



**THE UNITE GROUP PLC**

("Unite Students", "Unite", the "Group" or the "Company")

**RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018**

**Richard Smith, Chief Executive of Unite Group, commented:**

"2018 was another successful year for Unite. We made good progress against all of our core objectives and continued to deliver sustainable growth in our recurring earnings and cash flows. Our strong results remain underpinned by our brand, our sector-leading operating platform, the quality of our portfolio, our deep and valuable University relationships and sector fundamentals. These qualities set us apart in a sector that remains undersupplied and, more than ever, has a need for accommodation that is delivered efficiently and with a focus on value for money.

"We continue to work in partnership with and align our portfolio to the strongest Universities in the UK, where student demand is both sustainable and at its greatest with 90% of our portfolio located at these Universities. This strategy has led to a further improvement in the quality and security of our income, with 60% of beds underpinned by agreements, in line with our target. University partnerships, alongside our development pipeline, are key drivers of continued growth and forward visibility of our earnings.

"Looking ahead, we maintain our positive outlook for the business. Reservations for the 2019/20 academic year are in line with record levels for this time of year, supporting our like-for-like rental growth guidance of 3.0-3.5%. Our secured development and University partnerships pipeline of 6,579 beds being delivered over the next four years will further improve operating efficiency and generate significant earnings growth.

"Whilst the backdrop of the ongoing Brexit negotiations and the impending review into Higher Education funding provide some uncertainty, our strategy of aligning to the best Universities and providing good-quality, value-for-money accommodation for resilient segments of the market reinforces our long-term confidence in the business. This confidence is reflected in our 28% increase in the full-year dividend."

**Operational delivery drives continued strong financial performance**

<b>Year ended</b>	<b>31 December 2018</b>	<b>31 December 2017</b>	<b>Change</b>
EPRA earnings*	£88.4m	£70.5m	+25%
EPRA earnings per share*	34.1p	30.3p	+13%
Profit before tax	£245.8m	£229.4m	+7%
Dividend per share	29.0p	22.7p	+28%
Total accounting return*	13%	14%	

Like-for-like rental growth*	3.2%	3.4%	
EBIT margin	71%	68%	
<b>As at</b>	<b>31 December 2018</b>	<b>31 December 2017</b>	
EPRA NAV per share*	790p	720p	+10%
Net debt*	£856m	£803m	+7%
Loan to value*	29%	31%	

### **EPRA earnings up 25% to £88.4 million, 34.1p per share (2017: £70.5 million and 30.3p)**

- 98% occupancy and like-for-like rental growth of 3.2% (2017: 99% and 3.4%)
- Increased dividend, up 28% to 29.0p, driven by growing earnings and higher payout
- Profit before tax up 7% to £245.8 million (2017: £229.4 million)
- 13% total accounting return (2017: 14%)

### **Record level of reservations for 2019/20 academic year supports rental growth outlook**

- Reservations for 2019/20 academic year at 75% in line with record levels in 2017
- Rental growth outlook for 2019/20 of 3.0-3.5% on a like-for-like basis

### **Earnings growth underpinned by operating platform, nomination agreements and development and partnerships pipeline**

- Nomination agreements with Universities on 60% of beds (2017: 60%) with proportion benefitting from contractual uplifts up to 76% from 71%
- New nominations secured on 50% of the 2018 openings (70% expected in 2019), including three new agreements with top 25-ranked Universities
- Secured development and University partnerships pipeline of 6,579 beds for delivery over the next four years, generating an attractive 7.0% yield on cost
- Together with rental growth, these new openings net of disposals could add 13p to 17p to earnings per share on completion of the pipeline
- Leveraging operating platform to drive further efficiencies – 2018 targets delivered and set new EBIT margin target of 74% by end of 2021

### **High-quality portfolio aligned to the strongest Universities where intake continues to grow**

- Significant progress with University partnerships – two deals secured in 2018, one deal secured since the year end and further pipeline emerging through 10 active discussions
- Disposal of 3,436 beds for £180 million (£85 million Unite share) to support increased focus on high-quality Universities
- 90% of Unite's portfolio located at high and mid-ranked Universities
- Continue to see a number of attractive development and University partnership opportunities in line with our target returns and expect to add to the pipeline whilst maintaining financial discipline

## **Strong financial position**

- LTV of 29% (2017: 31%), cost of debt reduced to 3.8% (2017: 4.1%)
- Transition to unsecured borrowing structure following issuance of £275 million unsecured corporate bond, backed by investment-grade credit rating from Standard & Poor's and Moody's

\* The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). These financial highlights are based on the European Public Real Estate Association (EPRA) best practice recommendations and these performance measures are published as they are intended to help users in the comparability of these results across other listed real estate companies in Europe. The metrics are also used internally to measure and manage the business and to align to the performance related conditions for Directors' remuneration. See glossary for definitions.

## **PRESENTATION**

There will be a presentation for analysts this morning at 08.15 at the Andaz London Liverpool Street. A live webcast will be available at: <https://webcasts.unite-group.co.uk/results/2019-full-year>. To register for the event or to receive dial-in details, please contact [unite@powerscourt-group.com](mailto:unite@powerscourt-group.com).

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## **CHAIRMAN'S STATEMENT**

The business has continued to make excellent progress in 2018, delivering across all of our key metrics. Our sector-leading brand and our positive reputation with customers and Universities, based around valued customer service, underpins this performance. The combination of our brand, relationships with high-quality Universities and property portfolio is difficult to replicate and is driving sustainable growth in our earnings.

Financial performance has again been strong, with a total accounting return of 13% and growth in EPRA earnings, up 25% to £88.4 million. Profit before tax was £245.8 million, which includes property revaluations and the impact of disposals of £153.6 million (2017: £229.4 million and £169.2 million respectively). As a result of this performance, we are proposing a final dividend of 19.5p to deliver a total dividend of 29.0p for the full year, an increase of 28% year-on-year.

Unite Students is a service brand and the strong performance we have delivered for our customers, University partners and shareholders is only possible because of the talent and hard work of our teams across the business. On behalf of the Board, I would like to thank them for another excellent year. Richard Simpson stepped down in May as our Group Property Director to take up the role of Chief Executive Officer of Watkin Jones plc. We have also taken the opportunity to appoint Richard Akers and Ilaria del Beato as additional Non-Executive Directors in September and December respectively.

The recent success of the business is founded on a consistent strategy and we will continue to focus on delivering its main objectives: providing great services that our students and University partners value; delivering quality buildings designed around student needs; and generating high-quality recurring earnings and maintaining a strong capital structure.

The outlook for our market remains positive, reflecting the strength of the world-renowned UK Higher Education sector, increasing participation rates, the internationalisation of Higher Education and the shortage of housing in the UK. Whilst the Higher Education Funding Review, together with the ongoing Brexit negotiations and political landscape in the UK, present a backdrop of some uncertainty; the Higher Education sector fundamentals, together with our high-quality portfolio, University relationships and market-leading operating platform, provide a resilient platform for continued growth.

## **CHIEF EXECUTIVE'S REVIEW**

I am pleased to report another strong set of results for the year ended 31 December 2018. We have maintained our focus on delivering sustainable growth in recurring profits and cash flows over the long term, and on delivering a Home for Success for all the students who live with us. We do this by providing valued services and operating high-quality buildings, designed specifically for students. Our investment discipline ensures we maintain a robust capital structure and deliver sustainable earnings.

Performance in 2018 resulted in another year of growth in EPRA earnings, like-for-like rents and development profits. EPRA earnings increased by 25% to £88.4 million and now represent over one-third of total accounting returns. The security, quality and visibility of our earnings provides the confidence to maintain our dividend payout of 85% of EPRA EPS.

## Financial highlights

	2018	2017
EPRA earnings	£88.4m	£70.5m
EPRA EPS	34.1p	30.3p
Profit before tax	£245.8m	£229.4m
Basic EPS	90.8p	95.3p
Dividend per share	29.0p	22.7p
Total accounting return	13%	14%
EBIT margin	71%	68%
EPRA NAV per share	790p	720p
Loan to value (LTV)	29%	31%

We will continue to focus on growing earnings, both in absolute terms and as a proportion of total returns. This is supported by our operational focus and the delivery of our secured pipeline. More specifically, the high degree of income visibility (driven by nominations, re-bookers, international and postgraduate students) and more effective utilisation of assets underpin our ability to maintain full occupancy and grow income on an annual basis. With increasing scale and a consistent focus on cost efficiencies, we have continued to invest a proportion of savings back into our service offer and also deliver further margin improvements. We see further opportunities to sustain improvements in both service and margins. The progress that we have made developing our University partnerships, alongside more traditional development activity, will drive further growth over the next few years and we continue to see an attractive pipeline of opportunities in both of these areas.

Our PRISM operating platform, coupled with our experienced management and leadership teams, give us a unique capability to drive value from our portfolio through further scale efficiencies, revenue management and utilisation, supporting our ongoing income focus. These capabilities give us confidence in sustaining rental growth.

We have actively prioritised improving the quality of our portfolio by using our customer insight and extensive local knowledge to align with the top performing Universities and ensure that we are in the best locations within our markets. This focus on the best Universities in the UK means that we are well positioned to maintain full occupancy and rental growth over time.

