



1 March 2012

THE UNITE GROUP PLC
("UNITE" / "Group" / "Company")

FULL YEAR RESULTS FOR THE YEAR TO 31 DECEMBER 2011

**UNITE REPORTS STRONG GROWTH IN RECURRING PROFITS AND ADJUSTED NAV
DRIVEN BY HIGH OCCUPANCY AND RENTAL GROWTH**

The UNITE Group plc, the UK's leading developer and manager of student accommodation, today announces its full year results for the year to 31 December 2011.

Strong financial performance

- Recurring profits from operations (Net Portfolio Contribution) increased to £11 million (2010: £4 million);
- Adjusted, diluted NAV per share up 8% to 318 pence (2010: 295 pence), driven by rental growth and development activity and after a £21 million (13pps) charge relating to UNITE Modular Solutions (UMS);
- Like for like growth in Net Operating Income of 3.1%, delivering capital growth of £23 million (14pps);
- Development profits of £33 million (20pps) secured as a result of strong progress in site acquisition, construction and planning consents;
- Dividend reinstated.

Positive outlook

- Demand for 2012/13 University places far outstrips supply. Likely shortfall of at least 160,000 places;
- Reservations for 2012/13 solid at 59% with enquiry levels healthy and supportive of rental growth of 3-4% for the full year;
- Development pipeline progressing well and on track to deliver a further £40 million of NAV uplift by December 2014;
- Rental growth, new openings and cost savings underpin prospects for further growth in NPC and NAV in 2012;
- Further accretive development opportunities will be pursued, subject to prudent management of the Group's financial position.

Good progress on financing initiatives and asset disposals

- £234 million of senior debt facilities arranged in year on behalf of UNITE, USAF and joint ventures;
- £82 million facility with RBS extended to 2015 since year end (previous maturity 2013) and encouraging progress with other 2013 maturities;
- USV stake acquired from Lehman Brothers in 2012 at a 31% discount to NAV and good progress made with other joint venture partners;
- £47 million of asset sales concluded since June 2011 with a further £14 million under offer, all at prices supportive of December valuations. £21 million of these sales undertaken on behalf of USAF creating acquisition capacity for USAF later this year. Target of £100 million to £150 million of disposals by December 2012 remains.

UMS facility to close

- £21 million charge relating to trading and a provision to cover costs as a result of decision to cease trading.

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

"2011 was a strong year for UNITE. High occupancy across the portfolio, solid rental growth and effective cost management drove a step change in the profitability of our core business. Meanwhile our decision to close our modular manufacturing unit leaves a more focused business and continued success in our forward development pipeline and investment in our operating platform have laid the foundations for further growth.

"Demand for UK University places remains extremely strong and with little new accommodation being built, the outlook for continued growth in rents, values and profitability is positive."

Presentation

There will be a presentation for analysts this morning at 11:15am. The live webcast will be available at www.unite-group.co.uk. Please contact FTI Consulting for further details.

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Chairman's Statement

UNITE enjoyed a strong year in 2011 across its core business. The combination of strong rental growth, 99% occupancy and effective control of costs drove a significant increase in Net Portfolio Contribution (NPC) to £11 million from £4 million in 2010 and has enabled us to reinstate a dividend at 1.75 pence per share for the full year. We also laid the foundations for further growth in NPC in 2012; new openings, continued rental growth, further cost savings and a focus on London should all help ensure recurring profits and cash flows grow strongly again in 2012.

Rental growth and a strong performance in our development business contributed to an 8% increase in adjusted NAV per share to 318 pence across the year and, despite broader economic volatility, yields across our portfolio remained stable at 6.6%. Development activity and rental growth will continue to underpin NAV growth in future years and this growth would have been even stronger in 2011 had we not recorded a charge of £21 million (13 pence per share) in relation to UNITE Modular Solutions in our 2011 accounts for trading losses and costs associated with our decision to cease trading. Whilst it is disappointing to incur these costs it does remove a loss making activity for the Group and will result in greater visibility of the underlying profitability and cash generation of our core business. There will be no detrimental impact on the Group's future development pipeline as a result of the UMS closure.

The strong financial performance of the business has been built on important improvements in customer service, both for our student residents and our University partners. Credit for this must go to the dedicated employees throughout our business and I would like to congratulate them and thank them for their impressive performance.

We have remained very focused on managing the Group's financial position over the year. Operationally the business has significantly improved its cash generation and capital commitments to new development activity have been, and will continue to be, carefully managed until the outcome of debt refinancing can be viewed with more certainty. We have also made positive early steps to sell non-core assets as a means of enhancing portfolio quality and controlling leverage. In addition, in January 2012 we successfully bought out Lehman Brothers, our former partner in the UNITE Student Village Joint Venture, at an attractive price and made positive progress with our other partners in establishing longer term strategies for our remaining joint ventures. There is more to be done in 2012 in all these areas but the progress to date has been pleasing.

Unsurprisingly, debt financing has been very much in focus throughout 2011 and again UNITE has enjoyed success in this area. Despite the ongoing constraints on credit, we successfully arranged or extended £234 million of new debt facilities for ourselves, our fund and joint ventures during the year, with a further £82 million arranged since the year end, all of which has resulted in a fall in our overall cost of debt from 6.8% to 5.7%. Of course, this will remain an area of focus during 2012 but our long track record and recent successes give us continued confidence as we move forward.

University applications were also the subject of much media coverage throughout 2011 following the Government's introduction of higher tuition fees from 2012. At the initial closing date in January 2012, applications were down 7.4% overall but despite this fall there will still be over 160,000 unsuccessful applicants this year. In addition, with applications from school leavers only down 2% and demand from non-EU students (a key customer segment for UNITE) up 14%, the fundamentals of longer term demand remain stable. Our reservations and enquiry levels for the forthcoming academic year are solid and we remain confident of delivering rental growth of 3-4% for the full year.

2011 also saw some important changes on the UNITE Board. John Tonkiss, our COO, left the company at the end of December after nearly ten years of committed service and, as part of a wider management reorganisation, we made two internal promotions to the Board with Richard Simpson and Richard Smith joining with effect from January 2012 as Managing Directors of Property and Operations respectively. On the non-executive side, we were pleased to appoint Manjit Wolstenholme as an additional director on 1 December. Manjit will succeed Nigel Hall as Chair of the Audit Committee when he retires from the Board following the AGM in May 2012.

In recent years, Boards and management teams have had to adjust to operating in a much more volatile environment and we do not expect 2012 to be any different. Our focus is very much to build further on the good work of 2011; to keep growing recurring profits and cashflow substantially and sustainably, to pursue attractive development opportunities selectively, and to manage the Group's financial position prudently. With a robust outlook for demand, a clear strategy in place that is being delivered and a strong track record we look forward to 2012 with continued confidence.

Phil White
Chairman
1 March 2012

Business Review

Overview

Our key objectives in 2011 were to grow recurring profits and cash flow, make good progress in the delivery of our targeted development programme and manage the Group's financing effectively in challenging conditions. We made very good progress in all areas.

This progress has ensured positive movements in our key metrics of Net Portfolio Contribution (NPC) and Adjusted Net Asset Value whilst keeping gearing within target levels. The financial performance has been driven by rental growth and high levels of occupancy across the portfolio together with tight financial stewardship of operating and interest expenses and the overall level of gearing in the business.

Financial highlights

	2011	2010
NPC	£11.0m	£4.1m
Profit before tax	£4.7m	£24.2m
NPC per share	6.9p	2.6p
Adjusted EPS (pre UMS)	3.4p	2.7p
NAV (adjusted, fully diluted)	318pps	295pps
Gearing (adjusted)	84%	71%
See through loan to value	54%	54%
Operating cashflow	£13.8m	£0.6m
Full year dividend	1.75pps	-
Occupancy for current academic year	99%	97%
Reservations for next academic year at 28 February	59%	62%
Net operating income growth (like-for-like)	3.1%	3.1%

As a result of a disappointing performance at UMS, a reduction in the Group's own development pipeline and a challenging outlook for the construction sector generally we have taken the decision to close the facility once production has finished at the end of March. The resultant provision, together with in year trading losses, has resulted in a reduction in NAV in 2011 of £21 million. However, a strong performance in all other areas of the business means that this charge has been absorbed within an overall increase in adjusted NAV per share of 8% for the year. Whilst

disappointing, the closure of UMS means that going forward we can focus on our core activities to deliver shareholder returns.

Operations review

Sales, rental growth and profitability

Our continued focus on cash generation and profit growth has delivered a £6.9 million increase in NPC to £11.0 million, up from £4.1 million in 2010 and £0.6 million in 2009. This growth has been driven by achieving 99% occupancy for the 2011/12 academic year and delivering 3.1% like-for-like net operating income growth across the portfolio, together with the impact of opening 1,277 beds in 2011. We have also been able to reduce the average cost of debt from 6.8% to 5.7% contributing to a lower finance charge, down from £46.8 million in 2010 to £43.7 million in 2011.

Net portfolio contribution

	2011	2010
	£m	£m
Total income from managed portfolio	219.5	188.9
UNITE's share of rental income	95.6	89.0
<i>UNITE share of total income</i>	<i>44%</i>	<i>47%</i>
UNITE's share of operating costs	(29.4)	(26.9)
Net operating income (NOI)	66.2	62.1
<i>NOI margin</i>	<i>69.2%</i>	<i>69.8%</i>
Management fee income	10.1	8.4
Operating expenses	(21.6)	(19.6)
Finance costs ¹	(43.7)	(46.8)
Net portfolio contribution	11.0	4.1

¹ Finance costs include net interest of £31.1m and lease payments of £12.6m on sale and leaseback assets

UNITE's share of total income from the managed portfolio has decreased to 44% from 47% as a result of asset sales to USAF at the end of 2010 and the 2010 new openings being held within our OCB joint venture. As we intend to hold a greater share of rental properties going forward we would therefore expect to increase our share of total income in the future.

The Group's NOI margin has fallen from 69.8% to 69.2%, primarily due to ongoing increases in utility prices, although these were partially offset by efficiencies elsewhere. The Group has a target NOI margin of 70% and will continue to seek operating efficiencies to improve performance to this level.

Operating expenses increased to £21.6 million (2010: £19.6 million) as a result of increased performance related costs and some one-off transactional costs. Despite these increases, we have made progress in reducing our key overhead efficiency measure (total operating expenses less management fees as a proportion of UNITE's share of gross property asset value) to 95 basis

points from 110 basis points in 2010 and remain on track to reduce this to 80 basis points by 2014. As announced in September 2011, we have made a number of changes to the senior management structure of the business which will result in annual overhead savings of £2.5 million per annum with effect from 2012.

The Operations business generated net cash of £13.8 million in 2011, thereby covering the dividend payment of £2.8 million five times.

Reservations

As at 28 February 2012, reservations across UNITE's portfolio for the 2012/13 academic year stood at 59% of available rooms compared to 62% at the same point in 2011 but in line with the 2010 level (59%). The movement in reservation levels is largely explained by the one-off rush to secure accommodation in 2011 as applications surged ahead of the rise in tuition fees. Overall enquiry levels are 5% ahead of 2011 and remain healthy.

