier demand in our sector, the prime positioning of our developments and clear signs of easing build cost inflationary pressure all help to offset the principal downside risk concerning the level of future investment yields.

Notwithstanding the significant reduction in future development commitments outlined above, the Group continues to manage the delivery of its current pipeline projects effectively. During the year, UNITE completed its development pipeline of 3,774 beds for the 2008/09 academic year and is also well progressed on the delivery of its 2009 pipeline of 2,701 beds. UNITE, including where appropriate its joint venture partners, invested a total of £268 million of capital expenditure as follows:

Development expenditure

	Gross £m	UNITE's share £m
2008 completions		
- UNITE	80	80
- Joint ventures	34	10
2009 completions		
- UNITE	102	102
2010 and later completions		
- UNITE	59	59
Total	275	251

The decision to scale back the development programme has had a significant impact on the secured pipeline as follows:

Committed future developments

	31 Dec 07 Beds	Secured Beds	Strategic review & scheme revisions	31 Dec 08 Beds	Completed value £m	Development yield
2009 completions	3,931		(1,203)	2,701	288	6.9%
2010 completions	2,326	1,183	(2,384)	1,125	207	8.0%
Total beds	6,257	1,183	(3,587)	3,826	495	7.3%

Following the establishment of USAF, and in accordance with IFRS, certain of the Group's development assets are now classified as current assets and are held at cost, whilst certain others continue to be held at open market value. However, in recognising the full value of the Group's development pipeline, we consider it appropriate that all development properties, regardless of accounting classification, are independently valued. A full valuation of the Group's development portfolio has been carried out as at 31 December 2008 and is summarised below:

Development portfolio valuation

	31 December 2008 £m	31 December 2007 £m
Investment property under development	53	102
Property under development	249	122
Share of joint ventures investment property under development	-	36
Total	302	260
Valuation gain not recognised on property held at cost	24	39
Value at end of period	326	299

In total, the Group has recognised £7 million of revaluation gains on developments during the year in the calculation of its adjusted net asset value. The investment yields applied in arriving at a valuation of the development portfolio are typically 25 bps higher than those applied to completed properties, reflecting the particular challenges of development at this time. This differential will be reversed upon completion.

In addition to the above portfolio, the Group had £26.7 million of land at 31 December 2008 (2007: £91.3 million) which is carried at the lower of cost and net realisable value. Given the Group's decision to scale back its development pipeline as outlined above, together with the dramatic falls in land values, the value of the land has been written down by £28 million during the year. With the exception of one site, valued at £3.0 million, all land held for development has planning consent for development as student accommodation. The Group will be reviewing its options for these sites over the next six months.

Not surprisingly, the sharp reduction in planned development activity has resulted in a significant contraction in the size of the Group's development team. During 2008 we reduced the number of employees engaged in development activity by 23 to 25 at the year end and moved the team's base to London. Annualised development overhead, taking into account these and other savings, has reduced by 40%.

UNITE Modular Solutions

The Group's modular manufacturing facility remains a key element in the Group's development philosophy. During 2008 it formed a key part of the change programme designed to improve the efficiency of developments being delivered in 2009 and 2010. The modular content of each project has been increased and this, together with a number of supply chain initiatives is expected to contribute to meaningful build cost savings, particularly in the 2010 programme.

However, the Group's reduced development pipeline has significant implications for manufacturing volumes at the plant. In response to this, management has recently concluded a consultation with the plant's workforce that will lead to a reduction in the number of roles at the facility of approximately 27% from March 2009. Longer term, we are more actively considering our strategy for the numerous approaches received regarding module manufacture for third parties.

Livocity – accommodation for graduates

The Group currently operates one project under its 'Livocity' concept (62 beds near Regent's Park, London), providing accommodation for graduates and young career professionals. This project remains fully let and has delivered encouraging rental growth during 2008. Two further properties will be opening during March 2009, located in Fulham and Camden. Customer demand for these properties is also healthy and our focus for Livocity in 2009 is to ensure that all three assets reach a stable level of occupancy and rental levels in good time. No further developments are planned under the Livocity brand at this time.

Financing

The financing of the business and the ongoing strength of the Group's balance sheet remain a primary focus. Despite the dramatic deterioration in the global financial markets, UNITE has made solid progress in extending its re-financing horizon, ensuring all borrowing covenants are met and reducing net debt in the period.

The Group (including co-investment vehicles') primary bank facilities are arranged through a small number of key relationship banks and it has enjoyed continued and fresh support from these lenders. This support is confirmed by new facilities totalling £485 million being arranged since January 2008, of which £250 million has been arranged since December 2008 (£100 million requires final documentation to be signed). This ongoing support from our lenders provides confirmation of the resilient nature of the asset class and the underlying cashflows that the assets generate.

Key debt ratios for UNITE Group

	31 December 2008	**31 December 2007**
Adjusted gearing	131%	106%
Net debt to assets	65%	57%
Weighted average debt maturity	4 years	4 years
Weighted average cost of investment debt	6.2%	6.6%
Proportion of investment debt hedged	87%	89%

Cash position

UNITE has a cash balance of £111.8 million at 31 December 2008. An analysis of the cash that is available for managing the Group's debt facilities in the event that property valuations fall and banks seek to enforce repayment through the use of LTV covenants is provided in the following table:

	£m
Cash balance at 31 December	111.8
Held for re-financing	(30.8)
Restricted for debt servicing	(16.3)
Development equity remaining on committed schemes	(7.8)
Cash available for general purposes	56.9

We anticipate that the strong rental growth performance together with the cost savings as a result of the restructure will mean that the cashflow from operations is sufficient to cover all overheads during 2009. Therefore the available cash outlined above can be used to manage the Group's debt facilities in the event that property valuations continue to fall.

Overview of debt facilities

The majority of the Group's debt is arranged on an asset specific basis within committed facilities. The facilities are structured as either investment facilities, development / investment facilities whereby an asset transfers to the investment vehicle upon completion and a small proportion of land facilities. In addition, UNITE has working capital facilities of £49 million including a £20 million overdraft facility.

In accordance with the terms of the loan agreements, the Group is required to comply with certain financial covenants. UNITE's facilities typically have interest cover ratio covenants, and more recently loan to value covenants have been introduced to new facilities. Where loan to value covenants are in place, these are based upon a valuation performed upon instruction by the lending bank. UNITE also has four facilities with minimum net worth covenants. All of the Group's major covenants are outlined below.

Compliance with financial covenants is constantly monitored. Potential breaches can be discussed with lenders which could result in a re-negotiation or a possible waiving of the covenants. Actual covenant breaches can be rectified by a number of remedies, primarily the repayment of debt either on a temporary or a permanent basis, before an event of default occurs.

The principal areas of focus associated with UNITE's financing are as follows :

- Maintaining covenant compliance, primarily loan to value ('LTV') covenants in the event that property values continue to fall and, to a much lesser extent, the risk of breaching minimum net worth and interest cover ratios ('ICR') and minimum net worth covenants.
- Refinancing facilities that expire in 2009.
- Refinancing development schemes upon completion within existing facilities and ensuring facilities are in place for the 2009 and 2010 development programme.
- Managing gearing levels in an environment of falling asset values.

Financial covenants

As at 31 December 2008, the Group was in full compliance with all of its financial covenants.

Loan to value covenants

Where loan to value covenants are in place, these are tested using the latest valuation prepared for the bank, rather than using UNITE's balance sheet valuations. In the event of a breach or a potential breach, UNITE has the ability to avoid or rectify the breach by repaying debt to ensure compliance. The following table uses the independent valuations at 31 December 2008:

	Total facility £m	Investment debt drawn £m	Development debt drawn £m	Total drawn £m	Weighted LTV covenant	Weighted LTV at 31 Dec
Facilities with LTV covenants	773.1	288.9*	78.8	367.7	75.7%	70.6%
Facilities with no LTV covenants	364.1	113.7	135.5	249.2	-	-
	1,137.2	402.6	214.3	616.9		
Working capital facilities				25.4		
Total debt				642.3		
Cash				(111.8)		
Adjusted net debt				530.5		

** The £288.9 million includes £30.8 million of debt drawn held as cash pending re-financing of an asset.*

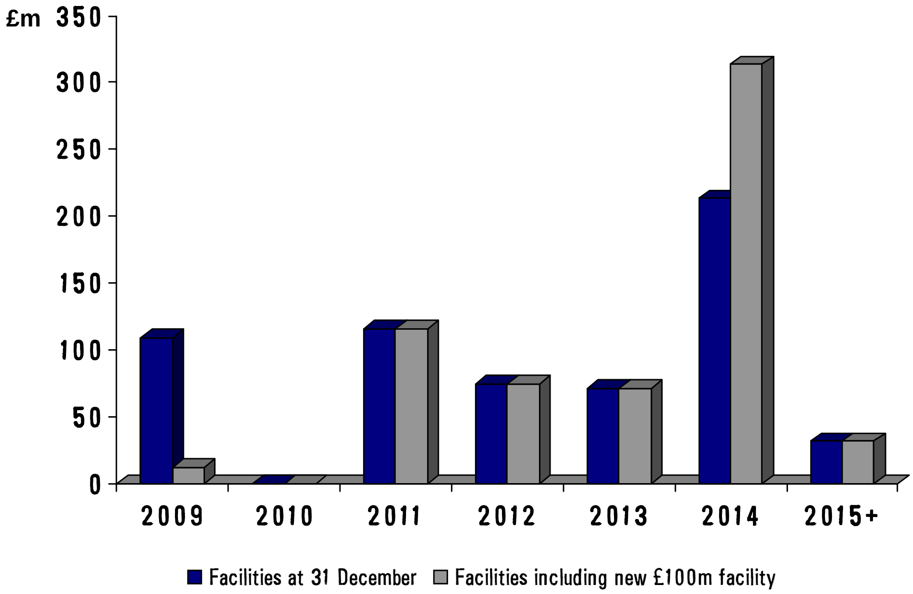
Interest cover covenants

Investment facilities are subject to interest cover covenants. The covenants are measured on a portfolio basis for each facility and vary by facility. The covenant, on a weighted average basis is 110%. The actual performance on a look forward basis, as reported to the banks, is currently 135% and we would expect rental growth to improve this headroom further in the future.