### Delivering for students

A University education can transform lives. We recognise, however, that it requires a significant financial commitment and understand that young people are increasingly focussed on getting value for their investment. Students understand that accommodation is a key ingredient in this and are demanding increased levels of service. We are therefore committed to delivering a living environment that provides students with what matters most to them and supports their academic, social and personal development. We believe that the value of a University education goes beyond future earnings potential and recognise the

importance of this to students and all stakeholders. Our students earn on average 33% more than national median earnings five years post-graduation, reflecting the value of their time at University.

We seek to provide a valued service through the consistent delivery of Home for Success, our insight-based student proposition that brings together great properties with the services students want, provided by people who understand students and, importantly, who care. In recent years, a significant investment in technology and our digital capability has helped us increase the differentiation of our offer, improve our students' experience and drive operating efficiencies.

Our properties are located where students want to live, close to their University, and are well maintained and regularly refurbished. We provide a range of room types at different price points with 92% configured in clusters with ensuite bedrooms and shared living spaces, which is how our research consistently tells us most students want to live. We offer different tenancy lengths to cater to a diverse spectrum of students, totalling 1.5 million students in need of accommodation. Amongst other things, our rents include all utilities, service charges, full contents insurance, rapid maintenance and high-speed Wi-Fi. In addition, our teams are on hand to support students when they need us; either physically or digitally. We make sure our dealings with students are straightforward and fair. Our service is based on providing the things that students value most: a safe and secure environment, support getting settled in quickly and help thereafter when they need it.

This commitment to providing value for students is reflected in average occupancy of 98% and rental growth of 3.5% p.a. over the last five years. Growing numbers of second, third year and postgraduate students are choosing to return to us and now account for two-thirds of our direct-let bookings. These students traditionally have lived in the private-rented sector, a sector that was recently highlighted in the NUS's 'Homes Fit for Study 2019' report for many of its poor practises, including housing quality, maintenance issues and deposit-related issues. The report also highlighted a rental level that is comparable to PBSA. These factors help to explain why more returning students are choosing PBSA over traditional alternatives. With over 800,000 students still living in private-rented housing, we continue to see further opportunity in this area.

Customer service satisfaction levels, a key performance indicator for us, remain at consistently high levels and place us on a par with some of the best service companies across Europe. 94% of our customers are satisfied with their accommodation and, across the whole PBSA market, 76% of students are happy with their accommodation (Knight Frank / UCAS); demonstrating the continuing appeal of our product and service and also more broadly across the sector.

We are proud to continue our support for the Unite Foundation. The Foundation provides financial and pastoral support to over 200 students every year in partnership with 27 Universities.

### **Partner of choice for Universities**

Our reputation with partner Universities is another of our key performance metrics. The results of our latest Higher Education trust survey show that our reputation with Universities across the UK is at record levels. This reflects years of sustained investment in key relationships and represents a key strategic advantage for Unite, resulting in a growing number of discussions about new opportunities.

In a highly-competitive environment, Universities are increasingly recognising the importance of high-quality accommodation in their ability to attract and retain students and ensure their satisfaction, a key performance metric under the government's Teaching Excellence Framework. Like the students who live with us, Universities are increasingly recognising the value of our student proposition, Home for Success.

Because of this, almost two-thirds of our estate is now let under nomination agreements with more than 45 of the UK's best institutions. Both our city-based managers and our Higher Education Engagement team work closely with these Universities to help them meet their short, medium and long-term accommodation needs, as well as their targets for student satisfaction, experience, welfare and retention. With an average remaining life of six years, these agreements provide income and rental growth certainty on 60% of our student income.

The availability of high-quality accommodation represents a significant constraint for many Universities, who are increasingly approaching Unite not as a traditional supplier but as a strategic partner in their long-term accommodation strategy. During the year, we secured two further University partnerships and have continued to make progress with our pipeline. We are in active dialogue with 10 Universities over potential partnerships. The growing appetite for innovative, long-term University partnership deals is helping us grow our portfolio of partnerships and drive long-term income security. Additionally, we have negotiated new agreements with three top 25-ranked Universities and also increased the proportion of nominations agreements benefitting from contractual rental uplifts from 71% to 76%.

### **Operating quality buildings**

The quality, location and scale of our portfolio is a key component of our business model and long-term strategy. We aim to operate buildings in and around high-quality Universities where student demand is highest. We believe that our focus on these institutions is the best strategy for driving continued high levels of occupancy and rental growth. We are therefore focussing our portfolio activity on further improving alignment to high and mid-ranked Universities and being in the best locations. 90% of our income is generated by students attending such Universities and we will ensure that our portfolio remains aligned to the best Universities in the UK.

During 2018, we opened 3,074 new beds, added 331 beds to our portfolio through acquisition and sold 3,436 beds. Taking into account these activities, together with valuation movements, the value of our investment portfolio (including our share of USAF and LSAV) is £2.7 billion as at 31 December 2018 (2017: £2.4 billion).

The purpose-built student accommodation sector continues to attract a significant level of global institutional capital. Over £3 billion of assets were traded in the year, driving yield compression across the sector, most notably for the highest-quality assets. The valuation of our portfolio increased as a result of an inward yield movement of 15 basis points on a like-for-like basis and the portfolio is valued at an average portfolio yield of 5.0% (2017: 5.2%).

### *Development and partnerships pipeline*

We also made excellent progress with our development pipeline during the year. We delivered seven new buildings over the summer and secured two additional development schemes, taking our secured development pipeline for delivery over the next four years to 6,579 beds. The construction of all our 2019

openings is progressing in line with plans and we expect that around 70% of these beds will be secured by nominations agreements. Planning consents and build contracts are in place for all of our 2020 deliveries and we are finalising our plans for schemes delivering in 2021 and 2022.

Since the year end, we have secured an option to acquire a new site in Bristol, on a subject-to-panning basis, that is expected to deliver 650 beds in 2022 and to be delivered as a University partnership scheme.

The secured development and partnerships pipeline is highly accretive and remains a significant component of our future earnings growth and, taken together with rental growth and disposals, could contribute 13-17 pence per share to EPRA earnings once built out.

The anticipated yield on cost of our secured development pipeline is 7.6% and prospective returns on new schemes remain attractive at around 7.0% in London and 8.0% in the regions. We have lower hurdle rates for developments that are supported by Universities or where another developer is undertaking the higher-risk activities of planning and construction.

We continue to see attractive development and partnership opportunities both in London and in other strong University markets. We plan to continue investing selectively in markets to enhance portfolio quality whilst maintaining discipline around target returns, and pushing for greater optionality given the uncertainty created by Brexit. We expect to maintain our run rate of 1,500-2,500 new beds over the coming few years.

#### *Disposals*

Disposals remain an important part of our strategy and we will continue to recycle assets out of our portfolio to ensure that we increase our exposure to the UK's best Universities, whilst generating capital to invest in further development activity and other investment opportunities. During 2018, we sold 14 properties for £180 million, of which Unite's share is £85 million. Following the disposal, we no longer have a presence in Plymouth or Huddersfield and have further improved our alignment to our target Universities, supporting our longer-term rental growth aspirations.

Our secured development pipeline requires a further £486 million of capital expenditure, and we intend to sell a further £100-£150 million (Unite share) of assets during 2019 to take advantage of the ongoing strength in the investment market and to ensure that we maintain a strong and flexible balance sheet as we progress our development pipeline. This disciplined approach to portfolio optimisation underpins our ability to sustain rental growth over a longer-time horizon.

#### **High-quality earnings and a strong capital structure**

We have achieved 98% occupancy across our portfolio and rental growth of 3.2% for the 2018/19 academic year. With 60% of beds underpinned by University nomination agreements, we have a high level of visibility in the ongoing occupancy and rental growth outlook of the portfolio. The investments that we have made in our PRISM operating platform differentiate us from our competition and provide capacity for us to continue growing the portfolio and delivering efficiencies in the future. This focus on efficiency has resulted in us delivering our NOI margin target of 75% and our overhead efficiency target of 30 basis points. As outlined at our Capital Markets Day, going forward we will combine these two measures and target an EBIT margin (NOI less overheads and fees as a percentage of sales). This measure shows the overall efficiency of the business



and significantly aids comparability across the sector. In 2018, we achieved a sector leading EBIT margin of 71%, up from 68% in 2017, and are targeting an EBIT margin of 74% by the end of 2021. This will be delivered by maintaining discipline on back-office efficiency and ensuring that services delivered to students are meaningful, relevant and delivered efficiently.

Unite's share of net debt grew by £53 million to £856 million in 2018. The majority of our property and development expenditure (Unite share £273 million) was funded by our share placing and disposal programme which, together with asset value appreciation, resulted in the reduction of LTV to 29% (2017: 31%). This LTV is at the lower end of our target range and we expect it to increase back to around the mid-30% level as we build out the development pipeline. We also monitor our interest cover ratio which currently stands at 3.4 and net debt to EBITDA ratio which is at 6.1 (2017: 2.6 and 6.5), both of which are in line with our target levels.