Operations outlook

Looking forward, the Operations business is well positioned to build on the strong performance in 2011:

- A further 1,822 beds will be opened in September 2012, of which 1,345 will be in London and we will also see the full year NOI impact of the 1,277 beds delivered in 2011.
- Overhead cost saving initiatives have been actioned and the £2.5 million annual benefits have begun to accrue from early 2012.
- The outlook for student numbers in the cities in which we operate remains solid which, together with current reservations, gives us continued confidence in our ability to deliver rental growth of 3-4% in the forthcoming academic year.

Customer service and organisation

Operational performance throughout the year has benefited from a shift of emphasis to ensure empowerment of and ownership by our city teams for the delivery of enhanced customer service. This change has led to a number of improvements including our approach to maintenance, contact centre performance and debt collection. In turn, these efficiencies have led to an improvement in customer satisfaction in every city in which we operate while also delivering financial benefits.

We have made further investments in our people through improved development programmes and our latest employee satisfaction survey puts us in the top quartile for customer service organisations across Europe. We are also proud to have been awarded a Silver Investors in People award for our commitment to learning and development. The tools that we provide our staff with to deliver customer service have also been reviewed and enhanced with a significant investment in the UNITE online booking system, IT network resilience, improved connection speeds at sites and the introduction of improved technology to our contact centre. These investments have underpinned our improvement in customer satisfaction, helping drive cashflows, retention rates and relationships with our University partners.

Customer profile

Each year we carry out a detailed analysis of our customer base, which provides rich data on the demographic and societal trends which are influencing University education and the student experience. This analysis, combined with other pieces of proprietary research, has enabled us to

identify a number of themes and patterns which will influence our longer term strategy, and which underline the resilience of our business model. Some of the major themes include:

- Continued increase in international students staying with UNITE, particularly in London (47% across the UK and 71% in London).
- Clear alignment of UNITE properties with Universities and cities expecting to maintain or increase student numbers next year.
- Students who are starting University in 2012 are generally undeterred by tuition fee increases but have higher expectations of University life, including accommodation.

Full details of our research have been shared with our University partners to facilitate deeper discussions around meeting student expectations, managing volatility in student numbers and developing strategies for the future.

Property review

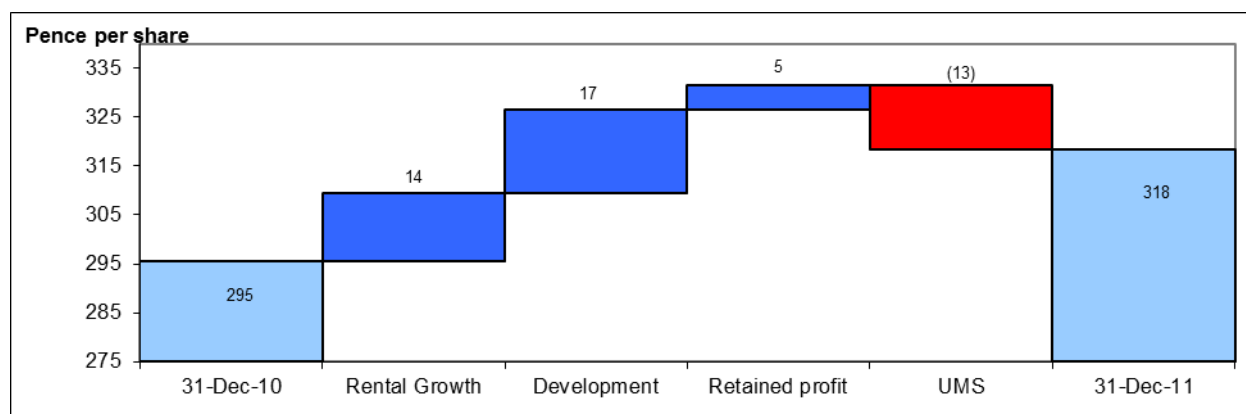
NAV growth

Adjusted NAV increased by 8% to £514 million or 318 pence per share at 31 December 2011, up from £474 million or 295 pence per share at 31 December 2010, driven by rental growth and development profits but offset by trading losses and charges arising from the decision to cease trading at UMS. Reported net asset value, which includes the impact of mark to market adjustments on interest rate swaps and some properties at cost was £405 million at 31 December 2011 (2010: £404 million).

The main factors behind the 23 pence per share growth in adjusted net assets were:-

- The growth in the value of the Group's share of assets as a result of rental growth (+14 pence per share), with average yields remaining flat during 2011.
- The value added to the development portfolio after pre-contract costs (+17 pence per share).
- The positive impact of retained profits (+5 pence per share).
- The impact of the decision to close UMS together with in year trading losses (-13 pence per share).

Adjusted NAV bridge



Looking forward we expect to be able to continue delivering value growth in 2012 and beyond across our portfolio with our London focus driving both rental growth and development profits. At the same time, proceeds from our asset disposal programme will allow us to keep gearing within target levels.

Property portfolio

The valuation of our property portfolio at 31 December 2011, including our share of gross assets held in USAF and joint ventures was £1,206 million (31 December 2010: £1,022 million). The £184 million increase in portfolio value was attributable to £127 million of capital expenditure less disposals and £57 million of valuation movements.

The valuation of the investment portfolio has increased by 3.1% on a like for like basis, reflecting a 4% growth in headline rents offset by a growth in operating costs driven primarily by rising utility costs.

Summary balance sheet

	31 December 2011			31 December 2010		
	Wholly owned £m	Fund/JV £m	Total £m	Wholly owned £m	Fund/JV £m	Total £m
Rental properties	617	400	1,017	493	391	884
Properties under development	189	-	189	138	-	138
	806	400	1,206	631	391	1,022
Debt on rental properties (net of cash)	(394)	(212)	(606)	(268)	(212)	(480)
Debt on properties under development	(40)	-	(40)	(67)	-	(67)
	(434)	(212)	(646)	(335)	(212)	(547)
Other assets / (liabilities)	(40)	(6)	(46)	6	(7)	(1)
Adjusted net assets	332	182	514	302	172	474

We have continued to shift the weighting of our property portfolio towards rental properties with 84% of the portfolio being income generating and 16% being under development. We have also increased our London exposure with 45% of our capital now invested in London assets, up from 41% at December 2010 and from 17% in the five years since December 2006. London remains UNITE's key market by virtue of its size, high concentration of quality Universities, international reputation and significant demand/supply imbalance.

A split of rental properties by ownership and by location is set out in the following table.

UNITE portfolio analysis at 31 December 2011

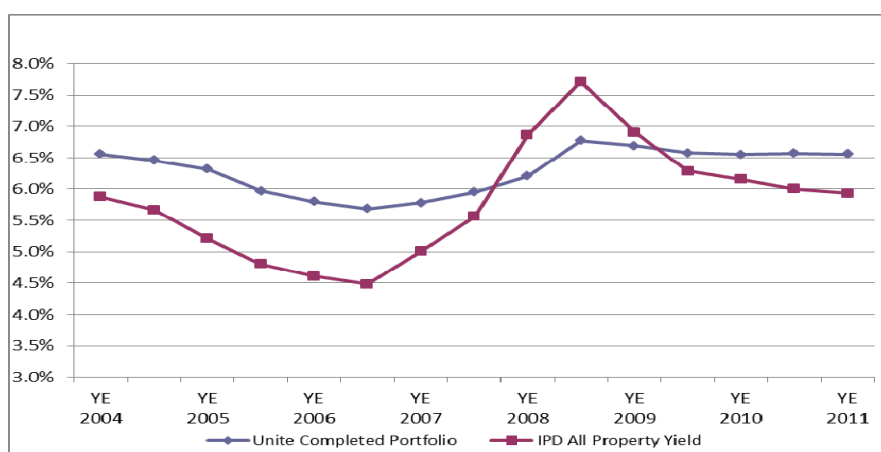
		USAF	UCC	USV	OCB	Wholly Owned	Leased	Total	UNITE %
London	Value (£m)	209	354	-	189	182	-	934	369
London	Beds	1,952	2,426	-	1,128	1,458	260	7,224	37%
Major Provincial	Value (£m)	858	33	58	-	251	-	1,200	430
Major Provincial	Beds	15,900	333	1,378	-	4,439	2,147	24,197	42%
Provincial	Value (£m)	205	-	-	-	185	-	390	218
Provincial	Beds	3,875	-	-	-	3,788	1,785	9,448	21%
Total	Value (£m)	1,273	387	58	189	617	-	2,524	1,017
Total	Beds	21,727	2,759	1,378	1,128	9,685	4,192	40,869	
UNITE Ownership share		16%	30%	50%	25%	100%	100%		
UNITE ownership (£m)		208	116	29	47	617	-	1,017	

Our strong lettings performance in 2011 has meant that the number of stabilising assets has reduced significantly and now amounts to £65 million (2010: £145 million). These assets are all outside London and are expected to stabilise by 2013.

Student accommodation yields

The average net initial yield across the UNITE portfolio was 6.6% at 31 December 2011 having remained at this level now for the last 24 months. The following graph compares the yields on UNITE's completed portfolio and the Investment Property Databank (IPD) All Property Yield over the last few years and demonstrates the relative stability of UNITE's yields during a period of considerable volatility in the wider property market.

UNITE and IPD net initial yields



Whilst average yields have remained flat, this masks some changes at the asset level. During the year, yields improved by 10 to 25 basis points for direct let assets in London and by 25 to 40 basis points for assets with long term income guarantees from Universities. Assets located in weaker University towns have seen yields expand by 10 to 25 basis points. Following these changes, yield ranges across the UNITE portfolio now stand as follows:

Indicative yields

	Direct Let	University Guaranteed
London	6.0 - 6.25%	5.5 – 5.75%
Major Provincial	6.5 – 7.0%	6.0 - 6.25%
Provincial	7.0 – 7.25%	6.5 – 6.75%

Despite ongoing economic uncertainty the student accommodation investment market has remained active with a record amount of transactions estimated at £1.1 billion of capital committed to investment and developments in the sector in the whole of 2011 (source: CBRE). The sector continues to deliver strong returns relative to other asset classes with yields generally ranging between 6% and 7% together with year on year rental growth.

Total returns have continued to outperform other investment property sectors with the Knight Frank Student London index climbing to 15.1% and the Knight Frank Student Regional index demonstrating 10.5% total returns versus the IPD All Property Index of 9%.

Looking forward we expect one of the main determinants of yield direction to be the activities of lending banks in the sector. A number of regional operators in the sector are highly leveraged and the approach of their lenders to addressing this may result in asset sales over the next 12 to 18 months, which could lead to weakness in some regional locations despite ongoing strong occupational performance. This is much less of a factor in London and it therefore seems likely that the yield differential between London and the provinces will widen over 2012 and 2013.

Development activity

UNITE completed and let four new developments in 2011, in Reading, Manchester, Glasgow and London, on time and within budget. Very good progress is being made with our four developments planned to open in 2012, three in London and one in Glasgow as follows:

- Moonraker Point – SouthBank – we have signed a 15 year agreement with King’s College to take 97% of the 671 rooms and construction is progressing in line with plan.
- North Lodge – Tottenham Hale – construction is scheduled for completion in May, and will provide a further 528 rooms close to our existing property, Emily Bowes Court, benefiting from excellent links to central London and a lower rent reflecting the zone 2/3 location. Emily Bowes Court has been fully let since opening in 2009 and we expect North Lodge to be similarly popular.
- Waterloo Road – Waterloo – the 146 room development is on track for opening in September and is attracting interest from a number of prospective University occupiers.
- Nairn Street – Glasgow – following the successful launch of our new property in Thurso Street in 2011, Nairn Street will add a further 477 rooms to cater for Glasgow University students. The West End of Glasgow has a clear shortage of purpose built accommodation, which we expect to underpin demand.