Minimum net worth covenants

UNITE has four facilities with minimum net worth covenants. The highest of the covenants is set at £250 million based on adjusted net assets this compares to the reported position at 31 December 2008 of £406 million. Two of the facilities with minimum net worth covenants expire in 2009 and will be refinanced at that time.

UNITE debt maturity profile



UNITE has two investment facilities that expire in the fourth quarter of 2009. The total amount drawn under these facilities at 31 December was £96.8 million. The Group has sought to proactively manage this refinancing risk by:

- Creating capacity in an existing facility for approximately £60 million of the debt. Approval has been secured for the transfer of these assets into this facility.

- Arranging a new £100 million investment facility to create capacity for the remaining debt and also to provide further debt headroom. Full credit approval for this facility was obtained in February 2009 and it is currently being documented for anticipated completion in April.

The next major refinancing event occurs in May 2011 when a £116 million facility with Bank of Ireland expires. UNITE also has three small development facilities that expire in 2009 with drawn debt of £12.7 million. This debt all relates to land that will not be built and is likely to be sold in the year. All three sites are currently under offer at levels in excess of the drawn debt.

Development debt capacity and refinancing requirements

The development debt is not subject to LTV covenants during the development phase. However, upon completion of a development, an updated valuation is required. This event will result in either a release of cash to UNITE or, if values fall beyond a certain level, for UNITE to repay an element of the debt secured against that asset.

Given the positive sales performance, the principal risk is the level of yield expansion prior to the assets transferring to the investment facility in the third quarter of 2008. We have taken this into account in our calculation of covenant headroom below.

UNITE has signed, committed development debt facilities in place to complete all of its 2009 and 2010 development programme. In total UNITE had unutilised debt capacity of £520 million as at 31 December 2008. Of this amount, £160 million is committed to the development programme, leaving £360 million of surplus capacity, of which Anglo Irish Bank is currently providing £260 million. Following the recent nationalisation and subsequent concerns surrounding the bank, UNITE considers this facility to be unavailable and is in no way reliant upon it.

Covenant headroom

The group was in full compliance with all of its borrowing covenants at 31 December 2008 and remains so at this time. In considering the likelihood of the Group breaching any covenants during 2009, the Board believes that the greatest risk relates to a continued outward movement in yields resulting in a potential breach of LTV covenants and/or a refinancing shortfall in relation to the Group's 2009 development programme. The Group has three main mitigants in addressing this risk:

- continued strong rental growth in the portfolio will help offset outward yield movements;
- the Group's available cash resources can be used to prepay facilities to avoid LTV covenant breaches or to meet a refinancing shortfall with respect to the 2009 development programme;
- ongoing asset sales will reduce investment net debt and release further cash for general purposes. The Group is targeting gross proceeds from sales, including those to USAF, of £150 million which it would expect to release between £25 million and £40 million of net cash proceeds.

Taking into account these risks, the Group believes that it can withstand future yield expansion as follows:

	NOI yield movement (bps)
Rental growth in 2009/2010 (7%-10%)	40-50
Cash resources to avoid LTV covenant breaches and meet refinancing shortfalls	20-25
NOI yield headroom before asset sales	60-75
Impact of targeted asset sales	30-50
Total NOI yield headroom including asset sales	90-125

The above NOI yield expansion headroom, quoted after full provision has been made to fund the commited development pipeline, compares to a total of 42 basis points expansion in 2008, of which approximately 25 basis points occurred in the last quarter. The Board is satisfied that this headroom is adequate for the time being, and that the rental growth and asset sale assumptions in particular, are appropriate. However, until such time as the actual delivery of these items can be viewed with more certainty, the Board believes that an extremely cautious stance remains appropriate.

Gearing and net debt

The Group has reduced the adjusted net debt position at 31 December 2008 to £531 million (2007: £540 million). This reduction has been delivered through its focus on asset sales during the year.

	£m
Net debt at 31 December 2007	**540**
Asset sales	**(325)**
Cash spent on development programme	**302**
Operational cash / inc dividends and tax	**14**
Net debt at 31 December 2008	**531**

Adjusted gearing was 131% (2007: 106%) and debt as a percentage of gross assets value was 65% (2007: 57%). UNITE will maintain its focus on gearing levels and intends to sell assets to at least the same value as the level of expenditure on development activity going forward.

The Group will continue to follow its strategy of generating cash from asset sales both to USAF and third parties in order to strengthen the balance sheet and also to provide resources to take advantage of the development opportunities when the banking market starts to ease.

Interest rate hedging

During the first half of 2008 interest rates gradually increased with 5 year swap rates rising from around 5% to peak at 6% in June. In the third quarter of 2008, long term interest rates receded towards levels at the start of the year. As markets responded to the crisis in the Banking sector and the resultant government support for banks, a rapid downward shift in market interest rates occurred. The 5 year swaps rate fell to around 3% at 31 December 2008.

The Group seeks to minimise its exposure to interest rate fluctuations and therefore seeks to hedge at least 80% of its investment debt. Whilst interest rates swaps offer protection from higher interest rates and provide a high degree of predictability on future cashflows, they provide no opportunity to gain when interest rates fall. Furthermore, the movement in revaluation of interest rate swaps affects the Group's income statement. For the year to 31 December 2008 a deficit of £32.4 million was recorded (2007: £7.5 million). The Group seeks to minimise its cost of debt finance and has reduced the cost of investment debt from 6.6% in 2007 to 6.2% in 2008.

Financing within co-investment vehicles

The debt facilities within co-investment vehicles are structured broadly in line with the Group's wholly owned debt. As at 31 December 2008 each of the co-investment vehicles was in full compliance with all of the respective covenants. The following table outlines the principal covenants on these facilities.

	Total facility £m	Drawn £m	LTV covenant	LTV @ 31 Dec	ICR covenant	ICR @ 31 Dec
USV	46.1	46.1	84%	81%	1.24	1.33
UCC	300.0	248.8	-	-	1.00	1.40
USAF						
- With LTV covenants	235.0	200.6	62%	53%	1.30	2.1
- No LTV covenants	280.0	280.0	-	-	1.40	2.0

The facilities are structured so there is no recourse to the Group with the exception of the UCC facility which is limited recourse. There is £35 million headroom in USAF's banking facilities to fund further acquisitions and £51 million of capacity in UCC facilities.

Dividend

In light of the Group's desire to conserve capital, the Board does not recommend the payment of a final dividend for the year (2007: 1.67 pence per share). This means that the total dividend for the year to 31 December 2008 will be 0.83 pence per share (2007: 2.5 pence per share).

People and organisation

UNITE's achievements are underpinned by a culture which, together with our success in pioneering a new sector and first class people practice, make our organisation a place to achieve a challenging, rewarding and meaningful career. The role of our people in delivering the strategic priorities of the business is clearly recognised through our approach to talent management and development.

Throughout 2008 we focused our organisational development approach around ensuring our people were effectively executing our strategy and managing transformational change. Key initiatives in 2008 included:

- *Organisation Structure* - we organised our core business operations to align with our business model. We restructured to four key business units: Development, Modular Solutions, Operations and Fund & Asset Management. We also restructured our key support functions (Finance, HR, Procurement, IT) to ensure lean, value add support service delivery aligned to the goals of our core business units.

- *Values / Competency Model* – we defined and developed a core competency framework (Job Fitness Model) aligned to our values, for our Operations and Support Functions.

- *Change Management* - through the delivery of our operational and development change programmes we embedded effective change management skills into our business. These core skills will stand us in good stead as we continue with the implementation of change through 2009.

- *Learning & Development* - we opened our Operations Training Academy in Birmingham. A purpose built facility, within our flagship Student Accommodation, designed for inducting and training our frontline teams in the consistent delivery of our customer service standards.

- *Leadership Development* - we designed and delivered a new programme to our Senior Managers around effective execution of strategy. We continued the roll-out of our core Leadership and Mentoring programmes ensuring key successors to develop their leadership practice.

- *Performance Management & Reward* – through our Performance Development Programme (PDP) we developed a consistent approach to performance measurement & management and clearly linked our reward structures to the performance of our key strategic priorities.

- *Employee Engagement* – we embedded an online employee survey and our organisation was benchmarked within the top 30% of UK companies. UNITE also featured in the Guardian Britain's Top Employers 2008 – for Best Examples of HR Management.

Looking forward to 2009, we are focused on three critical areas to aligning our people strategy with our business strategy:

- <u>Ensuring our strategy is clear from the boardroom to the front line.</u> We have embedded a high quality business planning process to allow individual employees to have line of sight to our strategic goals. Our framework ensures that we have an aligned set of goals, clear performance measures, with a more integrated risk and resource planning process.

- Aligning our talent strategy to our business strategy to ensure that we have the right mix of people in the right roles to execute effectively. We are focused on ensuring that the positions that exert the greatest degree of influence on company performance are filled with top talent and that we have tailored development plans for potential successors. We have added four new roles to our Leadership Executive to ensure we are developing leaders who understand our business challenges at a global level whilst delivering in their specific business areas.

- Driving our performance culture to ensure our people are engaged and motivated to deliver results from a combination of understanding what motivates our workforce, effective leadership, clarity of purpose, accountability for results and rewards that are commensurate with performance and contribution. We will continue to drive our performance by living our values and our approach to customers, people and shareholders.