The Group also made its debut in the listed, unsecured bonds market, raising £275 million of 10-year bonds and has retained its investment-grade credit rating from Standard and Poor's and Moody's. The new funding provides additional financing headroom, greater flexibility and a reduced cost of funding.

### **Market and strategy**

The outlook for the student accommodation sector remains positive, with structural factors continuing to drive a demand-supply imbalance in the cities where we operate. The UK Higher Education sector is recognised globally for the strength of its Universities and the contribution it makes to research, innovation, talent development and the UK economy more broadly. The UK is the second most popular destination for international students and has 11 out of the world's top 100 Universities and 58 of Europe's top 200 Universities.

Total student numbers again reached record levels at over 1.8 million. The number of applicants and the number of students accepted into courses in 2018 was at 696,000 and 533,000 respectively (2017: 700,000 and 534,000). Despite a fall in applications of less than 1%, Universities were able to recruit from the excess of applications, resulting in intake remaining in line with the previous year and applicants still outstripping acceptances by 163,000. The small reduction in applications was driven principally by the demographic decline in the UK, with international students once again growing.

The initial applications data for the 2019/20 academic year is encouraging, with overall applications up by 0.5% with growing participation rates and increased numbers of international students more than offsetting the impact of the demographic decline that continues until 2021.

Going forward, the gap between the number of applicants and University places could be impacted by some external factors, including the impact of the UK leaving the EU and the demographic trend that has seen a 60,000 reduction in the number of 18-year-olds over the past four years. Whilst the impact on student numbers of the UK leaving the EU is difficult to predict, EU students only make up around 2,500 of our direct-let customers and EU student numbers have continued to grow over the last two years. We are nevertheless forecasting a 20-25% decline in EU undergraduates by 2023, equating to a fall of around 1% of total students.

However, participation rates continue to grow as more young people are choosing University over other alternatives and this, together with the reversal of the demographic decline, means that the outlook for UK student numbers looks increasingly positive. With demand from international students also growing, up 9% this

year, a more positive visa environment and a relatively small impact from Brexit, we feel equally positive about international demand.

The Government's review into post-18 education through the Augar Review is expected to report in the next few weeks. The review is expected to propose a number of changes to the way Higher Education is funded. Whilst the outcomes remain unclear, we expect to see the review recommend some reduction in the fees that students pay and potentially create some restrictions for Universities or courses that are assessed to offer lower-quality outcomes. We continue to focus on higher-quality Universities determined by a variety of measures such as TEF rankings, league tables, student outcomes, entry criteria and financial strength. This is demonstrated as less than 4% of our income is generated from lower financial-strength Universities and only 3% of our students are at Universities with entry requirements lower than three Ds at A level. This strategy of focussing on higher-quality Universities positions us well to withstand any impact of these changes. Any changes could also put pressure on University finances and we will continue with our dialogues with Universities as to how we can best support them through our partnership activity.

The student accommodation sector has attracted significant levels of capital investment over the last four years with over £16 billion of investment activity. This increased investment activity has seen the new supply of accommodation increase and the total number of purpose-built beds (including University-owned beds) grow to over 600,000, representing around one-third of the UK's student population. At this level, there still remains a shortage of purpose-built accommodation compared to the numbers of first year and international students, before taking account of the increasing numbers of second and third-year students who are choosing this type of accommodation. The outlook suggests that the rate of new supply will continue at a similar rate of around 20,000-25,000 beds in 2019, before starting to reduce. Supply in 2020 and beyond is currently limited to a further 20,000 beds. A large proportion of the new supply is focussed in markets where we do not have a presence and on the premium end of the market where we believe the competitive threat that it poses to our more mainstream proposition is limited.

Our exposure to changes in student numbers and increases in supply is mitigated by our alignment and relationship with high-quality Universities where student demand remains strongest, underpinned by nominations agreements. We remain confident that well-located, mid-range, direct-let student accommodation will continue to support high levels of occupancy and rental growth.

## **Outlook**

The outlook for the business remains positive. Building on our consistent performance record and the market fundamentals, the Group remains well placed to deliver sustainable earnings growth in the years ahead. Whilst the Augar Review could present some new challenges for the sector, UK Universities continue to demonstrate their ability to adapt and respond to a changing landscape and retain their globally recognised status. Growing participation rates highlight the very significant value that young adults place on a University education and the opportunities that it creates. This trend continues to drive the demand for high-quality Higher Education amongst both UK and international students as seen by the latest applications data. Our alignment to and relationships with the best Universities in the UK means that the impact of any changes on our business will be manageable.

Our development pipeline, University partnerships and operational expertise provides good visibility of future rental growth and increasing recurring earnings. With the increased level of macro risks, we are maintaining discipline around the allocation of capital into new opportunities but still expect to invest into new, value-enhancing activities. We are confident that our strategy of aligning our operations with the best performing Universities in the UK, combined with our highly-scalable operating platform, strong brand and reputation, makes us well positioned to extend our market-leading position.

## OPERATIONS REVIEW

The Group reports on an IFRS basis and presents its performance in line with best practice recommended by EPRA. The Operations and Property reviews focus on EPRA measures as these are our key internal measures and aid comparability across the real estate sector.

### Sales, rental growth and profitability

The key strengths of our operating business are our people, our PRISM operating platform, our brand and the strength of our relationships with Universities. We have continued to build on these throughout 2018, resulting in a 28% increase in EPRA earnings to £88.4 million (2017: £70.5 million). This growth has again been driven by high occupancy, rental growth and the impact of capital recycling, as well as further operational efficiencies and ongoing cost discipline.

#### Summary EPRA income statement

	2018 £m	2017 £m
Rental income	188.3	170.8
Property operating expenses	(48.0)	(44.3)
<b>Net operating income (NOI)</b>	<b>140.3</b>	<b>126.5</b>
<i>NOI margin</i>	<i>75%</i>	<i>74%</i>
Management fees	15.6	14.1
Operating expenses	(21.7)	(24.6)
Finance costs	(40.0)	(45.2)
Acquisition and net performance fees	-	4.3
Development and other costs	(5.8)	(4.6)
<b>EPRA earnings</b>	<b>88.4</b>	<b>70.5</b>
<b>EPRA EPS</b>	<b>34.1p</b>	<b>30.3p</b>
<i>EBIT margin</i>	<i>71%</i>	<i>68%</i>

A full reconciliation of Profit before tax to EPRA earnings is set out in note 2.2 of the financial statements

Rental income has increased by £17.5 million, up 10%, as a result of new openings and sustained rental growth, offset by the impact of disposals made in the year.

The efficiency programme we implemented in 2017 has delivered our targeted cost savings of £5 million by streamlining processes and procedures as a result of our student insight, PRISM and scale efficiencies. These

savings have ensured that we delivered our NOI margin and overhead efficiency target in 2018 whilst enhancing service. Management fee income from joint ventures was £15.6 million (2017: £18.4 million), as a result of recurring management fees of £13.2 million and one-off fees of £2.4 million (2017: £14.1 million and £4.3 million). We have introduced a new target to achieve an EBIT margin of 74% by the end of 2021. This target replaces previous efficiency targets and the improvement from the current level of 71% will be driven by tight cost control whilst growing the scale of the portfolio.

Finance costs decreased to £40.0 million (2017: £45.2 million). An increase in net debt at the end of the year of £53 million to £856 million (2017: £803 million) was offset by a lower average cost of finance of 3.8% (2017: 4.1%) as we have added new debt facilities at lower average rates, taking advantage of the historically low cost of debt. The increase in net debt was skewed towards the end of the year, driven largely by spend on development activities which has, in turn, led to an increase to £10.5 million in the amount of interest that is capitalised into development schemes, up from £7.4 million in 2017. We expect the level of interest capitalisation to remain at around this level given the ongoing level of development activity in 2019 and 2020. Development (pre-contract) and other costs grew to £5.8 million (2017: £4.6 million), reflecting the levels of site acquisition, the earnings impact of share based incentives and our contribution to our charitable trust, the Unite Foundation.

### **Occupancy, reservations and rental growth**

Occupancy across Unite's portfolio for the 2018/19 academic year stands at 98% and like-for-like rental growth of 3.2% was achieved on our portfolio. We have maintained the proportion of beds let to Universities, with 60% of rooms under nominations agreements (2017/18: 60%).

76% of these agreements, by income, are now multi-year and therefore benefit from annual RPI-linked uplifts, up from 71% in 2017. The remaining agreements are single year and we again achieved a renewal rate of over 95% on these agreements. By improving the length and quality of these agreements, income from nominations agreements has grown by 5.3% year-on-year as a result of improvements in mix and geographical location, and gives us increasing confidence over our rental growth outlook. Enhanced service levels and our extensive understanding of student needs have driven the longer-term nature and more robust partnerships with Universities. The unexpired term of the agreements is six years, in line with 2017.

We expect the proportion of beds let to Universities to remain at or around this level in the future. This balance of nominations and direct-let beds provides the benefit of having income secured by Universities, as well as the ability to offer rooms to returning students and to determine market pricing on an annual basis.