During the year we have also secured planning approvals on the remaining two schemes in our secured development pipeline. Stratford City is a 951 bed development adjacent to the Olympic Park and will provide budget accommodation in a high quality location. Camden is a 563 bed scheme to the north of the Kings Cross regeneration zone. Having originally planned to develop the Camden site for a 2013 opening, we decided to defer the scheme by a year in order to manage our balance sheet prudently during 2012. Both Stratford City and Camden will now open in 2014 and prospective returns are attractive.

Development Pipeline

	Secured beds	Total completed value £m	Total development cost £m	Capex in period £m	Capex remaining £m	Forecast NAV remaining £m	Forecast yield on cost
2012							
London	1,345	172	124	62	24	3	9.3%
Glasgow	477	35	27	13	13	1	9.0%
2014							
London	1,514	166	123	15	108	36	9.1%
Total	3,336	373	274	90	145	40	9.2%

Having obtained planning on all of the schemes in our secured development pipeline and with funding also in place for all projects with the exception of the Stratford City site (which is in progress), the major development risks in our pipeline have now been mitigated. Based on current rents and yields, the completion of these schemes will add £40 million (25 pps) to NAV over the next three years and increase our London weighting to over 50%.

Whilst we have not secured any new developments since May 2011 we continue to pursue a number of prospective opportunities on a very selective basis. Our focus remains in London on sites that meet our objectives of offering a range of product and affordable price points, with excellent transport links a pre-requisite. There are signs that the planning environment is becoming more restrictive, particularly in a number of London boroughs and with the debt markets for development finance remaining constrained by a lack of capacity, we are continuing to see opportunities to secure off market sites in London at or above our target of 9% yield on cost. We are pursuing new development opportunities on a conditional basis to ensure we retain adequate flexibility to manage our balance sheet.

Asset management

During 2011 we completed the refurbishment of seven rental properties, with our share of capital expenditure amounting to £3 million. By upgrading some of our older assets, we are able to enhance the experience for our customers as well as deliver valuation growth as a result of the increased rent levels following refurbishment. In 2011 our share of valuation uplift was £1million, net of capex. This type of activity will be a continuing feature of our approach to asset management in the coming years.

Asset disposals

We have now exchanged contracts or completed on the disposal of a total of £47 million of assets, of which £21 million was on behalf of USAF, £8 million for our UNITE Capital Cities joint venture and £18 million related to wholly owned assets. Disposals were in Manchester, Edinburgh and

London and were all non-core assets due to their size or location. A further £14 million of wholly owned assets are under offer with completion expected by 30 June. The disposals are supportive of valuations at 31 December 2011, with sales proceeds in line with book valuation and at an average yield of 6.5%.

Taking into account the balance sheet sales achieved to date and those currently under offer, a total of £35 million, we remain satisfied that we will achieve our target of £100 million to £150 million asset sales by December 2012. We expect approximately £25 million of these sales to be to USAF, following its successful sale of a small portfolio in early 2012, with the remainder being into the open market. As part of this, we are undertaking work on a number of other non-core assets to ready them for sale later in the year.

Demand and supply outlook

Following the changes to Higher Education funding arrangements, UCAS announced application numbers in January 2012 from students aiming to begin University in September this year, the first cohort facing increased tuition fees of up to £9,000 a year. While the overall reduction in applications of 7.4% was widely anticipated, further analysis of the results shows strong support for UNITE's student demographic and business model.

- Applications from non-EU international students – who make up 31% of UNITE's direct let customer base, and 47% in London – increased by 14%, demonstrating the continued appeal of a UK University qualification and strong global reputation.
- School-leaver applications only reduced by 2%, revealing that the major decline in applications was from mature students who generally live at home while studying.
- The high demand for University is expected to leave over 160,000 students unable to secure a place, and student numbers are therefore likely to remain flat year-on-year.

Individual Universities have received their allocation of places, although these will not be published until the end of March 2012. Through our relationships with most of the UK's stronger Universities, we have been providing input and support at a local level to ensure that we are able to meet any changing accommodation requirements from our University partners.

- The number of first year and international students – the segments that are 'guaranteed' a bed by their University – continue to significantly outstrip the total number of University beds available by more than 2.5:1.
- When the students who are guaranteed accommodation by Universities and those that choose to live at home are removed from the total number of students, the addressable market for UNITE and other corporate accommodation providers in 2011 was 1,020,000 (2010: 976,000).
- Supply of student accommodation remains a key factor with many cities continuing to have a shortfall that leaves many Universities unable to house all their first year and international students.

The majority of future student accommodation construction activity is planned for London where the greatest supply/demand imbalance is to be found and where new stock will be best absorbed. While there remains significant headroom in some regional cities, a lack of capital among Universities and private providers and the challenging planning environment is likely to render more modest future supply activity outside London.

UNITE Modular Solutions

The trading performance of UMS in 2011 was disappointing as it struggled with the complexity of new contracts during the final quarter of the year, thereby reducing factory throughput and consequently absorption rates and earnings performance. As a result, trading generated a £5.5 million loss (c.£3 million negative EBITDA against our expectations of a £2.5 million loss and a neutral EBITDA performance) and we have made a provision for completing loss-making contracts in 2012 amounting to £5.6 million.

At the same time it has also become clear that the Group's need for modular capability is diminishing, with neither of the secured development projects beyond 2012 suitable for modular construction, and that the broader construction market is likely to remain demanding for a considerable time. This poor performance offsets the outperformance achieved in our core business and, together with the challenging market outlook for UMS, means that we cannot justify further investment into the business and are therefore ceasing operations. Production will continue until late March with site based operations continuing until the summer in order to complete remaining contracts.

A further provision has been made in the 2011 accounts as a result of the decision to cease operations, amounting to a £9.9 million charge. The provision covers future lease commitments (£5.4 million), and the write down of the carrying value of UMS assets (£4.5 million). The future cash impact, as at 31 December 2011, of closure and future contract costs is anticipated to be approximately £7 million.

The closure of UMS will not impact on UNITE's development programme. Production for the 2012 modular projects is substantially complete and neither of the 2014 completions are suitable for modular construction in any event. There will be a small negative impact on future NPC as a result of the closure with approximately £1 million of central Group costs previously allocated to UMS now to be absorbed by the Operations business.

Financial performance

Earnings

Net Portfolio Contribution is our measure of the underlying pre-tax profit of the Operations business, which we use to assess our income performance. It includes the pre-tax results of our joint ventures, but excludes capital, development and UMS. We also report on Adjusted Profit which includes costs associated with development activities that are incurred prior to securing a contract and also profits or losses on the sales of trading assets. We have also included one-off restructuring costs incurred as part of the organisational design changes in late 2011 and fair value movements of share options in Adjusted Profit.

A full reconciliation of NPC to Adjusted Profit and our IFRS profit before tax is given in Section 2 of the financial statements.

Profit	2011 £m	2010 £m
Net portfolio contribution	11.0	4.1
Development pre-contract costs	(3.2)	(3.2)
Development trading profits / write-downs	1.2	4.0
Restructuring, share option and other costs	(3.6)	(0.6)
Adjusted profit (pre-UMS)	5.4	4.3
UMS	(21.0)	(4.8)
Valuation gains on investment property	18.4	33.5
Changes in valuation of interest rate swaps	-	(8.0)
Minority interest and tax adjustments	1.9	(0.8)
Profit before tax	4.7	24.2
NPC per share	6.9p	2.6p
Adjusted EPS (pre UMS)	3.4p	2.7p

Cash flow

The Operations business has generated £13.8 million of net cash in 2011 (2010: £0.6 million). Cashflow generation is a key objective for the Group and Operations cash is expected to grow in line with NPC in 2012. At the Group level, our overall cash position reduced by £7 million as a result of the net investment into development activities and the cash impact of UMS's trading losses.

Cashflow

	2011 £m	2010 £m
Operations	13.8	0.6
Property		
Capital expenditure	(137.1)	(81.5)
Disposals	13.7	155.6
Change in debt	93.9	(81.8)
Working capital movements	20.1	(13.5)
UMS	(7.8)	(4.7)
Corporate	(3.6)	0.3
Net cash movement	(7.0)	(25.0)

Dividend

The positive NPC and cash performance in 2011 and the encouraging outlook for the next few years enabled us to reinstate a dividend in 2011. We are recommending a final dividend payment of 1.25 pence per share. Taken together with the interim dividend of 0.5 pence per share, our full year dividend will be 1.75 pence per share (2010: nil), in line with our stated objective to pay a dividend at 25-50% of NPC. Subject to approval at UNITE's Annual General Meeting on 17 May 2012, the recommended final dividend will be paid on 21 May 2012 to shareholders on the register at close of business on 20 April 2012.

Debt financing

Throughout 2011 we have maintained our focus on controlling gearing levels and extending debt maturities and have had some important successes. This will remain a priority throughout 2012. In addition, we have been able to reduce the average cost of debt by taking advantage of the low interest rate swap environment and actively using surplus cash to reduce borrowing costs.

Key debt statistics

	31 Dec 2011	31 Dec 2010
Group net debt (adjusted)	£434m	£335m
Adjusted gearing	84%	71%
See through LTV	54%	54%
Weighted average debt maturity*	3 years	3 years
Weighted average cost of investment debt	5.7%	6.8%
Proportion of investment debt hedged	69%	97%

* Including impact of extension to RBS facility

Adjusted gearing has increased from 71% in December 2010 to 84% at December 2011. Capital expenditure on property in the year of £137 million was offset by the growth in the Group's adjusted NAV of £40 million and disposals of £14 million. We will continue to manage our gearing proactively and are seeking to ensure that the increase in Group net debt arising from capital expenditure and the USV acquisition is substantially offset by the proceeds of our planned disposal programme. As a result our objective is to maintain gearing at around its current level, although due to timing differences it is likely to rise in the first half of 2012 before falling back later in the year.

The weighted average cost of debt on a see through basis fell during the period from 6.8% at 31 December 2010 to 5.7% at 31 December 2011 as a result of the lower proportion of investment debt hedged, using surplus cash balances to manage interest costs, and entering into new swaps at lower rates. At 31 December, we had £35 million of cash being used to pay down revolving facilities that can be redrawn. Taken together with other cash balances, this provides an effective cash balance of £52 million. The proportion of investment debt hedged is likely to increase during 2012, which will contribute to a modest increase in the average cost of debt across the course of the year.

We have continued to work closely with our banking partners and including debt secured since the year end, have arranged a total of £169 million of new or extended senior debt facilities for wholly owned assets and a further £147 million for funds and joint ventures since January 2011. The all-in cost of the facilities includes the cost of existing swaps which have been extended in line with the facility length. The details of the new facilities are outlined in the following table.