Looking Ahead

The Board expects the outlook for 2009 to remain positive from an operational perspective but challenging from a financing perspective. Accordingly, the Board's immediate priority is to ensure that the Group remains in a position to withstand further deterioration in the wider economic environment. With a resilient market, sound financing and cash position, strong operating performance and clear plans to protect the Group's balance sheet from further falls in property values, the Board believes that this objective is well in hand; and in due course, the Group will be able to secure a position to benefit from the attractive development opportunities that we expect to emerge.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	Note	2008	2007
		£'000	£'000
Revenue	2	**133,594**	72,140
Cost of sales	2	**(121,765)**	(29,974)
Administrative expenses	2	**(31,115)**	(21,082)
		(19,286)	21,084
Loss on disposal of property		**(12,396)**	(4,205)
(Loss) / profit on part disposal of joint venture		**(2,464)**	1,803
Net valuation losses on investment property		**(25,342)**	(2,733)
(Loss) / profit before net financing costs		**(59,488)**	15,949
Loan interest and similar charges	3	**(28,365)**	(30,953)
Changes in fair value of interest rate swaps	3	**(32,414)**	(7,472)
Bond and loan redemption costs	3	**(478)**	(57,392)
Finance costs		**(61,257)**	(95,817)
Finance income	3	**1,877**	1,763
Net financing costs		**(59,380)**	(94,054)
Share of joint venture (loss) / profit	6	**(9,985)**	10,978
Loss before tax		**(128,853)**	(67,127)
Tax	4	**12,511**	29,652
Loss for the year		**(116,342)**	(37,475)
Loss for the year attributable to			
Owners of the parent company		**(115,942)**	(37,475)
Minority interest	6	**(400)**	-
		(116,342)	(37,475)
Earnings per share			
Basic	11	**(93.4p)**	(30.4p)
Diluted	11	**(93.4p)**	(30.4p)

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Note	2008 £'000	2007 £'000
Assets			
Investment property	5	**403,700**	597,747
Investment property under development	5	**52,989**	102,180
Property, plant and equipment		**8,030**	9,094
Investments in joint ventures	6	**75,519**	86,013
Intangible assets		**7,219**	8,089
Other receivables		**3,667**	4,770
Total non-current assets		**551,124**	807,893
Completed property	5	**75,214**	-
Property under development	5	**249,124**	121,936
Inventories	7	**10,311**	104,557
Trade and other receivables		**107,308**	94,019
Cash and cash equivalents		**111,845**	56,316
Total current assets		**553,802**	376,828
Total assets		**1,104,926**	1,184,721
Liabilities			
Borrowings and financial derivatives	8	**(136,876)**	(240,234)
Trade and other payables		**(80,544)**	(117,801)
Total current liabilities		**(217,420)**	(358,035)
Borrowings and financial derivatives	8	**(552,140)**	(363,720)
Deferred tax liabilities	9	**-**	(12,873)
Total non-current liabilities		**(552,140)**	(376,593)
Total liabilities		**(769,560)**	(734,628)
Net assets		**335,366**	450,093
Equity			
Issued share capital	10	**31,079**	30,874
Share premium	10	**176,541**	174,333
Merger reserve	10	**40,177**	40,177
Retained earnings	10	**85,699**	187,957
Revaluation reserve	10	**1,805**	17,644
Hedging reserve	10	**(15,135)**	(892)
		320,166	450,093
Minority interest	6	**15,200**	-
Total equity		**335,366**	450,093

These financial statements were approved by the Board of Directors on
9 March 2009 and were signed on its behalf by:

MC Allan Director

JJ Lister Director

STATEMENTS OF CHANGES IN SHAREHOLDER EQUITY

For the year ended 31 December 2008

		Note	2008 £'000	2007 £'000
Investment property under development:	- revaluation		**2,097**	7,368
	- deferred tax	*9*	**(587)**	(1,591)
Other property	- revaluation		**-**	159
	- deferred tax	*9*	**-**	-
Effective hedges	- movements		**(7,604)**	(1,280)
	- deferred tax		**1,779**	384
Losses / (gains) on hedging instruments transferred to income statement		*3*	**1,586**	(101)
Deferred tax on losses / (gains) transferred			**(444)**	30
Share of joint venture valuation gain on investment property under development (net of related tax)			**1,309**	4,810
Share of joint venture movements in effective hedges (net of related tax)			**(9,960)**	(1,076)
Net (losses) / profit recognised directly in equity			**(11,824)**	8,703
Loss for the year			**(116,342)**	(37,475)
Total recognised income and expense for the year			**(128,166)**	(28,772)
Dividends paid		*10*	**(3,090)**	(3,073)
Own shares acquired		*10*	**(2,192)**	(1,096)
Shares issued		*10*	**2,413**	1,436
Fair value of share based payments			**308**	411
			(130,727)	(31,094)
Minority interest		*6*	**800**	-
Equity at start of year			**450,093**	481,187
Equity at end of year			**320,166**	450,093

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Operating activities			
Loss for the year		**(116,342)**	(37,475)
Adjustments for:			
Depreciation and amortisation		**3,356**	2,094
Fair value of share based payments		**308**	411
Change in value of investment property		**25,342**	2,733
Net finance costs	*3*	**59,380**	94,054
Loss on disposal of investment property		**12,396**	4,205
Profit on part disposal of joint venture		**2,464**	(1,803)
Share of joint venture profit	*6*	**9,985**	(10,978)
Trading with joint venture adjustment	*6*	**2,402**	3,220
Tax credit	*4*	**(12,511)**	(29,652)
Cash flows from operating activities before changes in working capital		**(13,220)**	26,809
Increase in trade and other receivables		**(9,653)**	(13,673)
Increase in property under development		**(202,402)**	(103,902)
Decrease / (Increase) in inventories		**94,246**	(81,575)
(Decrease) / increase in trade and other payables		**(27,375)**	43,615
Cash flows from operating activities		**(158,404)**	(128,726)
Cash flows from Taxation		**(396)**	-
Investing activities			
Proceeds from sale of investment property		**251,553**	270,702
Proceeds from part disposal of joint venture		**-**	21,078
Equity invested in joint ventures		**(16,117)**	(2,135)
Dividends received		**5,258**	10,314
Interest received		**1,877**	1,763
Acquisition of intangible assets		**(1,182)**	(3,986)
Acquisition of property, plant and equipment		**(766)**	(993)
Acquisition and construction of investment property		**(53,371)**	(195,480)
Cash flows from investing activities		**187,252**	101,263
Financing activities			
Interest paid		**(34,922)**	(38,413)
Bond and loan redemption costs		**(478)**	(49,846)
Proceeds from the issue of share capital		**2,413**	1,436
Payments to acquire own shares		**(2,192)**	(1,096)
Proceeds from non-current borrowings		**347,865**	713,267
Repayment of borrowings		**(320,762)**	(591,319)
Payment of finance lease liabilities		**(35)**	(419)
Investment received from minority interest		**16,000**	-
Dividends paid		**(3,090)**	(3,073)
Cash flows from financing activities		**4,799**	30,537
Net increase in cash and cash equivalents		**33,251**	3,074
Cash and cash equivalents at start of year		**53,517**	50,443
Cash and cash equivalents at end of year		**86,768**	53,517

1. Basis of preparation

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2008 or 2007. Statutory accounts for 2007, which were prepared under International Financial Reporting Standards, as adopted by the European Union ("IFRS"), have been delivered to the registrar of companies, and those for 2008 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985.

Going concern

The Annual Report has been prepared on a going concern basis, which assumes the Group will be able to meet its liabilities as they fall due, for the foreseeable future. The Directors have prepared cash flow forecasts on the basis of which they have a reasonable expectation that the Group will continue as a going concern.

In preparing those forecasts, including incorporating the outcomes of various down-side scenarios, the Directors have taken into account various risks and uncertainties as outlined here and in more detail in the Chairman's Statement and Business Review. The principal areas of risk and uncertainty are: the impact of further falls in property valuations resulting in breaches of covenants that cannot be avoided by payments from cash resources (pages 29 and 30); finalisation of the documentation of the approved new banking facilities (page 29); the Group's ability to continue raising capital through the sale of assets, some of which are included within the down-side scenarios, (note 12); and the achievement of operating targets, in particular projected occupancy levels and rental increases.

These risks and uncertainties are discussed in more detail in the Chairman's Statement and Business Review. In addition to these risks and uncertainties, the financial risks including interest rate risk, liquidity risk, market risk and credit risk are outlined in note 12.

The sections of the business review headed "UNITE debt maturity profile" on page 28 and "Covenant Headroom" on pages 29 and 30 form part of these financial statements.

2. Segment reporting

Segment information is presented in respect of the Group's business segments based on the Group's management and internal reporting structure. The Directors do not consider that the group has meaningful geographical segments as it operated exclusively in the United Kingdom in the year.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Group undertakes the acquisition and development of properties and then manages the completed assets generating both rental income and management fees. Many of the Group's properties are acquired with a view to selling them to the UNITE UK Student Accommodation Fund when they are complete and appropriate levels of rental income have been achieved.

The operation of the completed properties is managed as a separate activity and is reported below as the investment segment. The acquisition and development activities comprise the Group's development segment below and therefore include the sales proceeds of properties sold to the UNITE UK Student Accommodation Fund in revenue.