Agreement length	Beds	2018/19 income	2017/18 income
Single year	7,543	24%	29%
2-10 years	13,437	49%	44%
11-20 years	4,026	14%	14%
20+ years	<u>4,099</u>	<u>13%</u>	<u>13%</u>
Total	29,105	100	100

Reservations for the 2019/20 academic year are encouraging, at 75%, in line with the same point last year, as a result of our continued focus of working alongside the UK's best Universities, the success of our online marketing strategy and further progress through our local marketing operation in China.

We have good visibility over rental growth for the 2019/20 academic year with the nominations agreements in place, locking in to an uplift of 3-4%. In addition to this, our re-bookers, non-EU international and postgraduate students, who have more predictable booking patterns and are less affected by UK Government funding, make up a further 30% of our income. Through our utilisation activity, we can generate a further 3% of income with a high degree of confidence. This leaves only 9% of our income and rental growth exposed to less predictable first-time UK and EU undergraduate customers.

Our strategy of working alongside the UK's best Universities, together with our operational and sales focus, provides us with confidence of again delivering rental growth in 2019/20, in the region of 3.0-3.5%.

### **Home for Success**

With the value of Higher Education increasingly under scrutiny, the role of accommodation in shaping students' University experience is increasingly recognised. Against this backdrop, during 2018 we continued to drive student advocacy and our reputation with Universities through sustained but disciplined investment in our purpose, Home for Success. Our success was reflected in record results in our annual surveys of student satisfaction and University reputation respectively.

In building Home for Success, we successfully harnessed the power of our PRISM operating system and other proprietary digital platforms to simultaneously improve our students' experience and drive operational efficiencies. We aim to offer a mid-range price point compared to other providers of purpose-built student accommodation and a high-quality service offering.

Our student proposition brings together properties designed for today's student with the services they want. Both are delivered by 1,500 highly-committed employees with a passion for looking after students. Our status as a Living Wage Employer and the prestigious Investors in People Gold Standard accreditation reflects a sustained focus on recruiting, retaining and developing the very best people. Their experience, combined with our long-standing investment in research, provides a granular understanding of what matters most to students and helps us deliver a living environment that enables all students to get the best out of University.

As part of this commitment, during 2018 we continued to invest in our market-leading student welfare services. In particular, we focussed on making the sometimes challenging transition to University as smooth as possible. Our uChat feature of the MyUnite app was used by the majority of users of the app, allowing them to meet their future flatmates before arriving at University; helping to alleviate one of the most common sources of pre-arrival anxiety. Our new online check-in made the sometimes fraught experience of arriving and moving in as hassle-free as possible and, as our record customer satisfaction score shows, helped ensure our students feel welcome. Once students do arrive, we have teams of student ambassadors, usually second or third-year students, on hand to answer questions, show new arrivals their rooms and provide valuable peer-to-peer support at critical points in their journey through University. Our comprehensive welcome communications direct students to information about their new home, including local amenities and entertainment, as well as our online Common Room where our teams of student writers give peer-to-peer advice such as tips on

budgeting, living with friends, wellbeing information and other topics our students have highlighted as being useful. The digital welfare guides delivered through the Common Room were viewed by 84% of our students.

A recent report by the NUS vividly illustrates the potential impact of accommodation on students' welfare and wellbeing. In a year when mental health came under the spotlight, we continued working to ensure both our properties and services are designed to help students navigate successfully the challenges that University life can bring. Our research consistently confirms the importance of social interaction and integration. Therefore, using a property in Leeds as a test bed, we have piloted numerous design innovations to help make social interaction as easy as possible for all students. 1,000 members of our teams have received training in mental health awareness and active listening. Dedicated welfare leads in all our cities and a central team of specialists mean that we are able to work closely with our University partners to identify students who may be struggling and ensure they get the support they need as quickly as possible. As well as our 24/7 emergency contact centre, we provide links to third-party wellbeing and mental health services, such as Nightline.

A range of digital and more traditional sales channels now enables UK and international students alike to reserve their room in the way that suits them best, dramatically reducing the average time from booking to completion and making short-term bookings easier. The My Unite app, which is now used by 89% of our students, delivers a wide range of useful pre-arrival information and has helped reduce arrival-related calls to our customer care centre by some 39%. A new app-based check-in feature makes the experience of arriving at University smoother and more efficient for both students and our people. Last October, it was used by 53% of our students as they arrived for the start of a new academic year and we aim to roll it out further in 2019.

During the year, we also launched a series of activities designed to raise awareness and understanding of University life amongst sixth-formers and their parents. These included a series of branded PR campaigns which used a combination of digital and traditional media channels to help young people prepare for University and the pilot of Leap Skills, a carefully designed training programme to instil valuable life skills and emotional resilience. By the end of the year, we delivered this programme to 1,000 students in over 40 schools. We are currently exploring a wider roll-out of the programme with the development of a digital variant of the training.

Our investment in technology is also helping ensure that we are on hand to help when students need us. In these situations too, technology has helped deliver a virtuous circle of improved service and greater efficiency. For example, during the year we conducted, in many cases via our network of Student Ambassadors, over 100,000 webchats, driving in the process a 39% reduction in calls to our customer service centre and a satisfaction rating of 95%. Our recently introduced digital platform for the booking, scheduling and monitoring of maintenance requests helped our Estates team deliver a first-time fix in 84% of cases.

Home for Success and our commitment to students extends to life beyond University. Our research confirms that employability remains a key driver of student satisfaction as such during 2018, we stepped up our investment in Placer, a new work experience and job-finding app which has been developed as a joint-venture partnership with the National Centre for Universities and Business and digital education specialists, Jisc. To date, some 230 employers, including some of the UK's largest businesses, have signed up to the platform, offering over 17,000 work experience and graduate roles.

Home for Success is about helping all young people unlock the opportunities that Higher Education offers, regardless of their background. During 2018, we therefore continued to support IntoUniversity, a national non-profit organisation focussed on helping young people from disadvantaged backgrounds gain access to Universities; and the Unite Foundation, a well-funded charitable scholarship scheme for care leavers and young people estranged from their families. The Foundation works in partnership with 27 Universities, for whom it forms an important part of their efforts to widen participation, and in this academic year is providing support for over 200 students. These social investments complement a wide range of grass-roots charitable activity, community engagement and employee volunteering initiatives. Together with programmes to drive deeper levels of diversity and inclusion and reduce waste and energy use across our organisation, they form a key cornerstone of our Up to us responsible business programme.

## **PROPERTY REVIEW**

### **EPRA NAV growth**

EPRA NAV per share increased by 10% to 790 pence at 31 December 2018, up from 720 pence at 31 December 2017. In total, EPRA net assets were £2,085 million at 31 December 2018, up from £1,740 million a year earlier.

The main factors behind the 70 pence per share growth in EPRA NAV per share were:

- The growth in the value of the Group's share of investment assets (+45 pence), as a result of rental growth (+20 pence) and yield compression (+25 pence)
- The value added to the development portfolio (+13 pence)
- The positive impact of retained profits after dividends paid (+10 pence)
- The impact of the share placing (+3 pence)

Looking forward, our portfolio is well placed to deliver continued value growth. Our focus on the strongest University locations underpins rental growth prospects and we will continue to deliver meaningful upside from our development activity. In total, our secured pipeline is expected to deliver around 45 to 55 pence per share of NAV uplift and, together with future rental growth and planned disposals, 13 to 17 pence of earnings per share once completed.

### **Property portfolio**

The valuation of our property portfolio at 31 December 2018, including our share of gross assets held in USAF and LSAV, was £2,967 million (31 December 2017: £2,595 million). The £372 million increase in portfolio value (Unite share) was attributable to:

- Valuation increases of £163 million on the investment and development portfolios, with like-for-like rental growth of 3.2% and yield compression of 15 basis points
- Capital expenditure on developments of £248 million and £25 million on investment assets relating to refurbishment
- Acquisitions of £6 million and disposals of £85 million
- Increased share of USAF of £15 million, as a result of the performance fee earned in 2017 and acquisitions of units purchased in the secondary market

## Summary balance sheet

	2018 £m			2017 £m		
	Wholly owned £m	Share of Fund/JV £m	Total £m	Wholly owned £m	Share of Fund/JV £m	Total £m
Rental properties	1,497	1,188	2,685	1,261	1,118	2,379
Properties under development	279	3	282	206	10	216
	<b>1,776</b>	<b>1,191</b>	<b>2,967</b>	<b>1,467</b>	<b>1,128</b>	<b>2,595</b>
Adjusted net debt	(471)	(385)	(856)	(462)	(341)	(803)
Other assets/(liabilities)	(14)	(12)	(26)	(35)	(17)	(52)
<b>EPRA net assets</b>	<b>1,291</b>	<b>794</b>	<b>2,085</b>	<b>970</b>	<b>770</b>	<b>1,740</b>

\* A reconciliation of the IFRS balance sheet to EPRA net assets is set out in section 2.3 of the financial statements

The proportion of our property portfolio that is income generating is 90%, in line with December 2017, with 10% under development. We will continue to manage the development weighting of our balance sheet and expect it to remain at around these levels, well within our internal cap of 20% going forward.