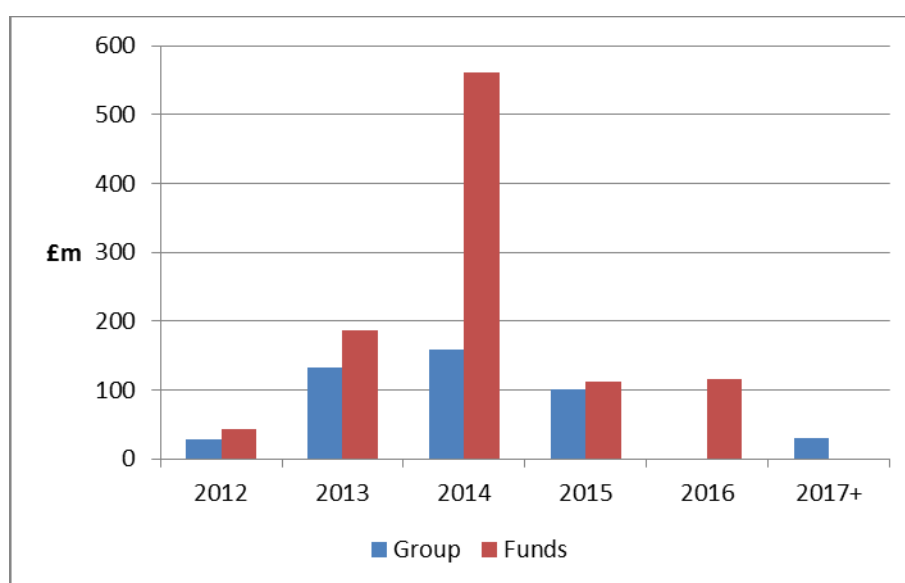
New bank facilities

Bank	Amount	Maturity	All-in cost	Purpose
Wholly Owned				
HSBC	£49m	2016	5.0%	New development facility
HSBC	£38m	2017	5.0%	New facility to acquire and refinance USV
RBS*	£82m	2015	5.7%	Extension of investment and development facility
Funds/JVs				
Lloyds	£115m	2016	5.7%	Extension of investment facility
Nationwide	£32m	2014	4.2%	New investment facility

*Secured in 2012

In addition to the new facilities, we continue to work closely with our funding partners to extend 2013 and 2014 debt maturities and in particular are making very good progress in discussions with insurance companies to secure a new facility that will provide capacity to refinance the Group's remaining debt that matures in 2013.

Debt maturity profiles



We are also in early discussions with lenders about our strategy to extend maturities for debt in USAF and joint ventures, and expect to make further progress extending the maturity of these facilities through 2012.

Covenant headroom

We were in full compliance with all of our borrowing covenants at 31 December 2011. Our banking facilities include loan to value and interest cover covenants that are measured at the portfolio level. We have maintained significant headroom against both measures with the weighted loan to value across facilities, with LTV covenants, of 56% against a weighted covenant of 74% providing headroom for property values to fall by over 20% before a breach would occur. The interest cover ratio is 1.7 against the covenant level of 1.2, again providing significant headroom.

Co-investment vehicles

UNITE acts as co-investing manager of three specialist student accommodation vehicles that we have established, as outlined in the following table.

Funds and joint ventures

Vehicle	Property assets £m	Net Debt £m	Other Assets £m	Adjusted NAV £m	UNITE share of adjusted NAV £m	UNITE share
USAF	1,273	(580)	(14)	679	111	16%
UCC	387	(236)	(6)	145	43	30%
OCB	189	(106)	(4)	79	20	25%

UNITE Student Accommodation Fund (USAF)

USAF has delivered another strong trading performance with a total return of 11.5%, placing it in the top quartile of IPD Specialist Funds. There has been a good level of demand for units traded in the secondary market with £62 million of units traded in the year at a small premium to the Fund's NAV.

Following a ruling of the Icelandic Supreme Court in October, USAF's status as a priority creditor of Landsbanki in respect of its £30 million deposit has been confirmed. The Resolution Committee of the bank has stated its expectation of a full recovery and has made an initial payment of £10 million in respect of USAF's deposit into an escrow account. We are following a legal process to facilitate its payment to USAF later this year, although the timing of this remains uncertain. The deposit, of which UNITE's effective share is £6 million, remains fully provided for.

During the year, USAF completed an extension to its £115 million facility with Lloyds Banking Group. The facility extended the maturity date to October 2016 and has reduced the cost of debt from 6.2% to 5.7%. USAF is now making plans to extend or replace a further £100 million facility that expires in December 2013 and the £285 million CMBS that matures in April 2014.

Joint ventures

We have continued to make progress in our stated strategy to simplify, consolidate and extend our joint venture structures. In January 2012 we successfully acquired the remaining 49% stake in UNITE Student Village from our former joint venture partner, Lehman Brothers, at a 31% discount to NAV. The additional NPC and NAV arising from the transaction will be recognised in 2012.

We are also making progress in discussions regarding the future strategy for the UNITE Capital Cities (UCC) and Oasis Capital Bank (OCB) joint ventures. UCC and OCB are both London focused joint ventures due to mature in 2013 and 2014 respectively. Both ventures have performed well since inception and discussions with our partners regarding future strategy are proving constructive.

Outlook

We expect the broader business environment to remain challenging and volatile in 2012 as the UK and Europe struggle to recover and the long process of deleveraging in the economy continues. Demand for student accommodation will remain robust and underpins our rental growth expectation

of 3-4% for the year, but students are becoming increasingly demanding consumers and a clear understanding of their expectations and absolute focus on service delivery will be critical to success.

In the student accommodation investment market we expect lenders to become more proactive in tackling over-leveraged portfolios and this seems likely to be the principal driver of transaction volumes and yields in the sector over the next 12 to 18 months. Given that higher leverage is more concentrated in provincial markets we anticipate some yield expansion in these areas with London yields remaining more stable. With approximately half of our capital invested in London, UNITE is well placed in this regard.

Operationally our objective for 2012 is to continue to build on the successes of 2011. We are focused on achieving further substantial growth in profitability and cash generation based on continued high occupancy across the portfolio, rental growth, the impact of new openings and cost efficiencies. These improvements will be based on a firm commitment to customer service and deepening relationships with our University partners. Based on performance for the first two months of 2012, we are on track to achieve these targets.

Alongside the existing portfolio we are also committed to extending our development programme beyond its current level and see attractive opportunities to do so. However, these opportunities will only be pursued in a selective and controlled way with asset disposals and debt refinancing taking priority to ensure that the Group's balance sheet is not stretched in pursuit of growth. Based on our recent track record we are confident of making good progress with our financing initiatives during 2012 such that new development opportunities will be able to be pursued in good time.

In the medium term we remain focused on delivering sustainable balanced returns from a combination of income growth, rental growth and accretive development activity. Based on the positive progress of 2011 and with a clear strategy in place to build on this further in 2012 and beyond we look forward to the future with confidence.

Introduction and table of contents

In preparing these financial statements we have changed the format and layout following the principles outlined in the Financial Reporting Council's publication 'Cutting Clutter'. We have made these changes to make UNITE's financial statements easier to follow and more relevant to shareholders. The purpose of these changes is to provide readers with a clearer understanding of what drives the financial performance of the Group.

Whilst these financial statements are prepared in accordance with IFRS, the Board of Directors manage the business based on the adjusted results being net portfolio contribution and adjusted net asset value which can be found in section 2.

We have grouped the notes to the financial statements under the following main headings:

- Results for the year, including segmental information, adjusted profits and adjusted NAV;
- Asset management;
- Funding; and
- Working capital

Each section sets out the relevant accounting policies applied in these financial statements together with the key judgements and estimates used.

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Consolidated income statement

For the year ended 31 December 2011

	Note	2011 Excluding UMS £m	2011 UMS £m	2011 Total £m	2010 Excluding UMS £m	2010 UMS £m	2010 Total £m
Revenue	2.1	83.5	11.4	94.9	186.2	7.2	193.4
Cost of sales		(42.2)	(20.5)	(62.7)	(139.8)	(7.2)	(147.0)
Operating expenses		(27.2)	(11.9)	(39.1)	(23.7)	(4.8)	(28.5)
Results from operating activities		14.1	(21.0)	(6.9)	22.7	(4.8)	17.9
Loss on disposal of property		(0.2)	–	(0.2)	(2.9)	–	(2.9)
Net valuation gains on property	3.1	7.7	–	7.7	15.4	–	15.4
Profit before net financing costs		21.6	(21.0)	0.6	35.2	(4.8)	30.4
Loan interest and similar charges	4.3	(8.7)	–	(8.7)	(13.8)	–	(13.8)
Mark to market changes in interest rate swaps	4.3	(10.6)	–	(10.6)	(18.6)	–	(18.6)
Finance costs	4.3	(19.3)	–	(19.3)	(32.4)	–	(32.4)
Finance income	4.3	0.8	–	0.8	0.9	–	0.9
Net financing costs	4.3	(18.5)	–	(18.5)	(31.5)	–	(31.5)
Share of joint venture profit	3.3b	22.6	–	22.6	25.3	–	25.3
Profit before tax	2.3a	25.7	(21.0)	4.7	29.0	(4.8)	24.2
Tax	2.6	(0.8)	–	(0.8)	(2.9)	–	(2.9)
Profit for the year		24.9	(21.0)	3.9	26.1	(4.8)	21.3
Profit for the period attributable to							
Owners of the parent company	2.3b	23.1	(21.0)	2.1	24.4	(4.8)	19.6
Minority Interest		1.8	–	1.8	1.7	–	1.7
		24.9	(21.0)	3.9	26.1	(4.8)	21.3
Earnings per share							
Basic	2.3b	14.4p	(13.1p)	1.3p	15.2p	(3.0p)	12.2p
Diluted	2.3b	14.4p	(13.1p)	1.3p	15.2p	(3.0p)	12.2p

The results have been presented in a columnar format to show the significant impact of UMS trading losses and the decision to cease trading at UMS, as discussed in note 2.2b. The comparatives have been restated in columnar format for consistency.

Consolidated statement of comprehensive income

For the year ended 31 December 2011

	2011 £m	2010 £m
Profit for the period	3.9	21.3
Movements in effective hedges	(2.6)	0.5
Share of joint venture movements in effective hedges	0.1	0.1
Other comprehensive income for the period	(2.5)	0.6
Total comprehensive income for the period	1.4	21.9
Attributable to		
Owners of the parent company	(0.2)	20.2
Minority Interest	1.6	1.7
	1.4	21.9

All movements above are shown net of deferred tax.