(a) Segment revenues and costs

31 December 2008	**Note**	**Investment segment £'000**	**Development segment £'000**	**Unallocated corporate costs £'000**	**Total £'000**
Revenue		**63,080**	**70,514**	**-**	**133,594**
Cost of sales		**(30,028)**	**(60,248)**	**-**	**(90,276)**
Write down of land held for development and property under development		**-**	**(31,489)**	**-**	**(31,489)**
Total cost of sales		**(30,028)**	**(91,737)**	**-**	**(121,765)**
Administrative expenses		**(13,680)**	**(6,300)**	**(11,135)**	**(31,115)**
		19,372	**(27,523)**	**(11,135)**	**(19,286)**
Loan interest and similar charges		**(28,365)**	**-**	**-**	**(28,365)**
Interest rate swap receipts		**1,409**	**-**	**-**	**1,409**
Finance income		**1,877**	**-**	**-**	**1,877**
Share of joint venture investment segment result		**6,654**	**-**	**-**	**6,654**
Segment result / corporate costs	2 (b)	**947**	**(27,523)**	**(11,135)**	**(37,711)**

31 December 2007					
Revenue		69,945	2,195	-	72,140
Cost of sales		(27,613)	(2,361)	-	(29,974)
Administrative expenses		(11,548)	(3,656)	(5,878)	(21,082)
		30,784	(3,822)	(5,878)	21,084
Loan interest and similar charges		(30,953)	-	-	(30,953)
Finance income		1,763	-	-	1,763
Share of joint venture investment segment result		5,921	-	-	5,921
Segment result / corporate costs	2 (b)	7,515	(3,822)	(5,878)	(2,185)

2. Segment reporting (continued)

(b) Segment results and adjusted profit

	Note	31 Dec 2008 £'000	31 Dec 2007 £'000
Investment segment result	2(c)	**947**	7,515
Development segment result		**(27,523)**	(3,822)
Other unallocated items			
Corporate costs		**(6,326)**	(5,878)
Restructuring costs		**(4,809)**	-
Share of joint venture overheads		**(290)**	(632)
Share of joint venture Landsbanki provision		**(6,120)**	-
Loan break costs and costs written off on refinancing		**(478)**	(57,392)
Share of joint venture loan break costs		**(137)**	-
Swap loss realised on cancellation		**-**	(2,120)
Share of joint venture swap gain		**-**	186
Current tax charge		**(24)**	(795)
Adjusted loss for the year		**(44,760)**	(62,938)
Net valuation losses on investment property		**(25,342)**	(2,733)
Loss on sale of property		**(12,396)**	(4,205)
(Loss) / profit on part disposal of investment in joint venture		**(2,464)**	1,803
Share of joint venture loss on disposal		**(56)**	(81)
Share of joint venture tax charge		**-**	(1,438)
Changes in fair value of interest rate swaps		**(32,414)**	(5,352)
Interest rate swap receipts on ineffective hedges allocated to investment segment		**(1,409)**	-
Share of joint venture valuation losses / (gains)		**(10,360)**	5,179
Minority interest share of valuation gains		**480**	-
Share of joint venture deferred tax		**244**	1,843
Deferred tax		**12,535**	30,447
Loss for the year		**(115,942)**	(37,475)

2. **Segment reporting (continued)**

(c) Segment result (see through basis)

Information on the Group's investment activities on a see through basis, including an allocation of interest, is set out below.

31 December 2008	**100% UNITE**			**Share of co-invested joint ventures**				**Group on see through basis**
	Wholly Owned £'000	**Leased / Other £'000**	**Total £'000**	**USAF £'000**	**Capital Cities £'000**	**Student Village £'000**	**Total £'000**	**Total £'000**
Rental income	44,895	12,948	**57,843**	13,032	5,016	2,343	**20,391**	**78,234**
Property operating expenses (excl. lease rentals)	(15,209)	(5,710)	**(20,919)**	(3,990)	(708)	(568)	**(5,266)**	**(26,185)**
Operating lease rentals	-	(9,109)	**(9,109)**	-	-	-	**-**	**(9,109)**
Net rental income	29,686	(1,871)	**27,815**	9,042	4,308	1,775	**15,125**	**42,940**
Joint venture management fees	-	5,237	**5,237**	-	(336)	-	**(336)**	**4,901**
Overheads	-	(13,680)	**(13,680)**	-	-	-	**-**	**(13,680)**
Investment segment result before interest	29,686	(10,314)	**19,372**	9,042	3,972	1,775	**14,789**	**34,161**
Loan interest & similar charges	(28,365)	-	**(28,365)**	(4,505)	(2,646)	(1,561)	**(8,712)**	**(37,077)**
Finance income	1,877	-	**1,877**	342	95	140	**577**	**2,454**
Interest rate swap receipts	1,409	-	**1,409**	-	-	-	**-**	**1,409**
Investment segment result	4,607	(10,314)	**(5,707)**	4,879	1,421	354	**6,654**	**947**

2. Segment reporting (continued)

(c) Segment result (see through basis - continued)

31 December 2007

	100% UNITE			Share of co-invested joint ventures				Group on see through basis
	Wholly Owned £'000	**Leased / Other £'000**	**Total £'000**	**USAF £'000**	**Capital Cities £'000**	**Student Village £'000**	**Total £'000**	**Total £'000**
Rental income	53,110	9,698	**62,808**	12,622	3,816	3,033	**19,471**	**82,279**
Property operating expenses (excl. lease rentals)	(16,917)	(3,595)	**(20,512)**	(3,671)	(516)	(886)	**(5,073)**	**(25,585)**
Operating lease rentals	-	(7,101)	**(7,101)**	-	-	-	**-**	**(7,101)**
Net rental income	36,193	(998)	**35,195**	8,951	3,300	2,147	**14,398**	**49,593**
Joint venture management fees	-	4,172	**4,172**	-	(250)	-	**(250)**	**3,922**
Joint venture promote fee	-	2,965	**2,965**	-	-	-	**-**	**2,965**
Overheads	-	(11,548)	**(11,548)**	-	-	-	**-**	**(11,548)**
Investment segment	36,193	(5,409)	**30,784**	8,951	3,050	2,147	**14,148**	**44,932**
Loan interest & similar charges	(30,953)	-	**(30,953)**	(4,642)	(2,249)	(1,980)	**(8,871)**	**(39,824)**
Finance income	1,763	-	**1,763**	299	213	132	**644**	**2,407**
Investment segment result	7,003	(5,409)	**1,594**	4,608	1,014	299	**5,921**	**7,515**

2. Segment reporting (continued)

(d) Segment assets and liabilities (see through basis)

31 December 2008	100% UNITE Wholly Owned £'000	Share of co-invested joint ventures USAF £'000	Capital Cities £'000	Student Village £'000	Total £'000	Group on see through basis Total £'000
Investment property	**403,700**	166,381	116,919	29,040	**312,340**	**716,040**
Investment property under development	**52,989**	-	150	-	**150**	**53,139**
Completed property	**75,214**	-	-	-	**-**	**75,214**
Property under development	**249,124**	-	-	-	**-**	**249,124**
Investment and development property	**781,027**	166,381	117,069	29,040	**312,490**	**1,093,517**
Cash	**111,845**	3,998	2,310	3,576	**9,884**	**121,729**
Other assets - investment	**121,551**	(51,327)	142	(162)	**(51,347)**	**70,204**
Other assets - development	**14,934**	-	166	-	**166**	**15,100**
Other assets	**248,330**	(47,329)	2,618	3,414	**(41,297)**	**207,033**
Debt – completed properties	**(381,587)**	(89,132)	(74,989)	(22,972)	**(187,093)**	**(568,680)**
Debt – development properties	**(259,653)**	-	-	-	**-**	**(259,653)**
Other liabilities - investment	**(53,272)**	(3,040)	(1,354)	(7,252)	**(11,646)**	**(64,918)**
Other liabilities - development	**(27,272)**	-	(1,926)	-	**(1,926)**	**(29,198)**
Interest rate swaps	**(47,776)**	(2,001)	(7,046)	(1,027)	**(10,074)**	**(57,850)**
Other liabilities - unallocated	**-**	-	-	(85)	**(85)**	**(85)**
Total liabilities	**(769,560)**	(94,173)	(85,315)	(31,336)	**(210,824)**	**(980,384)**
Net assets attributable to ordinary shareholders	**259,797**	24,879	34,372	1,118	**60,369**	**320,166**
Minority interest	**50**	15,150	-	-	**15,150**	**15,200**
Net assets	**259,847**	40,029	34,372	1,118	**75,519**	**335,366**
Joint venture investment loans and minority interest	**(55,630)**	36,763	-	3,667	**40,430**	**(15,200)**
Underlying capital employed	**204,217**	76,792	34,372	4,785	**115,949**	**320,166**
Mark to market of interest rate swaps	**46,668**	2,001	7,046	1,027	**10,074**	**56,742**
Valuation gain not recognised on property held at cost	**28,937**	-	-	-	**-**	**28,937**
Deferred tax	**-**	-	-	85	**85**	**85**
Adjusted net assets	**279,822**	78,793	41,418	5,897	**126,108**	**405,930**
Investment assets	**581,516**	170,964	119,371	36,121	**326,456**	**907,972**
Development assets	**392,261**	-	316	-	**316**	**392,577**
Total assets	**973,777**	170,964	119,687	36,121	**326,772**	**1,300,549**
Investment liabilities	**(486,544)**	(94,172)	(83,389)	(31,251)	**(208,812)**	**(695,356)**
Development liabilities	**(283,016)**	-	(1,926)	-	**(1,926)**	**(284,942)**
Unallocated liabilities	**-**	-	-	(85)	**(85)**	**(85)**
Total liabilities	**(769,560)**	(94,172)	(85,315)	(31,336)	**(210,823)**	**(980,383)**

In order to show the Group's full investment in joint ventures their net assets have been adjusted for loans that are capital in nature to show the underlying capital employed in the above table.

See through gearing is calculated on an adjusted basis as 174% (2007: 136%).