## Unite investment portfolio analysis at 31 December 2018

		USAF	LSAV	Wholly owned	Lease	Total	Unite share
London	Value (£m)	369	977	500	-	<b>1,846</b>	<b>1,082</b>
	Beds	1,870	5,283	1,993	260	<b>9,406</b>	<b>40%</b>
	Properties	6	12	6	1	<b>25</b>	
Prime provincial	Value (£m)	598	-	298	-	<b>896</b>	<b>449</b>
	Beds	5,344	-	2,678	618	<b>8,640</b>	<b>17%</b>
	Properties	18	-	7	2	<b>27</b>	
Major provincial	Value (£m)	1,062	266	409	-	<b>1,737</b>	<b>811</b>
	Beds	13,597	3,067	5,329	1,210	<b>23,203</b>	<b>30%</b>
	Properties	34	1	10	4	<b>49</b>	
Provincial	Value (£m)	212	-	290	-	<b>502</b>	<b>343</b>
	Beds	2,688	-	3,819	1,059	<b>7,566</b>	<b>13%</b>
	Properties	8	-	10	3	<b>21</b>	
<b>Total</b>	<b>Value (£m)</b>	<b>2,241</b>	<b>1,242</b>	<b>1,497</b>	<b>-</b>	<b>4,981</b>	<b>2,685</b>
	Beds	23,499	8,350	13,819	3,147	<b>48,815</b>	<b>100%</b>
	Properties	66	13	33	10	<b>122</b>	
<b>Unite ownership (£m)</b>		<b>567</b>	<b>621</b>	<b>1,497</b>	<b>-</b>	<b>2,685</b>	



## Student accommodation investment market

The overall market for purpose-built student accommodation is estimated to be over £50 billion. Around half of this value is owned by Universities and the remainder by private operators. Whilst investor demand for high-quality, well-located student accommodation remains high, the level of transactions in the student accommodation sector in 2018 has reduced slightly from the record levels in 2016 and 2017. However, with over £3 billion of assets trading during the year, there are continuing levels of high demand for good-quality assets and portfolios and the reduction is largely the product of less stock coming to market after a few years of unusually high levels of activity.

As a result of ongoing investor appetite and subsequent transactions, there has been a modest level of yield compression across the sector. This movement has been most notable in London and a small number of markets aligned to the highest-ranking Universities, where there has been the strongest level of demand for assets. The buyers of assets are generally international and are either adding to existing platforms or are new to the sector. We are still seeing high levels of interest for any assets that are brought to market.

This market activity has resulted in yield compression that has been reflected in our portfolio and the average yield at 31 December 2018 was 5.0%, an inward movement of 15 basis points on a like-for-like basis over the year.

### *Indicative valuation yields*

	31 December 2018	31 December 2017
London	4.0-4.25%	4.25-4.5%
Prime provincial	4.5-5.0%	4.75-5.25%
Major provincial	5.0-5.5%	5.0-5.5%
Provincial	6.0-6.5%	6.0-6.5%

## Buildings designed for students

The focus of our property activity is to provide buildings designed specifically around the needs of today's student, in the best locations alongside high-performing Universities. We involve our University partners in the design and planning process to ensure that we are delivering buildings that meet the requirements of their students. We also aim to provide value-for-money accommodation and look to continually enhance the specification of our estate, using technology to enhance customer service and drive efficiency savings through energy and water savings, enhanced Wi-Fi speeds and new features to improve the living experience. The location within cities is critically important and this is one of the key factors in our investment / divestment decision-making process. This was evidenced by the sale of 3,400 beds in 2018 that resulted in us exiting two markets and repositioning our portfolio in four other cities to reduce our concentration in these locations. Our development and portfolio activity is designed to support this strategic approach to ensure that the portfolio is best placed to drive full occupancy and rental growth in the medium term.

## Pipeline activity

We have expanded our pipeline activity throughout 2018 and this activity continues to be a significant driver of growth in future earnings and NAV. Alongside our core development activity, we are increasingly focussing on University partnerships and forward-fund developments, adding two significant new schemes in London during the year. The first of these schemes is a 960-bed University partnership scheme close to the City of London and the second a 678-bed forward-funded development in Wembley.

The development market continues to present interesting opportunities to us and we are tracking a range of schemes that deliver our target returns in both London and in the regions. We are taking a disciplined approach whilst the uncertainty around Brexit remains and are, where possible, looking to de-risk schemes by either utilising option agreements, passing on development risk or underwriting occupancy through University guarantees. We expect to add to our pipeline during 2019 and maintain a run rate of 1,500-2,500 new beds per annum.

We have contractually fixed our exposure to construction costs on all schemes completing in 2019 and 2020 and have brought forward the procurement of all critical items supplied from European countries on our 2019 completions.

### *2018 and 2019 completions*

We completed 3,074 beds across seven new schemes during 2018 in line with budget and programme, achieving 98% occupancy in the first year of operation. Over 50% of these beds are let to Universities under nominations agreements for the 2018/19 academic year, with an average duration of 10 years, showing the strength of our relationships with our partner Universities.

The 2019 pipeline is progressing well. We are on track to deliver two wholly-owned schemes in Oxford and Liverpool and, in USAF, a forward-funded development in Birmingham, adding a total of 2,390 beds. We expect all of the schemes to be fully let for the 2019/20 academic year with around 70% of the beds let under long-term University agreements with high-quality Universities.

### *Development pipeline*

During the year, we have continued to add to our pipeline and have a total of three schemes secured, which are expected to deliver approximately 2,209 beds in addition to our ongoing 2019 projects. One of these schemes is a 678-bed development in Wembley on a forward-funded basis. This scheme will be delivered in 2020 and will add to our existing building in Wembley to create an efficient operating hub in this area, providing over 1,000 beds at more affordable rents. We have also added a further 50 beds to the scheme in Leeds through our positive relationship with the local planning authority. All new regional developments are being undertaken on a wholly-owned basis and prospective returns for the secured pipeline remain in line with our target returns.

We have continued to encounter challenges to secure a planning consent for our Old BRI site in Bristol. Following consultation with the local authority, we expect to submit an application to build around 370 beds, with the remainder of land being sold for residential development. As a result of ongoing discussions with the University of Bristol, we now expect to deliver this as a University partnership scheme and for it to deliver returns of around 6.2%.

## Secured forward-fund pipeline (USAF)

USAF completed two forward-fund assets in Durham in 2018, creating operational scale in the city and enabling us to start building our relationship with Durham University. The remaining scheme in Birmingham is on track for delivery in the summer of 2019, and we expect to secure a nominations agreement on this building in due course. Following the disposals in 2018, USAF has around £100 million of acquisition capacity which it intends to invest in 2019.

## University partnerships

In addition to growing the number of beds and the value of income underpinned by University-backed nomination agreements, we have made further progress with our strategy of delivering ongoing growth through partnerships with Universities. Following our first on-campus acquisition of the entire Aston University accommodation in 2017, we secured two further University partnership schemes in 2018.

First, we acquired the former Cowley Barracks in Oxford. Working with Oxford Brookes University, we secured planning permission to build 887 beds and agreed terms for a 25-year nominations agreement with the University, taking our partnership with them to over 1,250 beds. The scheme is progressing well and is on track to be opened in the summer.

We continue to make good progress with our new scheme in Middlesex Street, E1. Working with King's College London, we will submit a planning application to build around 960 beds of cluster-flat accommodation in the next few months.

Since the year end, we have exchanged contracts, providing us with an option to acquire a plot of land in Bristol, close to the University of Bristol. This scheme is expected to be developed as a University partnership scheme given its proximity to the University of Bristol. We will submit planning later this year and expect to deliver 650 beds in 2022.

Through our Higher Education Engagement team, we are continuing to hold active discussions with around 10 Universities, exploring a range of different options including further off-campus developments, stock transfer and third-party management arrangements. We expect to add one or two new deals per year as previously outlined.

		Secured beds No.	Total completed value £m	Total development costs £m	Capex in period £m	Capex remaining £m	Forecast NAV remaining £m	Forecast yield on cost %
<b>Wholly owned</b>								
<u>2019 completions</u>								
Skelhorne Street	Liverpool	1,085	95	74	30	19	8	8.0%
<u>2020 completions</u>								
Tower North	Leeds	928	104	81	23	58	16	8.0%
First Way	London	678	122	102	39	63	10	6.0%
New Wakefield Street	Manchester	603	81	56	8	36	13	8.2%
<b>Total wholly owned</b>		<b>3,294</b>	<b>402</b>	<b>313</b>	<b>100</b>	<b>176</b>	<b>47</b>	<b>7.6%</b>

## University partnerships

### 2019 completions

Cowley Barracks	Oxford	887	98	73	57	15	4	6.5%
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### 2021 completions

Old BRI <sup>1</sup>	Bristol	370	52	39	2	25	12	6.2%
Middlesex Street <sup>1</sup>	London	960	250	193	7	186	57	6.3%

### 2022 completions

Temple Quay <sup>1</sup>	Bristol	650	95	77	-	77	18	6.2%
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<b>Total University partnerships</b>		<b>2,867</b>	<b>495</b>	<b>382</b>	<b>66</b>	<b>303</b>	<b>91</b>	<b>6.3%</b>
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## USAF

### 2019 completions

Battery Park	Birmingham	418	43	38	-	29	2	6.3%
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<b>Total USAF</b>		<b>418</b>	<b>43</b>	<b>38</b>	<b>-</b>	<b>29</b>	<b>2</b>	<b>6.3%</b>
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<b>Unite share of USAF</b>		<b>418</b>	<b>11</b>	<b>10</b>	<b>-</b>	<b>10</b>	<b>1</b>	<b>6.3%</b>
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<b>Total pipeline (Unite share)</b>		<b>6,579</b>	<b>908</b>	<b>705</b>	<b>166</b>	<b>486</b>	<b>139</b>	<b>7.0%</b>
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<sup>1</sup> Subject to obtaining planning consent

## **Asset disposals**

Focussing our portfolio alongside high-quality Universities remains an important part of our strategy. Our ongoing disposal programme supports our development and acquisition activity to achieve this aim. During the year, we sold a portfolio of 14 properties, comprising 3,436 beds for £180 million, of which Unite's share is £85 million. The portfolio was made up of assets located in Plymouth, Huddersfield, Sheffield, Birmingham, Bristol and London. As a result of the disposal, we no longer have a presence in Plymouth and Huddersfield, enhancing longer-term rental growth prospects and the efficiency of the portfolio.