Consolidated balance sheet

At 31 December 2011

	Note	2011 £m	2010 £m
Assets			
Investment property	3.1	396.2	375.7
Property, plant and equipment		2.3	6.9
Investment in joint ventures	3.3b	173.0	161.6
Joint venture investment loans	3.3b	14.1	13.2
Intangible assets		4.5	5.8
Total non-current assets		590.1	563.2
Completed property	3.1	198.7	105.1
Properties under development	3.1	135.2	113.0
Inventories	3.2	8.4	2.7
Trade and other receivables		41.0	44.6
Cash and cash equivalents	5.1	16.8	23.8
Total current assets		400.1	289.2
Total assets		990.2	852.4
Liabilities			
Borrowings	4.1	(29.2)	(0.3)
Interest rate swaps	4.2	–	(0.2)
Trade and other payables		(84.4)	(52.8)
Provisions	2.5	(6.3)	–
Current tax creditor		(0.4)	(0.5)
Total current liabilities		(120.3)	(53.8)
Borrowings	4.1	(421.5)	(357.8)
Interest rate swaps	4.2	(39.0)	(37.1)
Provisions	2.5	(4.7)	–
Total non-current liabilities		(465.2)	(394.9)
Total liabilities		(585.5)	(448.7)
Net Assets		404.7	403.7
Equity			
Issued share capital		40.1	40.1
Share premium		249.0	249.0
Merger reserve		40.2	40.2
Retained earnings		72.8	70.4
Hedging reserve		(14.5)	(12.2)
Equity attributable to the owners of the parent company		387.6	387.5
Minority interest		17.1	16.2
Total equity		404.7	403.7

These financial statements were approved by the Board of Directors on 1 March 2012 and were signed on its behalf by:

MC Allan
Director

JJ Lister
Director

Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2011

	Issued share capital £m	Share premium £m	Merger reserve £m	Retained earnings £m	Hedging reserve £m	Attributable to owners of the parent £m	Minority interest £m	Total £m
At 1 January 2011	40.1	249.0	40.2	70.4	(12.2)	387.5	16.2	403.7
Profit for the period	–	–	–	2.1	–	2.1	1.8	3.9
Other comprehensive income for the period	–	–	–	–	(2.3)	(2.3)	(0.2)	(2.5)
Total comprehensive income for the period	–	–	–	2.1	(2.3)	(0.2)	1.6	1.4
Fair value of share based payments	–	–	–	1.2	–	1.2	–	1.2
Own shares acquired	–	–	–	(0.1)	–	(0.1)	–	(0.1)
Dividends paid to owners of the parent company	–	–	–	(0.8)	–	(0.8)	–	(0.8)
Dividends to minority interest	–	–	–	–	–	–	(0.7)	(0.7)
At 31 December 2011	40.1	249.0	40.2	72.8	(14.5)	387.6	17.1	404.7

	Issued share capital £m	Share premium £m	Merger reserve £m	Retained earnings £m	Hedging reserve £m	Attributable to owners of the parent £m	Minority interest £m	Total £m
At 1 January 2010	39.9	247.5	40.2	51.0	(12.8)	365.8	15.2	381.0
Profit for the period	–	–	–	19.6	–	19.6	1.7	21.3
Other comprehensive income for the period	–	–	–	–	0.6	0.6	–	0.6
Total comprehensive income for the period	–	–	–	19.6	0.6	20.2	1.7	21.9
Shares issued	0.2	1.5	–	–	–	1.7	–	1.7
Fair value of share based payments	–	–	–	1.3	–	1.3	–	1.3
Own shares acquired	–	–	–	(1.5)	–	(1.5)	–	(1.5)
Dividends to minority interest	–	–	–	–	–	–	(0.7)	(0.7)
At 31 December 2010	40.1	249.0	40.2	70.4	(12.2)	387.5	16.2	403.7

Consolidated statement of cash flows

For the year ended 31 December 2011

	Note	2011 £m	2010 £m
Cash flows from operating activities	5.1	(74.0)	40.1
Cash flows from taxation		(0.6)	0.8
Investing activities			
Proceeds from sale of investment property		8.3	42.7
Dividends received		8.9	5.4
Interest received		0.1	0.2
Acquisition of intangible assets		(1.5)	(1.5)
Acquisition of property		(18.3)	(5.6)
Acquisition of plant and equipment		(0.6)	(0.6)
Cash flows from investing activities		(3.1)	40.6
Financing activities			
Total interest paid		(15.0)	(15.5)
Interest capitalised into inventory and property under development included in cash flows from operating activities		7.1	2.5
Interest paid in respect of financing activities		(7.9)	(13.0)
Ineffective swap payments		(11.7)	(11.2)
Proceeds from the issue of share capital		–	1.7
Payments to acquire own shares		(0.1)	(1.5)
Proceeds from non-current borrowings		113.6	45.4
Repayment of borrowings		(21.7)	(127.2)
Dividends paid to the owners of the parent company		(0.8)	–
Dividends paid to minority interest		(0.7)	(0.7)
Cash flows from financing activities		70.7	(106.5)
Net decrease in cash and cash equivalents		(7.0)	(25.0)
Cash and cash equivalents at start of year		23.8	48.8
Cash and cash equivalents at end of year	5.1	16.8	23.8

Notes to the financial statements

Section 1: Basis of preparation

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2011 or 2010 but is derived from those accounts. Statutory accounts for 2010 have been delivered to the Registrar of Companies, and those for 2011 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for 2010 or 2011.

Going concern

The Group's business activities, together with the factors likely to affect its future development and position are set on in the Business Review. In addition, section 4 of these Notes to the financial statements includes details of its borrowings and interest rate swaps; and in note 5.2, its exposure to credit risk.

The Group has prepared cash flow projections with appropriate sensitivities until the end of 2013. The group has borrowing facilities expiring in 2012 and 2013, but it has already refinanced one of these facilities for a further three years and is making good progress with another new facility. While the Group will continue to extend future debt maturities, it expects to have sufficient headroom in existing banking facilities and its forecast cash balances to repay any facilities expiring and to meet its funding requirements until at least the end of 2013, while remaining within its banking covenants. The Group is in full compliance with its borrowing covenants at 31 December 2011 as set out in Note 4.5.

The directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. The financial statements have therefore been prepared on a going concern basis.

Section 2: Results for the year

2.1. Revenue

The Group earns revenue from the following activities:

		Note	2011 £m	2010 £m
Rental income	Operations segment	2.2a	63.6	63.5
Property sales	Property segment		8.2	111.9
Manufacturing revenue	Property segment		11.4	7.2
Management fees	Operations segment	2.2a	10.6	8.9
Management fees	Property segment		1.3	2.1
			95.1	193.6
Impact of minority interest on management fees			(0.2)	(0.2)
Total Revenue			94.9	193.4

Revenue has reduced to £94.9 million (2010: £193.4 million) due to a planned reduction in the volume of property sales to the UNITE UK Student Accommodation Fund (USAF). Revenue from property sales includes £nil (2010: £103.5 million) to USAF, a joint venture, and represents 0% (2010: 54%) of total revenue.

2.2 Segmental information

The Board of Directors monitor the business along two activity lines. The reportable segments for the years ended 31 December 2011 and 31 December 2010 are Operations and Property (in prior years, the same segments were referred to as Investment and Development, however the names have been changed in the current year to be consistent with the Group's new internal terminology).

The Group undertakes its Operations and Property activities directly and through joint ventures with third parties. The joint ventures are an integral part of each segment and are included in the information used by the Board to monitor the business.

The Group's properties are located exclusively in the United Kingdom. The Board therefore does not consider that the Group has meaningful geographical segments.

a) Operations Segment result

The Operations Segment manages rental properties, owned directly by the Group or by joint ventures. Its revenues are derived from rental income and asset management fees earned from joint ventures. Net portfolio contribution is the key indicator which is used by the Board to manage the Operations business.

2011

	UNITE Total £m	Share of joint ventures				Total £m	Group on see through basis Total £m
		USAF £m	UCC £m	USV £m	OCB £m		
Rental income	63.6	17.8	8.1	3.0	3.1	32.0	95.6
Property operating expenses	(21.7)	(5.0)	(1.2)	(1.0)	(0.5)	(7.7)	(29.4)
Net operating income	41.9	12.8	6.9	2.0	2.6	24.3	66.2
Management fees	10.6	–	(0.5)	–	–	(0.5)	10.1
Operating expenses	(21.2)	(0.2)	(0.1)	–	(0.1)	(0.4)	(21.6)
	31.3	12.6	6.3	2.0	2.5	23.4	54.7
Operating lease rentals*	(12.6)	–	–	–	–	–	(12.6)
Net financing costs	(18.8)	(5.3)	(4.0)	(1.3)	(1.7)	(12.3)	(31.1)
Net portfolio contribution	(0.1)	7.3	2.3	0.7	0.8	11.1	11.0

2010

	UNITE Total £m	Share of joint ventures				Total £m	Group on see through basis
		USAF £m	UCC £m	USV £m	OCB £m		Total £m
Rental income	63.5	14.9	7.1	2.7	0.8	25.5	89.0
Property operating expenses	(20.3)	(4.2)	(1.4)	(0.8)	(0.2)	(6.6)	(26.9)
Net operating income	43.2	10.7	5.7	1.9	0.6	18.9	62.1
Management fees	8.9	–	(0.5)	–	–	(0.5)	8.4
Operating expenses	(19.2)	(0.1)	(0.2)	–	(0.1)	(0.4)	(19.6)
	32.9	10.6	5.0	1.9	0.5	18.0	50.9
Operating lease rentals*	(12.1)	–	–	–	–	–	(12.1)
Net financing costs	(24.4)	(4.4)	(4.1)	(1.3)	(0.5)	(10.3)	(34.7)
Net portfolio contribution	(3.6)	6.2	0.9	0.6	–	7.7	4.1

* Operating lease rentals arise from properties which the Group has sold and is now leasing back. As these properties contribute to the Group's rental income, the Group consider these lease costs to be a form of financing.

b) Property Segment result

The Group's Property Segment undertakes the acquisition and development of properties. This includes the manufacture and sale of modular building components, through UNITE Modular Solutions Limited, 'UMS'. The Property Segment's revenue predominantly comprises the sales proceeds from properties, including those sold to the UNITE UK Student Accommodation Fund; revenue from the sale of modules to third parties and joint ventures, and development management fees earned from joint ventures.

	2011 £m	2010 £m
Pre-contract and abortive costs	(3.2)	(3.2)
Property disposals and write downs	1.3	4.0
Other	(0.1)	(0.2)
Property segment result pre UMS losses	(2.0)	0.6
UMS losses	(21.0)	(4.8)
Property segment result	(23.0)	(4.2)

The property segment derives its revenue from property sales, manufacturing revenue and management fees as set out in note 2.1

The UMS loss in 2011 includes trading losses of £5.5 million together with a provision of £5.6 million for completing loss making contracts in 2012; provisions for onerous leases of £5.4 million; and impairment of other fixed assets of £3.7 million and inventory of £0.8 million.

c) Segmental contribution to Net Asset Value

The Board does not use balance sheet information split out by segment to monitor and manage the Group's activities. Instead the position of the Group is managed by reviewing increases in Adjusted Net Asset Value contributed by each segment during the period.

Contributions to Adjusted Net Asset Value (NAV) by each segment during the year is as follows:

	Note	2011 £m	2010 £m
Operations			
Net portfolio contribution	2.2a	11.0	4.1
Property			
Rental growth		22.9	19.3
Yield movement		–	14.6
Disposals and acquisition costs		0.6	(5.4)
Capital expenditure and refurbishments		–	(0.4)
Rental property gains		23.5	28.1
Development property gains		33.3	27.5
		56.8	55.6
UMS		(21.0)	(4.8)
Pre-contract and other development costs		(3.4)	(3.5)
Total property		32.4	47.3
Unallocated		(3.4)	0.1
Total adjusted NAV movement in the period		40.0	51.5
Total adjusted NAV brought forward		474.5	423.0
Total adjusted NAV carried forward	2.4a	514.5	474.5

The unallocated amount includes restructuring costs of £1.6 million (2010: £nil), dividends of £0.8 million (2010: £nil), current tax charges of £0.4 million (2010: credit £1.0 million) and the share of joint venture swap losses of £0.5 million (2010: £0.7 million).