2. Segment reporting (continued)

(d) Segment assets and liabilities (see through basis - continued)

31 December 2007

	100% UNITE Wholly Owned £'000	Share of co-invested joint ventures USAF £'000	Capital Cities £'000	Student Village £'000	Total £'000	Group on see through basis Total £'000
Investment property	**597,747**	167,042	67,593	31,826	**266,461**	**864,208**
Investment property under development	**102,180**	-	36,001	-	**36,001**	**138,181**
Property under development	**121,936**	-	-	-	**-**	**121,936**
Investment and development property	**821,863**	167,042	103,594	31,826	**302,462**	**1,124,325**
Cash	**56,316**	4,158	2,522	3,910	**10,590**	**66,906**
Other assets - investment	**107,698**	(45,136)	1,113	(3,572)	**(47,595)**	**60,103**
Other assets - development	**111,728**	-	365	-	**365**	**112,093**
Interest rate swaps	**1,103**	-	-	338	**338**	**1,441**
Other assets	**276,845**	(40,978)	4,000	676	**(36,302)**	**240,543**
Debt – completed properties	**(409,253)**	(78,398)	(43,696)	(23,552)	**(145,646)**	**(554,899)**
Debt – development properties	**(185,898)**	-	(20,458)	-	**(20,458)**	**(206,356)**
Other liabilities - investment	**(62,471)**	(3,293)	(1,228)	(3,895)	**(8,416)**	**(70,887)**
Other liabilities - development	**(55,330)**	-	(4,247)	-	**(4,247)**	**(59,577)**
Interest rate swaps	**(8,803)**	(228)	(434)	-	**(662)**	**(9,465)**
Other liabilities - unallocated	**(12,873)**	-	-	(718)	**(718)**	**(13,591)**
Total liabilities	**(734,628)**	(81,919)	(70,063)	(28,165)	**(180,147)**	**(914,775)**
Net assets	**364,080**	44,145	37,531	4,337	**86,013**	**450,093**
Joint venture investment loans	**(49,312)**	45,645	-	3,667	**49,312**	**-**
Underlying capital employed	**314,768**	89,790	37,531	8,004	**135,325**	**450,093**
Mark to market of interest rate swaps	**6,828**	228	434	(338)	**324**	**7,152**
Valuation gain not recognised on property held at cost	**38,726**	-	-	-	**-**	**38,726**
Deferred tax	**12,873**	-	-	718	**718**	**13,591**
Adjusted net assets	**373,195**	90,018	37,965	8,384	**136,367**	**509,562**
Investment assets	**713,552**	171,709	71,228	36,169	**279,106**	**992,658**
Development assets	**335,844**	-	36,366	-	**36,366**	**372,210**
Total assets	**1,049,396**	171,709	107,594	36,169	**315,472**	**1,364,868**
Investment liabilities	**(480,527)**	(81,919)	(45,358)	(27,447)	**(154,724)**	**(635,251)**
Development liabilities	**(241,228)**	-	(24,705)	-	**(24,705)**	**(265,933)**
Unallocated liabilities	**(12,873)**	-	-	(718)	**(718)**	**(13,591)**
Total liabilities	**(734,628)**	(81,919)	(70,063)	(28,165)	**(180,147)**	**(914,775)**

In order to show the Group's full investment in joint ventures their net assets have been adjusted for loans that are capital in nature to show the underlying capital employed in the above table.

See through gearing is calculated on an adjusted basis as 136%.

3. Net financing costs

Recognised in the income statement:	2008	2007
	£'000	£'000
Finance income - Interest income on deposits	**(1,877)**	(1,763)
Gross interest expense on loans	**48,789**	47,951
Interest capitalised	**(20,424)**	(16,998)
Loan interest and similar charges	**28,365**	30,953
Exceptional item:		
Bond redemption premium	**-**	46,586
Loan break costs	**478**	3,260
Loan set up costs written off on refinancing	**-**	7,546
Bond and loan redemption costs	**478**	57,392
Changes in fair value of interest rate swaps		
- transferred from equity	**1,586**	(101)
- relating to ineffective hedges	**30,828**	7,573
	32,414	7,472
Finance costs	**61,257**	95,817
Net financing costs	**59,380**	94,054
Recognised directly in equity:		
Changes in fair value of interest rate swaps		
- transferred to income statement	**(1,586)**	101
- relating to effective hedges	**7,604**	1,280
	6,018	1,381

On 18 October 2007 the Group completed the early redemption of the UNITE Finance One plc bonds in order to allow the management of the related portfolio in accordance with the Group's strategy. The costs associated with this early redemption totalled £57.392m as analysed above.

4. Tax credit

Recognised in the income statement:		
	2008	2007
	£'000	£'000
Current tax expense		
Current year	-	-
Income tax on UK rental income arising in overseas group company	**301**	514
Corporation tax in respect of UK rental income arising in overseas group company	**101**	187
Adjustments for prior years	**(378)**	94
	24	795
Deferred tax credit		
Origination and reversal of temporary differences		
- On exceptional bond and loan redemption costs	**-**	(16,070)
- Other	**(12,093)**	(26,298)
Adjustments for prior years	**(442)**	11,921
	(12,535)	(30,447)
Total tax credit in income statement	**(12,511)**	(29,652)

Reconciliation of effective tax rate	**2008**		2007	
	%	**£'000**	%	£'000
Loss before tax	**(100.0)%**	**(128,853)**	(100.0)%	(67,127)
Income tax using the domestic corporation tax rate	**(28.5)%**	**(36,723)**	(30.0)%	(20,138)
Effect of indexation on investment and development property	**0.8%**	**986**	(12.9)%	(8,634)
Non-deductible expenses	**3.4%**	**4,433**	4.5%	3,015
Capital allowances gain crystallised	**-**	**-**	0.8%	550
Share of joint venture profit	**0.5%**	**639**	(1.4)%	(935)
Movement on unprovided deferred tax asset	**19.1%**	**24,613**	3.2%	2,143
Effect of property disposals to USAF	**(4.7)%**	**(6,053)**	(26.2)%	(17,578)
Adjustments for prior years – deferred tax	**(0.3)%**	**(442)**	17.8%	11,921
Adjustments for prior years – current tax	**(0.3)%**	**(378)**	0.1%	94
Rate difference on deferred tax	**0.3%**	**414**	(0.1)%	(90)
	(9.7)%	**(12,511)**	(44.2)%	(29,652)

Deferred tax recognised directly in equity:		
	2008	2007
	£'000	£'000
Relating to hedging reserve movements	**(1,579)**	(761)
Relating to net valuation gains recognised directly in equity	**797**	2,265
	(782)	1,504

5. Investment and development property

2008	**Investment property £'000**	**Investment property under development £'000**	**Completed Property £'000**	**Property under development £'000**	**Total £'000**

Balance at start of year	**597,747**	**102,180**	**-**	**121,936**	**821,863**
Cost capitalised	**4,577**	**37,808**	**-**	**146,833**	**189,218**
Interest capitalised	**311**	**3,894**	**-**	**15,011**	**19,216**
Transfer from property under development	**-**	**-**	**87,757**	**(87,757)**	**-**
Transfer from land held for development	**-**	**-**	**-**	**70,297**	**70,297**
Transfer from investment property under development	**88,352**	**(88,352)**	**-**	**-**	**-**
Transfer from work in progress	**-**	**-**	**40,119**	**2,291**	**42,410**
Disposals	**(266,908)**	**-**	**(51,434)**	**-**	**(318,342)**
Net realisable value provision	**-**	**-**	**(1,228)**	**(19,487)**	**(20,715)**
Valuation gains	**15,387**	**3,389**	**-**	**-**	**18,776**
Valuation losses	**(35,766)**	**(5,930)**	**-**	**-**	**(41,696)**
Net valuation losses	**(20,379)**	**(2,541)**	**-**	**-**	**(22,920)**
Balance at end of year	**403,700**	**52,989**	**75,214**	**249,124**	**781,027**
Carrying value of properties on which borrowings are secured	**402,190**	**52,989**	**75,214**	**249,124**	**779,517**

2007	**Investment property £'000**	**Investment property under development £'000**	**Property under development £'000**	**Total £'000**
Balance at start of year	656,969	124,980	12,093	794,042
Acquisitions	77,506	-	-	77,506
Cost capitalised	7,473	108,090	96,668	212,231
Interest capitalised	230	8,512	3,501	12,243
Transfer from investment property	(5,941)	-	5,941	-
Transfer from land held for development	-	-	3,733	3,733
Transfer from investment property under development	146,770	(146,770)	-	-
Disposals	(282,527)	-	-	(282,527)
Valuation gains	28,669	10,224	-	38,893
Valuation losses	(31,402)	(2,856)	-	(34,258)
Net valuation gains	(2,733)	7,368	-	4,635
Balance at end of year	597,747	102,180	121,936	821,863
Carrying value of properties on which borrowings are secured	597,747	95,389	90,606	783,742

Property has been valued on the basis of "market value" as defined in the RICS Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors as determined by CB Richard Ellis Ltd, Jones Lang LaSalle Ltd and Messrs King Sturge, Chartered Surveyors as external valuers. Investment property and investment property under development are carried at fair value. Property under development of £249.124m (2007: £121.936m) and Completed property of £75.214m (2007: £nil) held in current assets are carried at cost, but their fair values have been determined as described below.