We will continue to recycle assets in the portfolio to maintain our focus on quality and to maintain capital discipline as we pursue further growth opportunities. The Group's committed development pipeline requires further capital expenditure of £486 million. In order to fund this expenditure and manage leverage and headroom for further opportunities, the Group intends to sell assets of around £100-£150 million in 2019 (Unite share). This will allow us to maintain leverage at around 35%, net debt:EBITDA ratio at between 6 to 7 and an interest cover ratio in excess of 3 times.

## **A sustainable business**

We continue to invest in the portfolio to maintain our buildings to a high standard and to take advantage of asset management opportunities. As part of this activity, we see opportunities to enhance the efficiency of our buildings through energy-saving initiatives. Over the course of the last five years, we have invested £30 million into energy saving initiatives such as LED lighting, smart building controls, solar panels and air source heat pumps, with payback of under five years on these investments. We have developed an award-winning customer engagement programme, working closely with the National Union of Students, to encourage students to act in an environmentally-friendly manner. We also purchase 100% renewable energy. The energy, water and carbon reductions from these initiatives have delivered significant savings that support our margin improvements.

Alongside our focus on our environmental impact, we believe strongly in supporting Universities to widen participation into Higher Education. The Unite Foundation works in partnership with 27 Universities to provide support to students from challenging backgrounds.

These improvements, along with other aspects of our Up to uS Responsible Business Strategy, have helped us maintain GRESB Green Star status and a 4-star rating and are reflected in other ESG assessments, including an 'AA' rating from MSCI ESG and listings on the FTSE4Good index and the GPR IPCM LFFS Sustainable GRES index.

## FINANCIAL REVIEW

### Income statement and profit measures

A full reconciliation of Profit before tax to EPRA earnings measures is set out in summary below and expanded in section 2 of the financial statements.

	2018 £m	2017 £m
EPRA earnings	88.4	70.5
Valuation gains and profit on disposal	153.6	169.2
Changes in valuation of interest rate swaps and debt break costs	(0.1)	(12.3)
Minority interest and tax included in EPRA earnings	3.9	2.0
<b>Profit before tax</b>	<b>245.8</b>	<b>229.4</b>
EPRA earnings per share	34.1p	30.3p
Basic earnings per share	90.8p	95.3p

The increase in profit before tax is primarily the result of a higher level of EPRA earnings of £88.4 million being recognised in 2018 compared with the £70.5 million recognised in 2017 and a lower valuation uplift in 2018 compared to 2017.

### Cash flow, net debt and leverage

The Operations business generated £81.2 million of net cash in 2018 (2017: £63.2 million) and net debt increased to £856 million (2017: £803 million). The key components of the movement in net debt were the operational cash flow, the share placing and the disposal programme (generating total inflows of £275 million) offset by total capital expenditure of £252 million and dividends paid of £63 million. In 2019, we expect net debt to increase as capital expenditure on investment and development activity will exceed anticipated asset disposals.

### Dividend

We are proposing a fully covered final dividend payment of 19.5 pence per share (2017: 15.4 pence), making 29.0 pence for the full year (2017: 22.7 pence). The final dividend will comprise a Property Income Distribution (PID) of 16.0 pence and a non-PID element of 3.5 pence.

Subject to approval at Unite's Annual General Meeting on 9 May 2019, the dividend will be paid in either cash or new ordinary shares (a "scrip dividend alternative") on 17 May 2019 to shareholders on the register at close of business on 12 April 2019. The last date for receipt of scrip elections will be 25 April 2019.

Further details of the scrip scheme, the terms and conditions and the process for election to the scrip scheme are available on the company's website.

As a result of the quality, predictable earnings outlook for the business, we are planning to maintain our dividend payout at 85% of EPRA earnings.

## **Tax**

As a REIT, the Group is exempt from UK corporation tax on its property rental business. Despite being a REIT, we are subject to a number of other taxes in the same way as non-REIT companies. During the year, we incurred £3.9 million of corporation tax relating primarily to profits on our property management activities (2017: £1.5 million).

A deferred tax asset relating to tax adjusted losses carried forward of £1.3 million is being recognised against future profits arising to the Group. The deferred tax liability relating to unrealised gains on joint venture investments of £24.4 million, which are not exempt from tax, exceeds the remaining deferred tax asset relating to tax adjusted losses carried forward of £9.9 million. As the losses can be set against gains as they arise, the deferred tax asset relating to the losses can be recognised in full against deferred tax liabilities.

The Finance Act 2019 will result in the reversal of the deferred tax liability of £24.4 million on investments in units and corresponding deferred tax asset of £9.9 million on losses, resulting in a £14.5 million increase in net asset value.

## **Share placing**

We completed a placing of 22.2 million new ordinary shares in February 2018 at a price of 765 pence per share, raising gross proceeds of £170 million. The proceeds were used to invest in two new University partnership schemes, located in Oxford and London.

## **Debt financing**

The Group has continued to maintain a disciplined approach to managing leverage, with LTV of 29% at 31 December 2018 at the lower end of our target range. The Unite Group plc has maintained an investment grade corporate rating of BBB from Standard & Poor's and Baa2 from Moody's, reflecting the strength of Unite's capital position, cash flows and track record. The credit rating underpinned a £275 million issue of unsecured 10-year bonds that will reduce the average cost of debt to 3.6% when fully drawn.

### *Key debt statistics (Unite share basis)*

	2018	2017
Net debt	£856m	£803m
LTV	29%	31%

Net debt:EBITDA ratio	6.1	6.5
Interest cover ratio	3.4	2.6
Average debt maturity	5.8 years	5.3 years
Average cost of debt	3.8%	4.1%
Proportion of investment debt at fixed rate	99%	80%

LTV improved to 29% at 31 December 2018, from 31% at the end of 2017 as a result of the value growth of the portfolio exceeding the increase in net debt. We will continue to manage our gearing proactively and intend to maintain our LTV around the mid-30% level going forward, assuming current yields. With the greater focus on earnings, we are also monitoring our interest cover ratio which is 3.4 times covered, having increased from 2.6 times covered in 2017. Our net debt to EBITDA ratio remained within our target range of between 6 and 7 in 2018.

### Interest rate hedging arrangements and cost of debt

Our cost of debt has come down to 3.8% (2017: 4.1%). Following the shift to an unsecured structure, there is an opportunity to further reduce the cost of debt over time as we add new debt to build out the development pipeline, replacing expensive legacy facilities. The Group has 99% of its share of investment debt subject to a fixed interest rate (2017: 80%) for an average term of 5.8 years (2017: 5.3 years).

### Amendments to IFRS

A number of new standards and amendments to standards have been issued but are not effective as at 31 December 2018. The most significant of these is IFRS 16 Leases (effective from 1 January 2019). The new standard will create a right-of-use asset and a liability for the future minimum lease payments. This standard will have the biggest impact on our sale and leaseback portfolio which comprises 3,147 beds across 10 properties. These properties were sold by the Group between 2004 and 2009 to institutional investors and simultaneously leased back by the Group. The properties have income secured by nominations agreements to offset the lease payment to the institutional owners.

On transition, net asset value is expected to increase by £10-£15 million. More detailed explanation is included in note 1.

### Funds and joint ventures

The table below summarises the key financials for each vehicle:

Vehicle	Property assets £m	Net debt £m	Other assets £m	Net assets £m	Unite share of NAV £m	Total return	Maturity	Unite share
<b>USAF</b>	2,253	(562)	(31)	1,660	423	7.5%	Infinite	25%
<b>LSAV</b>	1,242	(486)	(14)	741	371	17.9%	2022/2027	50%

USAF and LSAV have continued to perform well in 2018. LSAV's higher total return is driven by stronger yield compression in London. USAF has around £100 million of acquisition capacity and will continue to monitor

acquisition opportunities. The secondary market for USAF units continues to operate effectively with £48 million of units trading in 2018 at a small premium to NAV.