2.3 Adjusted profit and EPS

In addition to the IFRS reporting measures, the Group reports adjusted profit on the basis recommended for real estate companies by EPRA, the European Public Real Estate Association. EPRA recommends that real estate investment companies exclude development profits and profits from disposal of assets as they are one off in nature, however the development of properties for future sale is an on-going business activity for the Group and therefore results of this core activity are included in the adjusted result through the Property Segment result.

a) Adjusted profit and reconciliation to IFRS

The adjusted profit/(loss) excludes movements relating to changes in values of investment properties and interest rate swaps, which are included in the profit reported under IFRS. The adjusted profit/(loss) reconciles to the profit reported under IFRS as follows:

	Note	2011 £m	2010 £m
Operations Segment result – Net portfolio contribution	2.2a	11.0	4.1
Property segment result pre UMS loss	2.2b	(2.0)	0.6
Unallocated to segments		(3.6)	(0.4)
Adjusted profit pre UMS losses		5.4	4.3
UMS losses	2.2b	(21.0)	(4.8)
Adjusted loss*		(15.6)	(0.5)
Net valuation gains on investment property	3.1	7.7	15.4
Share of joint venture gains on investment property	3.3b	10.7	18.1
Mark to market changes in interest rate swaps**	4.3	(10.6)	(18.6)
Interest rate swap payments on ineffective hedges**		10.2	10.9
Share of joint venture changes in fair value of interest rate swaps	3.3b	0.4	(0.3)
Current tax included in unallocated to segments		0.4	(1.0)
Share of joint venture deferred tax credit/(charge)	3.3b	0.3	(0.5)
Minority interest share of NPC***	3.3b	1.2	1.0
Minority interest share of property segment result		–	(0.3)
Profit before tax		4.7	24.2

* The adjusted loss for 2010 has been restated to include losses on disposal of investment property of £2.9 million, which had been previously excluded, so that all property disposals are included in adjusted loss.

** Within IFRS reported profit, there is a £10.6 million loss (2010: £18.6 million loss) relating to movements in the mark to market of ineffective interest rate swaps, this full loss can be seen in note 4.3. Part of this movement, £10.2 million (2010: £10.9 million) relates to actual interest payments made on these swaps and is considered to be a true operating cost of the Operations Segment. It is therefore already included within Net Financing Costs in Net Portfolio Contribution (Operating Segment result) in note 2.2a.

*** The minority interest share, or non-controlling interest, arises as a result of the Company not owning 100% of the share capital of one of its subsidiaries, USAF (Feeder) Guernsey Ltd. More detail is provided in note 3.3.

Unallocated to segments includes restructuring costs of £1.6 million (2010: £nil), current tax charges of £0.4 million (2010: credit £1.0 million) and share option fair value charges of £1.2 million (2010: £1.3 million).

b) EPS and Adjusted EPS

Earnings per share ('EPS') is the amount of post-tax profits attributable to each share. Basic EPS is adjusted in order to more accurately show the business performance of the Group in a consistent manner and to reflect how the business is managed and measured on a day to day basis. Adjusted EPS is calculated using adjusted loss as set out above.

The calculations of basic and adjusted earnings per share for the year ended 31 December 2011 is as follows:

	Note	2011 £m	2010 £m
Earnings			
Basic (and diluted)		2.1	19.6
Adjusted	2.3a	(15.6)	(0.5)
Adjusted pre UMS losses	2.3a	5.4	4.3
Weighted average number of shares (thousands)			
Basic		160,271	160,074
Dilutive potential ordinary shares (share options)		39	81
Diluted		160,310	160,155
Earnings per share (pence)			
Basic		1.3p	12.2p
Diluted		1.3p	12.2p
Adjusted		(9.7p)	(0.3p)
Adjusted (pre-UMS result)		3.4p	2.7p

Movements in the weighted average number of shares have resulted from the issue of shares arising from the employee share based payment schemes. In addition to the potential dilutive ordinary shares (share options) shown above, there were a further 29,000 share options in existence at 31 December 2011 (2010: 794,000) which are excluded from this calculation because they would increase EPS (they are anti-dilutive). Also excluded from the potential dilutive shares (share options) are 1,460,000 options in existence at 31 December 2011 (2010: nil) which are subject to conditions that have not yet been met.

2.4 Adjusted Net Assets and NAV per share

Adjusted net asset value as recommended by EPRA excludes the mark to market valuation of swaps, deferred tax liabilities and recognises all properties at market value. This is the key performance measure that the Board uses to monitor and manage the position of the segments.

a) Adjusted net assets

	2011			2010		
	Wholly owned £m	Share of JV's £m	Total £m	Wholly owned £m	Share of JV's £m	Total £m
Investment properties	396.2	400.1	796.3	375.7	391.1	766.8
Completed properties (at market value)	220.9	–	220.9	117.4	–	117.4
Rental properties	617.1	400.1	1,017.2	493.1	391.1	884.2
Properties under development (at market value)	189.1	0.2	189.3	137.8	0.2	138.0
Total property portfolio	806.2	400.3	1,206.5	630.9	391.3	1,022.2
Debt on rental properties (net of cash)	(393.7)	(212.1)	(605.8)	(267.9)	(212.5)	(480.4)
Debt on properties under development	(40.3)	–	(40.3)	(66.7)	–	(66.7)
	(434.0)	(212.1)	(646.1)	(334.6)	(212.5)	(547.1)
Other assets/(liabilities)	(39.9)	(6.0)	(45.9)	6.5	(7.1)	(0.6)
Adjusted net assets	332.3	182.2	514.5	302.8	171.7	474.5
Loan to value (%)	54	53	54	53	54	54

The movement in other assets/(liabilities) shown above is caused mainly by the provision for onerous contracts in UMS and a significant increase in development creditors.

b) Reconciliation to IFRS

Adjusted NAV reconciles to NAV reported under IFRS as follows:

	Note	2011 £m	2010 £m
Adjusted NAV	2.4a	514.5	474.5
Mark to mark interest rate swaps		(50.5)	(49.6)
Valuation gain not recognised on property held at cost	3.1	(76.1)	(37.1)
Deferred tax		(0.3)	(0.3)
Net asset value reported under IFRS		387.6	387.5

c) Net asset value per share and Adjusted NAV per share

The Board continuously monitors the adjusted net asset value attributable to its shareholders. Net asset value per share as at 31 December 2011 is calculated as follows:

	Note	2011 £m	2010 £m
Net assets			
Basic (as reported under IFRS on the balance sheet)	2.4b	387.6	387.5
Adjusted pre-dilution (as defined by EPRA)	2.2c	514.5	474.5
Adjusted diluted (takes into account the dilutive effect of all share options being exercised)		516.4	476.0
Number of shares (thousands)			
Basic		160,271	160,268
Outstanding share options		2,344	830
Diluted		162,615	161,098
Net asset value per share (pence)			
Basic		242p	242p
Adjusted pre dilution		321p	296p
Adjusted diluted		318p	295p

2.5 Provisions for onerous contracts

	Current liability £m	Non- current liability £m	Total liability £m
At 1 January 2011	–	–	–
Increase in provisions charged to the income statement	6.3	4.7	11.0
At 31 December 2011	6.3	4.7	11.0

The provisions relate to onerous trading contracts and leases at the group's manufacturing facility (UMS). Provision has been made for forecast unavoidable losses on existing trading contracts of £5.6 million, all expected to be realised in 2012. The decision to cease trading at UMS also resulted in future lease payments and associated costs becoming onerous. Discounted future payments of £5.4 million (relating primarily to the lease of the factory site) have been provided in respect of these leases of which £4.7 million is not expected to be realised until between 2013 and 2017 and is therefore disclosed as due after one year. Future payments have been discounted using a market rate of 5%.

2.6 Tax

The Group has not paid any corporation tax in the recent past due to the availability of capital allowances, indexation and brought forward losses. However it does pay UK income tax on rental income that arises from investments held by offshore subsidiaries (predominantly the investments in USAF).

The preparation of the tax charge in the financial statements requires the directors to make significant judgements around the outcome of challenges by HMRC to the tax treatment of certain of the Group's activities; where appropriate, the directors seek advice from leading tax professionals and tax counsel in arriving at such judgements.

a) Tax – Income Statement

The total taxation charge/(credit) in the income statement is analysed as follows:

	2011 £m	2010 £m
Corporation tax in respect of income	–	–
Income tax on UK rental income arising in non-UK companies	0.5	0.5
Adjustments for prior years	–	(1.3)
Current tax charge/(credit)	0.5	(0.8)
Origination and reversal of temporary differences	0.9	2.5
Effect of change in tax rate	(0.3)	(0.1)
Adjustments for prior years	(0.3)	1.3
Deferred tax charge	0.3	3.7
Total tax charge in income statement	0.8	2.9

In order to understand how, in the income statement, a tax charge of £0.8 million arises on a profit before tax of £4.7 million, the taxation charge that would arise at the standard rate of UK corporation tax is reconciled to the actual tax charge as follows:

	2011 £m	2010 £m
Profit before tax	4.7	24.2
Income tax using the UK corporation tax rate of 26.5% (2010: 28%)	1.2	6.8
Effect of indexation on investment and development property	(2.4)	(3.5)
Non-deductible expenses	0.9	1.3
Share of joint venture profit	0.4	(0.7)
Movement on unprovided deferred tax asset	1.6	(0.3)
Profit on disposal of assets not chargeable to tax	0.1	–
Effect of property disposals to USAF	(0.4)	(0.6)
Adjustments for prior years – deferred tax	(0.3)	1.3
Adjustments for prior years – current tax	–	(1.3)
Rate difference on deferred tax	(0.3)	(0.1)
Total tax charge in the income statement	0.8	2.9

b) Tax – Other comprehensive income

Within Other comprehensive income a tax charge totalling £0.4 million (2010: £3.7 million) has been recognised representing deferred tax. An analysis of this is included below in the deferred tax movement table.

c) Tax – Balance sheet

The table below outlines the deferred tax liabilities/(assets) that are recognised in the balance sheet, together with their movements in the year:

2011

	At 31 December 2010 £m	Transfers £m	Charged in income £m	(Credited) in equity £m	At 31 December 2011 £m
Investment property	7.5	–	1.3	–	8.8
Development property held in current assets	(0.7)	–	(0.6)	–	(1.3)
Property, plant and machinery	(0.3)	–	(0.9)	–	(1.2)
Investments in joint ventures	8.0	–	(0.4)	–	7.6
Interest rate swaps	(10.0)	–	2.4	(0.4)	(8.0)
Interest rate swaps relating to joint ventures	(2.7)	–	–	–	(2.7)
Tax value of carried forward losses recognised	(1.8)	–	(1.4)	–	(3.2)
Net tax liabilities	–	–	0.4	(0.4)	–

2010

	At 31 December 2009 £m	Transfers £m	Charged in income £m	(Credited) in equity £m	At 31 December 2010 £m
Investment property	2.8	–	4.7	–	7.5
Development property held in current assets	(2.9)	–	2.2	–	(0.7)
Property, plant and machinery	(0.3)	–	–	–	(0.3)
Investments in joint ventures	7.4	–	0.6	–	8.0
Interest rate swaps	(7.0)	–	(2.0)	(1.0)	(10.0)
Interest rate swaps relating to joint ventures	–	–	–	(2.7)	(2.7)
Tax value of carried forward losses recognised	–	–	(1.8)	–	(1.8)
Net tax liabilities	–	–	3.7	(3.7)	–

A deferred tax asset of £35.1 million (2010: £33.6 million) in respect of losses of £140.7 million (2010: £124.6 million) has not been recognised due to uncertainty of future taxable profits and the ability to offset these losses against them.