Following the formation of the UNITE UK Student Accommodation Fund it is likely that the fund will acquire the Group's future developments. Hence properties acquired with the intention of selling them to the UNITE UK Student Accommodation Fund following completion are now treated as property under development in current assets, (carried at the lower of cost and net realisable value), rather than fixed assets, (carried at fair value). The impact if these properties were carried at fair value rather than cost is as follows:

5. Investment and development property (continued)

2008	Investment property £'000	Investment property under development £'000	Completed property £'000	Property under development £'000	Total £'000
Balance at end of year	**403,700**	**52,989**	**75,214**	**249,124**	**781,027**
Valuation gain not recognised on property held at cost	**-**	**-**	**5,026**	**23,911**	**28,937**
Fair value at end of year	**403,700**	**52,989**	**80,240**	**273,035**	**809,964**

2007	Investment property £'000	Investment property under development £'000	Property under development £'000	Total £'000
Balance at end of year	597,747	102,180	121,936	821,863
Valuation gain not recognised on property held at cost	-	-	38,726	38,726
Fair value at end of year	597,747	102,180	160,662	860,589

Included within investment properties and investment properties under development are the following values in respect of leasehold interests:

2008	Investment property £'000	Investment property under development £'000	Completed property £'000	Property under development £'000	Total £'000
Valuation and net book value					
Long leasehold	**46,170**	**-**	**-**	-	**46,170**
Short leasehold	**10,660**	**-**	**-**	-	**10,660**
	56,830	**-**	**-**	-	**56,830**

2007	Investment property £'000	Investment property under development £'000	Property under development £'000	Total £'000
Valuation and net book value				
Long leasehold	105,230	32,320	-	137,550
Short leasehold	11,920	-	-	11,920
	117,150	32,320	-	149,470

The total interest included in investment and development properties at 31 December 2008 was £40.772m (2007: £29.197m). Total internal costs relating to manufacturing, construction and development costs of group properties, which have been deducted in arriving at the revaluation uplifts recognised on these properties, amount to £56.119m at 31 December 2008 (2007: £52.271m).

6. Investments in subsidiaries and joint ventures

Group

	Joint Venture Undertakings	
	2008	2007
	£'000	£'000
Share of profit:		
- investment segment result	**6,654**	5,921
- overheads	**(293)**	(632)
- net revaluation (loss) / gains	**(10,360)**	5,179
- current tax	**-**	(1,438)
- deferred tax	**244**	1,843
- share of Landsbanki provision	**(6,120)**	-
- other	**(110)**	105
	(9,985)	10,978
Share of items recognised directly in reserves:		
- valuation gains (net of deferred tax)	**1,519**	5,483
- movements in effective hedges (net of deferred tax)	**(9,761)**	(1,423)
Additions	**18,317**	6,797
Disposals	**(2,924)**	(28,575)
Profit adjustment related to trading with joint venture	**(2,402)**	(3,220)
Distributions received	**(5,258)**	(10,314)
	(10,494)	(20,274)
At start of year	**86,013**	106,287
At end of year	**75,519**	86,013

During the year USAF Feeder (Guernsey) Ltd was formed, as a subsidiary of the Group, to invest in the UNITE UK Student Accommodation Fund. Some of the Group's unit holding in the fund was transferred to this company. In addition, USAF Feeder (Guernsey) Ltd issued a further £16m of share capital to an investor, the proceeds of which were used to purchase new units in the fund. The investor's interest in USAF Feeder (Guernsey) Ltd is accounted for as a minority interest in the consolidated accounts. Note 2(d) Segment assets and liabilities (see through basis) shows details of the value of the minority interest's investment.

6. Investments in subsidiaries and joint ventures (continued)

The Group's interests in joint ventures are held at a carrying value equivalent to its share of the underlying net asset value of the undertaking. The Group's share of joint ventures' results are as follows:

	2008 Profit £'000	**2008 Gains/(losses) recognised directly in equity £'000**	2007 Profit £'000	2007 Gains/(losses) recognised directly in equity £'000
Capital Cities JV	**3,093**	**(5,082)**	4,254	4,584
Student Village JV's				
- LDC (Project 110) Ltd	**(2,350)**	**-**	(846)	(296)
- LDC (Project 170) Ltd	**108**	**(987)**	503	-
UNITE UK Student Accommodation Fund	**(10,836)**	**(2,173)**	7,067	(228)
	(9,985)	**(8,242)**	10,978	4,060

The UNITE UK Student Accommodation Fund is the joint venture formed with a consortium of investors in December 2006. This joint venture takes the form of a Jersey unit trust that controls a number of English limited partnerships in which the general partners are USAF GP No.1 Ltd, USAF GP No.4 Ltd, USAF GP No.5 Ltd, USAF GP No.6 Ltd, USAF GP No.8 and USAF GP No.10 Ltd, companies incorporated in England and Wales.

The agreements integral to the above, which include the Group assuming delegated responsibility for property and asset management of the venture, result in the Group having joint control of these entities with the investors.

The Group receives management fees and is entitled to a promote fee if the venture outperforms certain benchmarks. This promote fee takes the form of increasing the Group's capital participation in the joint venture. The impact of these fees on the Group results is summarised below.

During the year the Group sold a further 13 (2007: 15) properties into the joint venture for £171.915m (2007: £252.574m), this includes £64.492m (2007: £nil) of completed property held as stock. The investment property previously held in the Student Village JV LDC (Project 170) Ltd was sold to the UNITE UK Student Accommodation Fund in October 2007 for £49.500m. The profits relating to these sales and associated disposal costs are set out below:

	Profit and loss 2008 £'000	Profit and loss 2007 £'000
Included in turnover	**61,890**	-
Included in cost of sales	**(51,481)**	-
Profit relating to the sale of investment properties to USAF pre disposal costs	**(5,080)**	1,034
Disposal costs	**(268)**	(1,341)
Goodwill impairment	**(64)**	(542)
Profit / (loss) on disposal of property	**4,997**	(849)

The goodwill impairment charged against the loss on disposal relates to synergistic benefits associated with the disposed properties.

During the year the Group increased it's interest in the UNITE UK Student Accommodation Fund from 20.1% to 22.2%. Some of this holding represents the beneficial interest of the minority; the ordinary shareholders of The UNITE Group Plc are beneficially interested in 18.5% of the fund (2007: 20.1%).

6. Investments in subsidiaries and joint ventures (continued)

The Capital Cities JV is the joint venture formed with GIC Real Estate Pte Ltd, a real estate investment vehicle of the Government of Singapore, to develop and operate student accommodation in the capital cities of London, Edinburgh, Dublin and Belfast, in which the Group owns a 30% equity share. This joint venture takes the form of a English limited partnership in which the general partner is LDC (Capital Cities) Ltd, a company incorporated in England and Wales.

The agreements integral to the above, which include the Group assuming primary responsibility for development, property and asset management of the venture, result in the Group having joint control of this entity in conjunction with the majority partner.

The Group receives management fees from the joint venture and recharges other costs in relation to the investment property under development. The impact of these fees on the Group results is summarised below.

The Group's joint venture in student villages with Lehman Brothers is held in LDC (Project 110) Ltd and LDC (Project 170) Ltd, companies incorporated in England and Wales, whose principal activity is the construction and letting of investment property. Under the Articles of Association, the Group cannot exercise control over these companies and its interest amounts to a 51% share of the profits and assets of the joint venture, although it holds a 75% interest in the ordinary shares. Under the articles of LDC (Project 170) Ltd, the Group is additionally entitled to the first £1.250m of net assets on any winding up of the company. The impact of amounts charged to LDC (Project 110) Ltd and LDC (Project 170) Ltd in respect of fees and construction costs on the Groups results is summarised below.

On 3 October 2007 the investment property previously held in LDC (Project 170) Ltd was sold to UNITE Student Accommodation Fund for £49.500m. Following this disposal outstanding shareholder loans and the Group's additional entitlement to the first £1.250m of the net assets of the company were settled. A promote fee was also paid to the Group by LDC (Project 170) Ltd as detailed below.

The impact of joint venture management and promote fees and development sales on the Group results is as follows:

	2008	2007
	£'000	£'000
Management Fees		
UNITE UK Student Accommodation Fund	**2,758**	2,332
Capital Cities JV	**2,479**	1,840
	5,237	4,172
Promote Fees		
UNITE UK Student Accommodation Fund	**-**	1,499
Student Village JV's		
- LDC (Project 170) Ltd	**-**	1,466
	-	2,965
Development Sales		
Capital Cities JV	**698**	1,771
Student Village JV's		
- LDC (Project 110) Ltd	**42**	424
- LDC (Project 170) Ltd	**-**	-
	740	2,195

6. Investments in subsidiaries and joint ventures (continued)

Summary financial information on joint ventures –

	100%		UNITE share	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000
UNITE UK Student Accommodation Fund				
Non-current assets	**897,126**	834,544		
Current assets	**24,713**	22,175		
Current liabilities	**(22,100)**	(17,992)		
Non-current liabilities	**(487,043)**	(392,585)		
Net assets/equity	**412,696**	446,142		
Represented by:				
Net assets attributable to the USAF fund unitholders	**371,033**	400,925	**50,526**	44,646
Direct interest in partnership reserves	**(10,497)**	(501)	**(10,497)**	(501)
Total equity / joint venture carrying value	**360,536**	400,424	**40,029**	44,145
Minority partnership loans (classified as debt)	**52,160**	45,718	**51,913**	45,645
Underlying capital employed	**412,696**	446,142	**91,942**	89,790
(Loss) / profit for the period	**(64,521)**	16,299		
Capital Cities joint venture				
Non-current assets	**366,848**	343,990		
Current assets	**8,573**	12,831		
Current liabilities	**(10,884)**	(17,872)		
Non-current liabilities	**(249,963)**	(213,847)		
Net assets/equity	**114,574**	125,102	**34,372**	37,531
Profit for the period	**10,310**	14,180		
Student Village JV - LDC (Project 110) Limited				
Non-current assets	**56,026**	63,600		
Current assets	**2,274**	2,787		
Current liabilities	**(7,459)**	(6,100)		
Non-current liabilities	**(49,665)**	(52,463)		
Net assets/equity	**1,176**	7,824	**588**	3,912
Loss for the period	**(4,700)**	(1,693)		
Student Village JV - LDC (Project 170) Limited				
Non-current assets	**-**	-		
Current assets	**5,123**	5,951		
Current liabilities	**(4,063)**	(5,101)		
Non-current liabilities	**-**	-		
Net assets/equity	**1,060**	850	**530**	425
Profit for the period	**216**	1,007		
Investments in joint ventures per balance sheet			**75,519**	86,013

7. Inventories

	2008 £'000	2007 £'000
Land held for development	**5,000**	91,324
Work in progress	**3,664**	12,360

Raw materials and consumables	**1,647**	873
	10,311	104,557

The land held for development has been written down by £10.774m to market value during the year (2007: £nil).