There have been no redemption requests from investors and Unite owns 25% of the fund.

## Fees

During the year, the Group recognised net fees of £15.6 million (2017: £18.4 million) from its fund and asset management activities as follows:

	31 December 2018 £m	31 December 2017 £m
<b>USAF</b>		
Asset management fee	10.2	10.1
Acquisition fee	-	0.4
Net performance fee	-	3.4
<b>LSAV</b>		
Asset and property management fee	3.0	4.0
Acquisition fee	-	0.5
<b>Unite</b>		
Third-party short-term management of disposal assets	2.4	-
<b>Total fees</b>	<b>15.6</b>	<b>18.4</b>

The recurring asset management fees from USAF and LSAV have reduced as a result of disposal activity in 2017 and 2018, outstripping the valuation growth in the portfolios under management.



## **Responsibility statement of the directors in respect of the annual financial report**

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole
- The strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy.

Richard Smith  
Chief Executive Officer

Joe Lister  
Chief Financial Officer

27 February 2019

### **Forward-looking statements**

The preceding preliminary statement has been prepared for the shareholders of the Company, as a body, and for no other persons. Its purpose is to assist shareholders of the Company to assess the strategies adopted by the Company and the potential for those strategies to succeed and for no other purpose. The statement contains forward-looking statements that are subject to risk factors associated with, amongst other things, the economic, regulatory and business circumstances occurring from time to time in the sectors and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated. No assurances can be given that the forward-looking statements will be realised. The forward-looking statements reflect the knowledge and information available at the date of preparation. Nothing in the preliminary statement should be considered or construed as a profit forecast for the Group. Except as required by law, the Group has no obligation to update forward-looking statements or to correct any inaccuracies therein

# INTRODUCTION AND TABLE OF CONTENTS



These financial statements are prepared in accordance with IFRS. The Board of Directors also presents the Group's performance on the basis recommended for real estate companies by the European Public Real Estate Association (EPRA). The reconciliation between IFRS performance measures and EPRA performance measures can be found in section 2.2 a) for EPRA earnings and 2.3 c) for EPRA net asset value (NAV). The adjustments to the IFRS results are intended to help users in the comparability of these results across other listed real estate companies in Europe and reflect how the Directors monitor the business.

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

- > Results for the year, including segmental information, EPRA earnings and EPRA NAV
- > Asset management
- > Funding
- > Working capital

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

## Primary statements

Consolidated income statement  
Consolidated statement of comprehensive income  
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# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Note	2018 £m	2017 £m
Rental income	2.4	112.7	99.7
Other income		15.6	19.6
<b>Total revenue</b>	2.4	<b>128.3</b>	119.3
Cost of sales		(40.2)	(41.1)
Operating expenses		(23.6)	(26.9)
Results from operating activities		64.5	51.3
(Loss)/profit on disposal of property		(6.8)	0.6
Net valuation gains on property	3.1	105.8	103.1
<b>Profit before net financing costs</b>		<b>163.5</b>	155.0
Loan interest and similar charges	4.3	(14.3)	(17.3)
Swap cancellation and loan break costs	4.3	(0.1)	(11.5)
Finance costs	4.3	(14.4)	(28.8)
Finance income	4.3	0.9	0.1
<b>Net financing costs</b>	4.3	<b>(13.5)</b>	(28.7)
Share of joint venture profit	3.3b	95.8	103.1
<b>Profit before tax</b>		<b>245.8</b>	229.4
Current tax	2.5	(4.1)	(1.7)
Deferred tax	2.5	(4.4)	(3.9)
<b>Profit for the year</b>		<b>237.3</b>	223.8
<b>Profit for the year attributable to</b>			
Owners of the parent company	2.2c	235.7	221.6
Minority interest		1.6	2.2
		<b>237.3</b>	223.8
<b>Earnings per share</b>			
Basic	2.2c	90.8p	95.3p
Diluted	2.2c	90.6p	93.6p

All results are derived from continuing activities.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 £m	2017 £m
<b>Profit for the year</b>		<b>237.3</b>	223.8
Movements in effective hedges	4.2	0.6	10.8
Share of joint venture movements in effective hedges	3.3b	1.2	2.1
Other comprehensive income for the year		1.8	12.9
<b>Total comprehensive income for the year</b>		<b>239.1</b>	236.7
<b>Attributable to</b>			
Owners of the parent company		237.5	234.5
Minority interest		1.6	2.2
		<b>239.1</b>	236.7

All other comprehensive income may be classified as profit and loss in the future.

# CONSOLIDATED BALANCE SHEET

At 31 December 2018

	Note	2018 £m	2017 £m
<b>Assets</b>			
Investment property	3.1	<b>1,497.1</b>	1,261.4
Investment property under development	3.1	<b>278.9</b>	205.7
Investment in joint ventures	3.3b	<b>819.7</b>	793.5
Other non-current assets		<b>33.0</b>	32.4
<b>Total non-current assets</b>		<b>2,628.7</b>	2,293.0
Inventories	3.2	<b>9.1</b>	4.5
Trade and other receivables		<b>88.1</b>	82.9
Cash and cash equivalents	5.1	<b>123.6</b>	51.2
<b>Total current assets</b>		<b>220.8</b>	138.6
<b>Total assets</b>		<b>2,849.5</b>	2,431.6
<b>Liabilities</b>			
Borrowings	4.1	<b>(1.3)</b>	(1.3)
Trade and other payables		<b>(141.5)</b>	(152.1)
Current tax liability		<b>(4.6)</b>	(4.1)
<b>Total current liabilities</b>		<b>(147.4)</b>	(157.5)
Borrowings	4.1	<b>(591.3)</b>	(511.5)
Interest rate swaps	4.2	<b>(0.1)</b>	(0.8)
Deferred tax liability	2.5d	<b>(11.9)</b>	(7.6)
<b>Total non-current liabilities</b>		<b>(603.3)</b>	(519.9)
<b>Total liabilities</b>		<b>(750.7)</b>	(677.4)
<b>Net assets</b>		<b>2,098.8</b>	1,754.2
<b>Equity</b>			
Issued share capital	4.6	<b>65.9</b>	60.2
Share premium	4.6	<b>740.5</b>	579.5
Merger reserve		<b>40.2</b>	40.2
Retained earnings		<b>1,224.4</b>	1,051.2
Hedging reserve		<b>2.0</b>	(2.1)
<b>Equity attributable to the owners of the parent company</b>		<b>2,073.0</b>	1,729.0
Minority interest		<b>25.8</b>	25.2
<b>Total equity</b>		<b>2,098.8</b>	1,754.2

The financial statements of The Unite Group plc, registered number 03199160, were approved and authorised for issue by the Board of Directors on 27 February 2019 and were signed on its behalf by:

**R S Smith**  
Director

**J J Lister**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2018

	Issued share capital £m	Share premium £m	Merger reserve £m	Retained earnings £m	Hedging reserve £m	Equity portion of convertible instrument £m	Attributable to owners of the parent £m	Minority interest £m	Total £m
<b>At 1 January 2018</b>	<b>60.2</b>	<b>579.5</b>	<b>40.2</b>	<b>1,051.2</b>	<b>(2.1)</b>	<b>–</b>	<b>1,729.0</b>	<b>25.2</b>	<b>1,754.2</b>
Profit for the year	–	–	–	235.7	–	–	235.7	1.6	237.3
Other comprehensive income for the year	–	–	–	–	1.8	–	1.8	–	1.8
Total comprehensive income for the year	–	–	–	235.7	1.8	–	237.5	1.6	239.1
Shares issued	5.7	161.0	–	–	–	–	166.7	–	166.7
Deferred tax on share-based payments	–	–	–	0.3	–	–	0.3	–	0.3
Fair value of share-based payments	–	–	–	1.1	–	–	1.1	–	1.1
Own shares acquired	–	–	–	(1.4)	–	–	(1.4)	–	(1.4)
Realised swap gain	–	–	–	–	2.3	–	2.3	–	2.3
Dividends paid to owners of the parent company	–	–	–	(62.5)	–	–	(62.5)	–	(62.5)
Dividends to minority interest	–	–	–	–	–	–	–	(1.0)	(1.0)
<b>At 31 December 2018</b>	<b>65.9</b>	<b>740.5</b>	<b>40.2</b>	<b>1,224.4</b>	<b>2.0</b>	<b>–</b>	<b>2,073.0</b>	<b>25.8</b>	<b>2,098.8</b>