Section 3: Asset management

3.1 Wholly owned property assets

The Group's wholly owned property portfolio is held in three groups on the balance sheet at the carrying values detailed below. In the Group's adjusted net asset value, all these groups are shown at market value.

i) Investment property (fixed assets)

These are assets that were acquired by the Group with the intention to hold the assets for a long period to earn rental income or capital appreciation, prior to establishing The UNITE UK Student Accommodation ('USAF'). The assets are held at fair value in the balance sheet with changes in fair value taken to the income statement.

ii) Completed properties (current assets)

Following the establishment of USAF in 2006, the Group is required to offer all completed properties which meet certain performance criteria for sale to USAF, and USAF may be required to purchase assets which meet certain conditions. Therefore, all properties constructed and completed after 2006 are held as completed properties in current assets, because these may be sold to USAF. The Group continues to earn rental income and capital appreciation on these assets which are held at cost in the balance sheet.

iii) Properties under development (current assets)

These are assets which are currently in the course of construction and which will be transferred to 'Completed properties' on completion.

The Group also acquires land which it intends to develop. Land is held within inventories until planning permission is obtained, at which point it is transferred to properties under development.

The property portfolio is valued every six months by external, independent valuers, having an appropriate recognised professional qualification. The fair values are based on market values as defined in the RICS Appraisal and Valuation Manual, issued by the Royal Institution of Chartered Surveyors, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction where the parties had each acted knowledgeably, prudently and without compulsion. CB Richard Ellis Ltd, Jones Lang LaSalle Ltd and Messrs Knight Frank, Chartered Surveyors were the external valuers in the years ending 31 December 2011 and 2010.

The movements in the carrying value of the Group's wholly owned property portfolio during the year ended 31 December 2011 were as follows:

2011

	Investment property £m	Completed property £m	Property under development £m	Total £m
At 1 January 2011	375.7	105.1	113.0	593.8
Acquisitions	13.5	–	–	13.5
Cost capitalised	5.2	0.2	112.6	118.0
Interest capitalised	–	–	7.1	7.1
Transfer from property under development	–	92.1	(92.1)	–
Transfer from work in progress	–	–	1.1	1.1
Disposals	(5.9)	–	(7.9)	(13.8)
Reversal of impairment	–	1.3	1.4	2.7
Valuation gains	13.5	–	–	13.5
Valuation losses	(5.8)	–	–	(5.8)
Net valuation gains	7.7	–	–	7.7
Carrying value at 31 December 2011	396.2	198.7	135.2	730.1

Whilst completed property and property under development are held at cost on the balance sheet, the Group manages the assets based on their market value ('fair value'). These properties are included in adjusted net asset value at their fair value, valued on the same basis as for investment properties, by external valuers. The fair value of the Group's wholly owned properties at the year ended 31 December 2011 is as follows:

	Investment property £m	Completed property £m	Property under development £m	Total £m
Carrying value at 31 December 2011 (above)	396.2	198.7	135.2	730.1
Valuation gains not recognised under IFRS but included in Adjusted NAV				
Brought forward	–	12.3	24.8	37.1
Transfer from property under development	–	8.3	(8.3)	–
Valuation gain in year	–	1.6	37.4	39.0
	–	22.2	53.9	76.1
Market value at 31 December 2011	396.2	220.9	189.1	806.2

The movements in the carrying value of the Group's wholly owned property portfolio during the year ended 31 December 2010 were as follows:

2010

	Investment property £m	Completed property £m	Property under development £m	Total £m
At 1 January 2010	403.6	204.1	38.1	645.8
Cost capitalised	4.7	0.5	76.5	81.7
Interest capitalised	–	–	2.5	2.5
Transfer from property under development	–	(0.8)	0.8	–
Transfer from work in progress	–	–	0.6	0.6
Disposals	(48.0)	(96.6)	(3.0)	(147.6)
Impairment	–	(2.1)	(2.5)	(4.6)
Valuation gains	17.4	–	–	17.4
Valuation losses	(2.0)	–	–	(2.0)
Net valuation gains	15.4	–	–	15.4
Carrying value at 31 December 2010	375.7	105.1	113.0	593.8

The fair value of the Group's wholly owned property portfolio at the year ended 31 December 2010 is as follows:

	Investment property £m	Completed property £m	Property under development £m	Total £m
Carrying value at 31 December 2010 (above)	375.7	105.1	113.0	593.8
Valuation gains not recognised under IFRS but included in Adjusted NAV				
Brought forward	–	17.2	0.8	18.0
Disposals	–	(12.9)	–	(12.9)
Valuation gain in year	–	8.0	24.0	32.0
	–	12.3	24.8	37.1
Market value at 31 December 2010	375.7	117.4	137.8	630.9

Included within investment properties are £43.1 million (2010: £44.5 million) of assets held under a long leasehold and £9.9 million (2010: £10.6 million) of assets held under short leasehold.

Total interest capitalised in investment and development properties at 31 December 2011 was £32.9 million (2010: £28.4 million) on an accumulative basis. Total internal costs relating to manufacturing, construction and development costs of group properties amount to £53.6 million at 31 December 2011 (2010: £45.6 million) on an accumulative basis.

3.2 Inventories

	2011 £m	2010 £m
Modules for sale to third parties or joint ventures	1.0	–
Interests in land	1.4	1.8
Other stocks	6.0	0.9
Inventories	8.4	2.7

The movement in other stock is caused by an increase in manufacturing work in progress, raw materials and consumables relating to an increase in manufacturing activity at the end of the year.

3.3 Investments in joint ventures

The Group has four joint ventures:

Joint venture	Group's share of assets/results 2011 & 2010	Objective	Partner	Legal entity in which Group has interest
The UNITE UK Student Accommodation Fund ('USAF')	18.9%*	Invest and operate student accommodation throughout the UK	Consortium of investors	UNITE Student Accommodation Fund, a Jersey Unit Trust
UNITE Capital Cities ('UCC')	30%	Develop and operate student accommodation in the capital cities of London and Edinburgh	GIC Real Estate Pte, Ltd Real estate investment vehicle of the Government of Singapore	UNITE Capital Cities Unit Trust, incorporated in Jersey
OCB Property Holdings ('OCB')	25%	Develop and operate 3 investment properties located in London	Oasis Capital Bank	OCB Property Holdings (Jersey) Ltd, incorporated in Jersey
UNITE Student Village ('USV')	51%**	Develop and operate a student village located in Sheffield	Lehman Brothers	LDC (Project 110) Ltd, incorporated in England and Wales

* Part of the Group's interest is held through a subsidiary, USAF (Feeder) Guernsey Ltd, in which there is an external investor. A minority interest therefore occurs on consolidation of the Group's results representing the external investor's share of profits and assets relating to its investment in USAF. The ordinary shareholders of The UNITE Group plc are beneficially interested in 16.3% (2010: 16.3%) of USAF.

** At 31 December 2011, the Group held a 75% interest in the ordinary shares of the joint venture, however under the Articles of Association the Group cannot exercise control and are only entitled to a beneficial interest of 51% of the joint ventures assets and results. On 18 January 2012 the Group acquired the balance of the share capital in USV for £2.4 million and discharged shareholder loans amounting to £3.8 million. The payment of these amounts is deferred until 31 October 2012.

a) Net assets and results of the joint ventures

The summarised balance sheets and results for the period, and the Group's share of these joint ventures are as follows:

2011

	USAF £m		UCC £m		USV £m		OCB £m		Total £m	
	Gross	Share	Gross	Share	Gross	Share	Gross	Share	Gross	Share
Investment property	1,273.0	240.6	387.0	116.1	58.2	29.1	189.0	47.2	1,907.2	433.0
Cash	28.4	5.3	12.3	3.7	3.5	1.8	6.3	1.6	50.5	12.4
Debt	(607.9)	(114.9)	(248.4)	(74.5)	(43.7)	(21.9)	(112.7)	(28.2)	(1,012.7)	(239.5)
Swap liabilities	(17.8)	(3.0)	(25.6)	(7.7)	(1.0)	(0.5)	(2.9)	(0.7)	(47.3)	(11.9)
Other current assets	1.4	0.3	0.2	0.1	0.1	0.1	0.2	0.1	1.9	0.6
Other current liabilities	(16.1)	(3.0)	(6.2)	(1.9)	(3.4)	(1.7)	(3.6)	(0.9)	(29.3)	(7.5)
	661.0	125.3	119.3	35.8	13.7	6.9	76.3	19.1	870.3	187.1
Investment loans	(2.9)	(2.9)	–	–	(7.8)	(3.9)	(29.2)	(7.3)	(39.9)	(14.1)
Net assets	658.1	122.4	119.3	35.8	5.9	3.0	47.1	11.8	830.4	173.0
Profit / (loss) for the period	72.9	15.1	22.4	6.7	(3.4)	(1.7)	10.0	2.5	101.9	22.6
Adjusted Net assets	678.8	111.3	144.9	43.5	15.3	7.6	79.2	19.8	918.2	182.2

2010

	USAF £m		UCC £m		USV £m		OCB £m		Total £m	
	Gross	Share	Gross	Share	Gross	Share	Gross	Share	Gross	Share
Investment property	1,231.5	232.8	379.5	113.8	63.0	31.5	179.6	44.9	1,853.6	423.0
Cash	32.7	6.2	6.6	2.0	3.5	1.8	4.3	1.1	47.1	11.1
Debt	(607.2)	(114.7)	(253.3)	(76.0)	(44.9)	(22.5)	(100.9)	(25.2)	(1,006.3)	(238.4)
Swap liabilities	(11.0)	(2.0)	(27.0)	(8.1)	(2.4)	(1.2)	(6.3)	(1.6)	(46.7)	(12.9)
Other current assets	1.4	0.3	0.4	0.1	–	–	2.0	0.5	3.8	0.9
Other current liabilities	(22.0)	(4.0)	(5.9)	(1.7)	(3.0)	(1.5)	(7.1)	(1.7)	(38.0)	(8.9)
	625.4	118.6	100.3	30.1	16.2	8.1	71.6	18.0	813.5	174.8
Investment loans	(2.6)	(2.6)	–	–	(7.8)	(3.9)	(26.2)	(6.7)	(36.6)	(13.2)
Net assets	622.8	116.0	100.3	30.1	8.4	4.2	45.4	11.3	776.9	161.6
Profit for the period	71.9	16.4	11.6	3.5	4.2	2.1	13.2	3.3	100.9	25.3
Adjusted Net assets	636.4	104.3	127.3	38.2	19.4	9.7	78.0	19.5	861.1	171.7

The net assets and profit for the period above include the minority interest, whereas the adjusted net assets exclude the minority interest.

b) Movement in carrying value of the Group's investments in joint ventures

The carrying value of the Group's investment in joint ventures has increased by £11.4 million during the year ended 31 December 2011 (2010: £13.3 million), resulting in an overall carrying value of £173.0 million (2010: £161.6 million). The following table shows how the increase has been achieved.