Security has been given by way of a first charge over the land held for development to secure the Group's borrowings.

8. Borrowings and financial derivatives

	2008 £'000	2007 £'000
Non-current		
Bank and other loans	**507,739**	354,917
Interest rate swaps	**44,401**	8,803
	552,140	363,720
Current		
Overdrafts	**25,077**	2,799
Bank and other loans	**108,424**	237,400
Interest rate swaps	**3,375**	-
Finance lease liabilities	**-**	35
	136,876	240,234

Maturity analysis

Financial liabilities fall due as follows:

Group

2008	**Carrying value £'000**	**Within 1 year £'000**	**1-2 years £'000**	**2-5 years £'000**	**More than 5 years £'000**
Non derivative financial liabilities					
Bank and other loans	**616,163**	**108,424**	**1,252**	**257,269**	**249,218**
Bank overdrafts	**25,077**	**25,077**	**-**	**-**	**-**
Trade and other payables	**80,544**	**80,544**	**-**	**-**	**-**
Derivative financial liabilities					
Interest rate swaps	**47,776**	**3,375**	**-**	**1,478**	**42,923**

8. Borrowings and financial derivatives (continued)

2007	Carrying value £'000	Within 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Non derivative financial liabilities					
Bank and other loans	592,317	237,400	95,898	156,768	102,251
Finance lease liabilities	35	35	-	-	-
Bank overdrafts	2,799	2,799	-	-	-
Trade and other payables	117,801	117,801	-	-	-
Derivative financial liabilities					
Interest rate swaps	8,803	-	32	-	8,771

The maturity of the Group's obligations under hire purchase agreements is as follows:

	Minimum Lease Payments 2008 £'000	**Interest 2008 £'000**	**Principal 2008 £'000**	Minimum Lease Payments 2007 £'000	Interest 2007 £'000	Principal 2007 £'000
Within one year	**-**	**-**	**-**	35	-	35
In the second to fifth years	**-**	**-**	**-**	-	-	-
	-	**-**	**-**	35	-	35

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31 December 2008 in respect of which all conditions precedent had been met at that date were as follows:

	2008 £'000	2007 £'000
Expiring in one year or less		
Build facilities	**-**	13
Other facilities	**56**	20,000
	56	20,013

In addition, there are further committed facilities available where not all conditions precedent have yet been met amounting to £268m (2007: £330m). Of this amount £8m (2007: £49m) remains available only for completed properties and £20m (2007: £50m) only for development properties, the remaining £240m (2007: £231m) is available for both.

Security for the Group's property development and investment financing is by way of first charges over the properties to which they relate. In certain instances, cross guarantees are provided within the Group.

The Company has guaranteed £311.435m of its subsidiary companies borrowings (2007: £164.523m). The guarantees have been entered into in the normal course of business. A liability would only arise in the event of the subsidiary failing to fulfil its contractual obligations. These guarantees are accounted for in accordance with IFRS 4.

8. Borrowings and financial derivatives (continued)

The Group's gearing ratios are calculated as follows:

	Note	2008 £'000	2007 £'000
Net debt per balance sheet:			
Cash and cash equivalents		**111,845**	56,316
Current borrowings	*8*	**(133,501)**	(240,234)
Non-current borrowings	*8*	**(507,739)**	(354,917)
Interest rate swaps liabilities	*8*	**(47,776)**	(8,803)
Interest rate swaps assets		**-**	1,103
		(577,171)	(546,535)
Mark to market of interest rate swaps		**46,668**	6,828
Adjusted net debt		**(530,503)**	(539,707)
Basic net asset value		**320,166**	450,093
Adjusted net asset value (note 2(d))		**405,930**	509,562
Basic gearing		**180%**	121%
Adjusted gearing		**131%**	106%

9. Deferred tax liabilities

Recognised deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000	**2008 £'000**	2007 £'000
Investment property	**-**	-	**9,988**	11,563	**9,988**	11,563
Investment property under development	**-**	-	**(156)**	5,182	**(156)**	5,182
Development property held as stock	**(4,883)**	(457)	**-**	-	**(4,883)**	(457)
Property, plant and machinery	**-**	(390)	**282**	-	**282**	(390)
Investments in joint ventures	**-**	-	**7,504**	7,465	**7,504**	7,465
Financial instruments	**(12,735)**	(2,048)	**-**	-	**(12,735)**	(2,048)
Financial instruments relating to investments in joint ventures	**-**	(199)	**-**	-	**-**	(199)
Tax value of losses carried forward	**-**	(8,243)	**-**	-	**-**	(8,243)
Tax (assets) / liabilities	**(17,618)**	(11,337)	**17,618**	24,210	**-**	12,873
Set off of tax	**17,618**	11,337	**(17,618)**	(11,337)	**-**	-
Net tax liabilities	**-**	-	**-**	12,873	**-**	12,873

At 31 December 2008 the Group has calculated a potential deferred tax asset of £24.613m (2007: £nil), however, due to the uncertainty of future taxable profits against which this asset could be realised, it is not appropriate to recognise this asset in the financial statements.

9. Deferred tax liabilities (continued)

Movement in temporary timing differences during the year:

Year ended 31 December 2008

	At 31 Dec 2007 £'000	Transfers £'000	Recognised in income £'000	Recognised in equity £'000	**At 31 Dec 2008 £'000**
Investment property	11,563	5,067	(6,642)	-	**9,988**
Investment property under development	5,182	(5,067)	(858)	587	**(156)**
Development property held as stock	(457)	-	(4,426)	-	**(4,883)**
Property, plant and equipment	(390)	-	672	-	**282**
Investments in joint ventures	7,266	-	(171)	409	**7,504**
Financial instruments	(2,048)	-	(8,909)	(1,778)	**(12,735)**
Tax value of losses carried forward	(8,243)	-	8,243	-	**-**
	12,873	-	(12,091)	(782)	**-**

Year ended 31 December 2007

	At 31 Dec 2006 £'000	Transfers £'000	Recognised in income £'000	Recognised in equity £'000	**At 31 Dec 2007 £'000**
Investment property	27,103	3,140	(18,680)	-	**11,563**
Investment property under development	7,254	(3,663)	-	1,591	**5,182**
Development property held as stock	-	523	(980)	-	**(457)**
Property, plant and equipment	(449)	-	59	-	**(390)**
Investments in joint ventures	9,741	-	(2,801)	326	**7,266**
Financial instruments	129	-	(1,763)	(414)	**(2,048)**
Tax value of losses carried forward	(1,962)	-	(6,281)	-	**(8,243)**
	41,816	-	(30,446)	1,503	**12,873**

10. Capital and reserves

	Issued share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Revaluation reserve £'000	Hedging reserve £'000	Total £'000
At 1 January 2007	30,763	173,008	40,177	218,035	18,053	1,151	481,187
Loss for the year	-	-	-	(37,475)	-	-	(37,475)
Investment property under development							
- revaluation	-	-	-	-	7,368	-	7,368
- deferred tax	-	-	-	-	(1,591)	-	(1,591)
Other property - revaluation	-	-	-	-	159	-	159
Effective hedges - movements	-	-	-	-	-	(1,280)	(1,280)
- deferred tax	-	-	-	-	-	384	384
Gains on hedging instruments transferred to income statement	-	-	-	-	-	(101)	(101)
Deferred tax on gains transferred	-	-	-	-	-	30	30
Share of joint venture valuation gain (net of related tax)	-	-	-	-	4,810	-	4,810
Share of joint venture movements in effective hedges (net of related tax)	-	-	-	-	-	(1,076)	(1,076)
Transfer on completion or disposal of investment property	-	-	-	11,155	(11,155)	-	-
Shares issued	111	1,325	-	-	-	-	1,436
Fair value of share based payments	-	-	-	411	-	-	411
Own shares acquired	-	-	-	(1,096)	-	-	(1,096)
Dividends to shareholders	-	-	-	(3,073)	-	-	(3,073)
At 31 December 2007 and 1 January 2008	**30,874**	**174,333**	**40,177**	**187,957**	**17,644**	**(892)**	**450,093**
Loss for the year	-	-	-	(116,342)	-	-	(116,342)
Investment property under development							
- revaluation	-	-	-	-	2,097	-	2,097
- deferred tax	-	-	-	-	(587)	-	(587)
Effective hedges - movements	-	-	-	-	-	(7,604)	(7,604)
- deferred tax	-	-	-	-	-	1,779	1,779
Gains on hedging instruments transferred to income statement	-	-	-	-	-	1,586	1,586
Deferred tax on gains transferred	-	-	-	-	-	(444)	(444)
Share of joint venture valuation gain (net of related tax)	-	-	-	-	1,309	-	1,309
Share of joint venture movements in effective hedges (net of related tax)	-	-	-	-	-	(9,960)	(9,960)
Transfer on completion or disposal of investment property	-	-	-	18,658	(18,658)	-	-
Shares issued	205	2,208	-	-	-	-	2,413
Fair value of share based payments	-	-	-	308	-	-	308
Own shares acquired	-	-	-	(2,192)	-	-	(2,192)
Dividends to shareholders	-	-	-	(3,090)	-	-	(3,090)
Transfer to minority interest	-	-	-	400	-	400	800
At 31 December 2008	**31,079**	**176,541**	**40,177**	**85,699**	**1,805**	**(15,135)**	**320,166**

10. Capital and reserves (continued)

Share capital

	Number of Ordinary shares	
	2008	2007
Authorised shares of 25p each	**155,000,000**	155,000,000
Issued at start of year – fully paid	**123,495,242**	123,050,658
Shares issued to long term incentive plan	**707,612**	157,662
Share options exercised	**112,987**	286,922
Issued at end of year - fully paid	**124,315,841**	123,495,242

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Merger reserve

This reserve represents the excess of the fair value over nominal value of shares issued as part consideration for assets acquired.

Revaluation reserve

The revaluation reserve represents revaluations relating to investment properties under development and land and buildings included in property, plant and equipment less any related deferred tax.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments where the hedged transaction has not yet occurred, less any related deferred tax.

Dividends

The following dividends were declared and paid during the year:

	2008	2007
	£'000	£'000
Final dividend for 2007 of 1.67p (2006: 1.67p) per 25p ordinary share	**2,061**	2,051
Interim dividend of 0.83p (2007: 0.83p) per 25p ordinary share	**1,029**	1,022
	3,090	3,073

After the balance sheet date the following dividends were proposed by the directors, for which no provision has been made:

	2008	2007
	£'000	£'000
Final dividend proposed of nil (2007: 1.67p) per 25p ordinary share	**-**	2,062

11. Earnings per share and net asset value per share

The calculations of basic and adjusted earnings per share for the Group are as follows:

	Note	2008 £'000	2007 £'000
Earnings			
Basic (and diluted)		**(115,942)**	(37,475)
Adjusted	2(b)	**(44,760)**	(62,938)
Weighted average number of shares (thousands)			
Basic		**124,095**	123,239
Dilutive potential ordinary shares (share options)		**303**	1,257
Diluted		**124,398**	124,496
Earnings per share (pence)			
Basic		**(93.4)**	(30.4)
Diluted		**(93.4)**	(30.4)
Adjusted		**(36.0)**	(50.6)

Movements in the weighted average number of shares have resulted from the issue of shares arising from the employee share based payment schemes.

The calculations of basic, adjusted and diluted net asset value per share for the Group are as follows:

	Note	2008 £'000	2007 £'000
Net assets attributable to ordinary shareholders			
Basic		**320,166**	450,093
Adjusted pre dilution	2(d)	**405,930**	509,562
Outstanding share options		**2,985**	3,550
Adjusted diluted		**408,915**	513,112
Number of shares (thousands)			
Basic		**124,316**	123,495
Outstanding share options		**1,560**	1,670
Diluted		**125,876**	125,165
Net asset value per share (pence)			
Basic		**258**	364
Adjusted pre dilution		**327**	413
Adjusted diluted		**325**	410

12. Financial Instruments

The Group holds or issues financial instruments for two main purposes:

- To finance the development and subsequent retention of investment properties;
- To manage the interest rate risks arising from its operations and from its sources of finance.

In addition, various financial instruments – such as trade debtors and trade creditors – arise directly from the Group's operations. All financial instruments are sterling denominated. The Group does not trade in financial instruments or derivatives.

The Group finances its development and investment activities through a mixture of retained earnings, borrowings and fresh issues of equity. The Group borrows from major banking institutions primarily at fixed rates of interest, using derivatives where appropriate to generate the desired effective interest rate basis. The derivatives used for this purpose are interest rate swaps.

The main risks arising from the Group's financial instruments are interest rate risk and market price risk. The Board reviews and agrees policies for managing each of these risks, they are discussed in the Business Review and are summarised below.

Interest rate risk

The Group's exposure to interest rate fluctuations on its borrowings and deposits are managed by using interest rate swaps and in some cases, simple fixed rate borrowing. The Group's policy is separated into three areas:

(i) Development finance

After taking account of interest rate swaps, just under half of the Group's development borrowing at 31 December 2008 is fixed, which is a significant increase over 2007. The Group will continue to review the level of its hedging in the light of the current low interest rate environment.

(ii) Refinancing risk

The Group's principal exposure to interest rate fluctuations during development relates to movements in longer term interest rates, which affect the quantum of debt the property income is capable of servicing at completion. Significant adverse movements undermine the Group's capital recycling strategy.

The Group manages this risk via a programme of pre-hedging, through the use of forward starting interest rate swaps. At 31 December 2008 approximately £65.4m (2007: £154.0m) of the Group's anticipated refinancing was hedged for an average term of 5.7 years (2007: 4 years).

(iii) Medium and long term finance

The Group holds its medium and long-term bank finance under floating rate arrangements. The majority of this debt is hedged through the use of interest rate swap agreements, although not all these arrangements qualify for hedge accounting under IAS 39. During 2008, the Group's policy has been to hedge in excess of 80% of the Group's exposure for terms of approximately 2-15 years.

At 31 December 2008, after taking account of interest rate swaps, 87% (2007: 89%) of the Group's medium and long-term investment borrowing was held at fixed rates. This is fixed at an average rate of 6.21% (2007: 6.74%) for an average period of 4 years (2007: 6 years).

Liquidity risk

With respect to its development activities, the directors have adopted a policy whereby the Group injects substantially the full amount of equity required for each development before drawing debt under associated facilities. In this way, the funding requirements of each scheme are substantially "ring fenced" and secured at the outset of works.

Some of the Group's banking facilities contain loan to value covenants, which if property values fall far enough may require some debt to be repaid. This position is closely monitored on a regular basis and the Group develops strategies that will minimise the impact of any such repayments on other operations.

Some of the Group's medium-term banking facilities are revolving, allowing the Group to apply its cash surpluses in the temporary reduction of its debt obligations.

12. Financial Instruments (continued)

Market risk

The Group's primary market risk is interest rate exposure. It monitors this exposure through a process of sensitivity analysis, estimating the effect on operating cash flow over various periods of a range of possible changes in interest rates.

At 31 December 2008, it is estimated that a general increase of one percentage point in interest rates would decrease the Group's profit before tax by approximately £0.9m (2007: £1.3m). Effective and ineffective interest rate swaps have been included in this calculation.

The Group's policy is to accept a degree of interest rate risk, provided the effects of the various potential changes in rates remain within certain prescribed parameters.

Interest rate swaps maturity	**2008 Nominal amount hedged £'000**	**2008 Applicable interest rates £'000**	2007 Nominal amount hedged £'000	2007 Applicable interest rates £'000
Within 1 year	**158,205**	**3.36% - 4.98%**	26,000	5.0%
1 – 2 years	**-**	**-**	105,361	3.1% - 5.4%
2 – 5 years	**18,244**	**4.79% - 5.15%**	-	-
More than 5 years	**364,551**	**5.12% - 5.63%**	364,620	5.1% - 5.6%

The Group intends to dispose of certain property assets; at the present time conditions in the banking markets are very volatile and as a result these sales could be at risk as a result of potential purchaser's inability to raise any necessary debt finance.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

	2008 £'000	2007 £'000
Cash	**111,845**	56,316
Other trade receivables	**20,577**	14,900
Interest rate swaps	**-**	1,103
Amounts due by joint ventures (excluding loans that are capital in nature)	**13,050**	11,711
	145,472	84,030

Other trade receivables represent amounts due from the Group's external customers as follows:

2008			Academic year	
	Total £'000	2008/09 £'000	2007/08 £'000	Prior years £'000
Commercial tenants	**7,003**	4,100	1,514	1,389
Individual tenants	**4,359**	1,371	2,988	-
	11,362	5,471	4,502	1,389
Manufacturing debtors	**10,896**	10,896	-	-
Provisions carried	**(1,681)**	(652)	(671)	(358)
	20,577	15,715	3,831	1,031

12. Financial Instruments (continued)

2007	Total £'000	Academic year 2007/08 £'000	2006/07 £'000	Prior years £'000
Commercial tenants	**4,052**	3,440	612	-
Individual tenants	**7,047**	5,429	1,618	-
	11,099	8,869	2,230	-
Manufacturing debtors	**4,945**	4,945	-	-
Provisions carried	**(1,144)**	(665)	(479)	-
	14,900	13,149	1,751	-

The Group holds £8.450m (2007: £8.157m) in tenant deposits as collateral on the above debts.

Effective interest rates

Interest rate swaps with fair value liabilities of £47.776m (2007: £7.700m) and remaining lives of 1 to 15 years have been accounted for in creditors and debtors.

The Group's overall average cost of debt as at 31 December 2008 is 5.7% (2007: 7.0%).

Fair value of financial assets and liabilities

The fair value of the Group's financial assets and liabilities do not differ from their book values other than as shown below:

	2008 Book value £'000	**2008 Fair value £'000**	2007 Book value £'000	2007 Fair value £'000
Fixed rate loans	**(20,900)**	**(23,211)**	-	-

Fair values have been calculated by discounting future cash flows at prevailing interest rates.

Capital management

The Group's financing strategy is based around its developer and co-investing manager business model, which allows capital from stabilised developments sold to UNITE UK Student Accommodation Fund to be recycled into new schemes. The Board has adopted this business model to achieve an appropriate balance between the capital deployed in mature, lower return investments and higher yielding development opportunities.

The Board regularly reviews the capital available to the business with a view to ensuring that the Group has an appropriate capital base to maintain investor, creditor and market confidence and sustain the future development of the business.

The Board has processes in place to ensure capital is only committed to new schemes, for site purchase or build, when there is sufficient capital available. These processes also ensure that capital is allocated to the opportunities offering the greatest return.

The Group regards its available capital as the amount of its adjusted net assets, as this excludes deferred tax and the fair value of financial instruments, which will not be crystallised in the normal course of trade and includes all property assets at market value. At 31 December 2008 capital on this basis amounted to £406m (2007: £510m).