	2011			2010		
	Investment in joint venture £m	Joint venture investment loan £m	Total interest £m	Investment in joint venture £m	Joint venture investment loan £m	Total interest £m
Recognised in the income statement:						
Net portfolio contribution (NPC)	11.1	–	11.1	7.7	–	7.7
Minority interest share of NPC	1.2	–	1.2	1.0	–	1.0
Net revaluation gains	10.7	–	10.7	18.1	–	18.1
Deferred tax	0.3	–	0.3	(0.5)	–	(0.5)
Discount on interest free loans	(0.7)	0.7	–	(0.7)	0.7	–
Loss on cancellation of interest rate swaps	(0.4)	–	(0.4)	–	–	–
Ineffective swaps	0.4	–	0.4	(0.3)	–	(0.3)
	22.6	0.7	23.3	25.3	0.7	26.0
Recognised in equity:						
Movement in effective hedges	0.3	–	0.3	(2.6)	–	(2.6)
Deferred tax on movement in effective hedges	(0.2)	–	(0.2)	–	–	–
Other adjustments to the carrying value:						
Profit adjustment related to trading with joint venture	(2.4)	0.2	(2.2)	(4.0)	0.3	(3.7)
Distributions received	(8.9)	–	(8.9)	(5.4)	–	(5.4)
Increase in carrying value	11.4	0.9	12.3	13.3	1.0	14.3
Carrying value at 1 January	161.6	13.2	174.8	148.3	12.2	160.5
Carrying value at 31 December	173.0	14.1	187.1	161.6	13.2	174.8

In addition to its equity shares, the Group has also provided interest free investment loans to some of the joint ventures. These were primarily provided on the setting up of the joint venture to provide capital to acquire investment properties. As a result of being provided interest free, the loans were discounted on recognition to reflect the fair value, the unwinding of the discount is reflected in the Group's finance income.

c) Transactions with joint ventures

The Group acts as asset and property manager for the joint ventures and receives management fees in relation to these services. In addition, the Group is entitled to promote fee from USAF if the venture outperforms certain benchmarks, the Group receives additional units in USAF as consideration for the promote fee. The Group has recognised the following management fees in its results for the year.

	2011 £m	2010 £m
USAF	6.3	5.3
UCC	3.1	2.8
OCB	0.9	0.4
Property management fees	10.3	8.5
USAF	1.2	–
OCB	0.1	2.1
Development management fees	1.3	2.1
Total fees	11.6	10.6

During the year the Group did not sell any properties to USAF. In 2010 the group sold 5 properties to USAF for £146.2 million. £105.7 million of the properties were held on the balance sheet as completed property within current assets, the proceeds and carrying value of the properties is therefore recognised in turnover and cost of sales in the income statement and the cash flows in operating activities. The remaining £40.5 million of properties were classified as investment properties within fixed assets, the proceeds and carrying value of the properties is therefore recognised in loss on disposal of property in the income statement and the cash flows in investing activities.

UCC properties are partly funded by debt totalling £248.4 million (2010: £253.3 million) which equates to 64.2% (2010: 66.7%) of the market value of these properties. The Group has guaranteed its share, 30%, of this debt amounting to £74.5 million (2010: £76.0 million). This guarantee only takes effect in the event that the joint venture is unable to repay the debt within nine months of it becoming due. The Group considers the likelihood of the guarantee being invoked to be remote based on the level of debt and the time frames allowed under the arrangements. These guarantees are accounted for in accordance with IFRS4.

Section 4: Funding

4.1 Borrowings

The table below analyses the Group's borrowings which comprise bank and other loans by when they fall due for payment:

	2011 £m	2010 £m
Current		
In one year or less, or on demand	29.2	0.3
Non-current		
In more than one year but not more than two years*	251.9	68.3
In more than two years but not more than five years	140.4	260.3
In more than five years	29.2	29.2
	421.5	357.8
Total borrowings	450.7	358.1

* Since the year end £78.3 million of this debt has been refinanced through an extended facility of £82.0 million expiring in 2015.

In addition to the borrowings currently drawn as shown above, the Group has available undrawn facilities of £14.3 million (2010: £39.7 million). A further working capital facility of £20.0 million (2010: £20.0 million) is also available.

A further £132 million (2010: £227 million) of facilities are available if certain conditions are met. Of this amount £30 million (2010: £44 million) is only available for rental properties and £99 million (2010: £99 million) for development properties. The remaining amount is available for investment or development.

The carrying value of borrowings is considered to be approximate to fair value, except for the Group's fixed rate loans carried at £17.4 million (2010: £39.4 million). The fair value of these fixed rate loans has been calculated by a third party expert discounting estimated future cash flows on the basis of market expectations of future interest rates. The fair value of these loans is £18.4 million (2010: £40.8 million).

Properties with a carrying value of £696.8 million (2010: £582.4 million) have been pledged as security against the Group's borrowings.

4.2 Interest rate swaps

The Group uses interest rate swaps to manage the Group's exposure to interest rate fluctuations. In accordance with the Group's treasury policy, the Group does not hold or issue interest rate swaps for trading purposes and only holds swaps which are considered to be commercially effective.

The following table shows the fair value of interest rate swaps:

	2011 £m	2010 £m
Current	–	0.2
Non-current	39.0	37.1
Fair value of interest rate swaps	39.0	37.3

The fair values of interest rate swaps have been calculated by a third party expert discounting estimated future cash flows on the basis of market expectations of future interest rates, representing Level 2 in the IFRS 7 fair value hierarchy. The IFRS7 level categorisation relates to the extent the fair value can be determined by reference to comparable market values. The classifications range from level 1 where instruments are quoted on an active market through to level 3 where the assumptions used to arrive at fair value do not have comparable market data.

4.3 Net financing costs

Recognised in the income statement:	2011 £m	2010 £m
Finance income		
– Interest income on deposit	(0.1)	(0.2)
– Impact of discounting on interest free joint venture investment loans (note 3.3b)	(0.7)	(0.7)
Finance income	(0.8)	(0.9)
Gross interest expense on loans	15.8	16.3
Interest capitalised	(7.1)	(2.5)
Loan interest and similar charges	8.7	13.8
Changes in mark to market of interest rate swaps not accounted for as hedges	10.6	18.6
Finance costs	19.3	32.4
Net financing costs	18.5	31.5

The Group's overall average cost of debt as at 31 December 2011 is 5.7% (2010: 6.9%). The average cost of the Group's investment debt at 31 December 2011 is 5.4% (2010: 6.1%). This excludes £27 million of swaps and associated debt which are not specifically allocated to properties.

4.4 Gearing

The Group's adjusted gearing ratio is a key indicator that the Group uses to manage its indebtedness. Adjusted net asset value and adjusted net debt are used to calculate adjusted gearing. Adjusted net debt excludes mark to market of interest rate swaps as shown below.

The Group's gearing ratios are calculated as follows:

	Note	2011 £m	2010 £m
Cash and cash equivalents	5.1	16.8	23.8
Current borrowings	4.1	(29.2)	(0.3)
Non-current borrowings	4.1	(421.5)	(357.8)
Interest rate swaps liabilities	4.2	(39.0)	(37.3)
Net debt per balance sheet		(472.9)	(371.6)
Mark to market of interest rate swaps		38.9	37.0
Adjusted net debt		(434.0)	(334.6)
Reported net asset value (attributable to owners of the parent company)	2.4c	387.6	387.5
Adjusted net asset value	2.4c	514.5	474.5
Gearing			
Basic (Net debt/Reported net asset value)		122%	96%
Adjusted gearing (Adjusted net debt/Adjusted net asset value)		84%	71%
See-through adjusted gearing (including share of JV properties and net debt)		126%	115%

4.5 Covenant compliance

Many of the Group's funding facilities carry covenants. The Group monitors its covenant position and the headroom available on an ongoing basis. At 31 December 2011, the Group was in full compliance with all of its borrowing covenants. The Group is able to use available cash to reduce debt to increase headroom on its loan to value covenants. The covenant headroom position is outlined below and assumes that available cash is used to reduce debt.

	31 December 2011		31 December 2010	
	Weighted covenant	Weighted actual	Weighted covenant	Weighted actual
Loan to value	74%	56%*	74%	54%*
Interest cover	1.18	1.74	1.11	1.60
Minimum net worth	£250m	£515m	£250m	£475m

* Calculated on the basis that available cash is used to reduce debt.

4.6 Equity

The Company's issued share capital has increased during the year as follows:

	Number of ordinary shares	
	2011	2010
Issued at start of year – fully paid	160,268,343	159,606,942
Shares issued to long-term incentive plan	–	640,000
Share options exercised	3,117	21,401
Issued at end of year – fully paid	160,271,460	160,268,343

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.

4.7 Dividends

During the year, the Company declared and paid an interim dividend of £0.8 million (2010: £nil). After the year end, the directors proposed a final dividend of 1.25p per share. No provision has been made in relation to this dividend.

Section 5: Working capital

5.1 Cash

The Group's cash position at 31 December 2011 was £16.8 million (2010: £23.8 million).

The Group's cash balances include £14.5 million (2010: £15.6 million) whose use at the balance sheet date is restricted by funding agreements to pay operating costs and loan interest relating to specific properties.

The Group generates cash from its operating activities as follows:

	Note	2011 £m	2010 £m
Profit/(loss) for the year		3.9	21.3
Adjustments for:			
Depreciation and amortisation		4.1	3.3
Dividends receivable		–	–
Fair value of share based payments		1.2	1.3
Impairment of fixed assets		3.7	–
Change in value of investment property	3.1	(7.7)	(15.4)
Net finance costs	4.3	18.5	31.5
Loss on disposal of investment property		0.2	2.9
Share of joint venture profit	3.3b	(22.6)	(25.3)
Trading with joint venture adjustment		2.2	3.7
Tax charge	2.6a	0.8	2.9
Cash flows from operating activities before changes in working capital		4.3	26.2
Decrease in trade and other receivables		1.2	2.5
(Increase)/decrease in completed property and property under development		(114.7)	24.7
(Increase)/decrease in inventories		(6.8)	4.9
Increase/(decrease) in trade and other payables		31.0	(18.2)
Increase in provisions		11.0	–
Cash flows from operating activities		(74.0)	40.1

Cash flows consist of the following segmental cash inflows/(outflows): Operations £13.8 million (2010: £0.6 million), property (£17.2 million) (2010: (£25.9 million)) and unallocated (£3.6 million) (2010: £0.3 million). The unallocated amount includes restructuring (£1.4 million) (2010: £nil), Group dividends (£0.8 million) (2010: £nil), dividend payable to minority interests (£0.7 million) (2010: (£0.7 million)) and tax payable of (£0.6 million) (2010: £0.8 million).

5.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Group's cash balances, the Group's receivables from customers and joint ventures and loans provided to the Group's joint ventures.

At the year end, the Group's exposure to credit risk was as follows:

	Note	2011 £m	2010 £m
Cash	5.1	16.8	23.8
Trade receivables		6.7	12.0
Amounts due by joint ventures (excluding loans that are capital in nature)		13.4	20.2
Joint venture investment loans	3.3b	14.1	13.2
		51.0	69.2

a) Cash

The Group operates investment guidelines with respect to surplus cash. Counterparty limits for cash deposits are largely based upon long-term ratings published by credit rating agencies and credit default swap rates.

b) Trade receivables

The Group's customers can be split into three groups – (i) students (individuals), (ii) commercial organisations including universities and (iii) manufacturing customers. The Group's exposure to credit risk is influenced by the characteristics of each customer. The Group holds tenant deposits of £9.0 million (2010: £8.1 million) as collateral against individual customers.

c) Joint ventures

Amounts receivable from joint ventures fall into two categories – working capital balances and investment loans.