	Issued share capital £m	Share premium £m	Merger reserve £m	Retained earnings £m	Hedging reserve £m	Equity portion of convertible instrument £m	Attributable to owners of the parent £m	Minority interest £m	Total £m
<b>At 1 January 2017</b>	<b>55.5</b>	<b>493.6</b>	<b>40.2</b>	<b>867.9</b>	<b>(15.0)</b>	<b>9.4</b>	<b>1,451.6</b>	<b>23.9</b>	<b>1,475.5</b>
Profit for the year	–	–	–	221.6	–	–	221.6	2.2	223.8
Other comprehensive income for the year	–	–	–	–	12.9	–	12.9	–	12.9
Total comprehensive income for the year	–	–	–	221.6	12.9	–	234.5	2.2	236.7
Shares issued	4.7	83.0	–	–	–	–	87.7	–	87.7
Deferred tax on share-based payments	–	–	–	0.7	–	–	0.7	–	0.7
Fair value of share-based payments	–	–	–	1.5	–	–	1.5	–	1.5
Redemption of convertible bond	–	2.9	–	5.8	–	(9.4)	(0.7)	–	(0.7)
Own shares acquired	–	–	–	(1.9)	–	–	(1.9)	–	(1.9)
Dividends paid to owners of the parent company	–	–	–	(44.4)	–	–	(44.4)	–	(44.4)
Dividends to minority interest	–	–	–	–	–	–	–	(0.9)	(0.9)
<b>At 31 December 2017</b>	<b>60.2</b>	<b>579.5</b>	<b>40.2</b>	<b>1,051.2</b>	<b>(2.1)</b>	<b>–</b>	<b>1,729.0</b>	<b>25.2</b>	<b>1,754.2</b>

# STATEMENTS OF CASH FLOWS

For the year ended 31 December 2018

	Note	Group	
		2018 £m	2017 £m
<b>Cash flows from operating activities</b>	5.1	<b>63.5</b>	58.4
<b>Cash flows from taxation</b>		<b>(3.8)</b>	(2.1)
<b>Investing activities</b>			
Proceeds from sale of investment property		<b>38.0</b>	30.8
Payments to/on behalf of subsidiaries		–	–
Payments from subsidiaries		–	–
Dividends received		<b>37.5</b>	31.6
Interest received		<b>0.9</b>	0.1
Redemption of units / (investment in joint ventures)		<b>30.9</b>	(27.0)
Acquisition of intangible assets		<b>(6.6)</b>	(5.7)
Acquisition of property		<b>(247.9)</b>	(116.4)
Acquisition of plant and equipment		<b>(1.3)</b>	(4.4)
<b>Cash flows from investing activities</b>		<b>(148.5)</b>	(91.0)
<b>Financing activities</b>			
Interest paid in respect of financing activities		<b>(21.1)</b>	(23.2)
Swap cancellation costs		<b>(0.1)</b>	(9.5)
Proceeds from the issue of share capital		<b>166.7</b>	0.6
Payments to acquire own shares		<b>(1.4)</b>	(1.9)
Proceeds from non-current borrowings		<b>375.8</b>	254.0
Repayment of borrowings		<b>(295.4)</b>	(133.6)
Dividends paid to the owners of the parent company		<b>(62.3)</b>	(42.3)
Dividends paid to minority interest		<b>(1.0)</b>	(0.9)
<b>Cash flows from financing activities</b>		<b>161.2</b>	43.2
<b>Net increase in cash and cash equivalents</b>		<b>72.4</b>	8.5
Cash and cash equivalents at start of year		<b>51.2</b>	42.7
<b>Cash and cash equivalents at end of year</b>	5.1	<b>123.6</b>	51.2

# 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 2018 or 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies, and those for 2018 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 2017 or 2018.

### Going concern

The Group's business activities, together with the factors likely to affect its future development and position are set out in the Strategic report, which will be published in the 2018 Annual Report and Accounts. Section 4 of these Notes to the financial statements includes the Group's objectives, policies and processes for managing its capital; details of its borrowings and interest rate swaps; and in note 5.2 its exposure to credit risk. The Board has considered the risks that could arise as a result of potential outcomes of Brexit and have identified people risk, procurement risks and demand risks. These risks have been factored into our forecasts and projections.

The Group has prepared cash flow projections 18 months forward to June 2020 and the Group has sufficient headroom to meet all its commitments. The Group issued £275 million of unsecured investment grade 10-year bonds in October 2018 and this together with existing facilities will be sufficient to fund the Group's commitments over the next 18 months. The Group maintains positive relationships with its lending banks and has historically secured new facilities before maturity dates and remained within its covenant levels. The Group is in full compliance with its covenants at 31 December 2018 and expects to remain so. Our debt facilities include loan-to-value, interest cover and asset class ratios, all of which have a high level of headroom. In order to manage future financial commitments, the Group operates a formal approval process, through its Major Investment Approvals committee, to ensure appropriate review is undertaken before any transactions are agreed.

The Directors consider that the Group has adequate capital resources to continue in operational existence for the foreseeable future.

### Impact of accounting standards in issue but not yet effective

At the balance sheet date there are a number of new standards and amendments to existing standards in issue but not yet effective. The Group has not early adopted the new or amended standards in preparing these financial statements.

### IFRS 16 Leases – effective for periods beginning on or after 1 January 2019

#### General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 January 2019. On transition, the Group has chosen to adopt the cumulative catch-up approach.

In preparation for the first-time adoption of IFRS 16, the Group has carried out an implementation project. IFRS 16 will have a material impact on the sale and leaseback portfolio which is comprised of 3,150 beds across 10 properties. These properties were sold by the Group between 2004 and 2009 to institutional investors and simultaneously leased back by the Group. We do not expect IFRS 16 to have a material impact on other leases (rental of office space, vehicles, equipment).

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements from IAS 17.

#### Impact of the new definition of a lease

IFRS 16 sets out a new definition of a lease, however our assessment has shown that this does not impact the Group.

#### Impact on Lessee Accounting

Operating leases

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all sale and leaseback leases, the Group will:

- Recognise sale and leaseback right-of-use assets in the consolidated balance sheet, initially measured at fair value using a discounted cash flow model;
- Recognise lease liabilities in the consolidated balance sheet, initially measured at the present value of the future minimum lease payments;
- Reclassify leasehold improvements which were previously treated as items of PPE (and depreciated on a straight line basis) to sale and leaseback right of use assets.

Subsequent treatment will be as follows:

- Hold the sale and leaseback right of use asset as investment property at fair value and revalue at the end of each financial reporting period, with any change in value going to the consolidated income statement as revaluation gain/loss on investment property ;
- The lease liability will be unwound each year, with the discount unwind going through the consolidated income statement;
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

On initial application of IFRS 16, for all other leases, the Group will:

- Recognise right-of-use assets in the consolidated balance sheet, initially measured at the present value of the future minimum lease payments;
- Recognise lease liabilities in the consolidated balance sheet, initially measured at the present value of the future minimum lease payments;

Subsequent treatment will be as follows:

- Recognise depreciation of right-of-use assets in the consolidated income statement;
- The lease liability will be unwound each year, with the discount unwind going through the consolidated income statement;

c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

For short term leases (lease term of 12 months or less) and leases of low-value assets, the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of £215m, being the sum of undiscounted future minimum lease payments. Our assessment indicates that on transition on 1 January 2019, the Group will recognise a right of use asset of £130 - £135 million and a lease liability of £120 - £125 million.

#### **Impact on Lessor Accounting**

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently.



## Section 2: Results for the year

### Performance measures

	Note	2018	2017
Earnings basic	2.2b	<b>£235.7m</b>	£221.6m
Earnings diluted	2.2c	<b>£235.7m</b>	£223.0m
Basic earnings per share (pence)	2.2c	<b>90.8p</b>	95.3p
Diluted earnings per share (pence)	2.2c	<b>90.6p</b>	93.6p
Net assets basic	2.3c	<b>£2,073.0m</b>	£1,729.0m
Basic NAV per share (pence)	2.3d	<b>787p</b>	717p

### EPRA performance measures

	Note	2018	2017
EPRA earnings	2.2a	<b>£88.4m</b>	£70.5m
EPRA earnings per share (pence)	2.2c	<b>34.1p</b>	30.3p
EPRA NAV	2.3a	<b>£2,085.4m</b>	£1,740.4m
EPRA NAV per share (pence)	2.3d	<b>790p</b>	720p
EPRA NNNNAV	2.3c	<b>£2,032.7m</b>	£1,673.9m
EPRA NNNNAV per share (pence)	2.3d	<b>770p</b>	692p

### 2.1 Segmental information

The Board of Directors monitors the business along two activity lines, Operations and Property. The reportable segments for the years ended 31 December 2018 and 31 December 2017 are Operations and Property.

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 Group therefore has one geographical segment.

### 2.2 Earnings

EPRA earnings amends IFRS measures by removing principally the unrealised investment property valuation gains and losses such that users of the financials are able to see the extent to which dividend payments (dividend per share) are underpinned by earnings arising from purely operational activity. The reconciliation between Profit attributable to owners of the parent company and EPRA earnings is available in note 2.2 (b).

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. The Operations segment is the main contributor to EPRA earnings and EPRA EPS and these are therefore the key indicators which are used by the Board to monitor the Operations business.

The Board does not manage or monitor the Operations segment through the balance sheet and therefore no segmental information for assets and liabilities is provided for the Operations segment.

## Section 2: Results for the year continued

### 2.2 Earnings continued

#### a) EPRA earnings

2018

	UNITE Total £m	Share of joint ventures		Total £m	Group on
		USAF £m	LSAV £m		EPRA basis
					Total £m
Rental income	112.7	39.0	36.6	75.6	188.3
Property operating expenses	(28.6)	(11.5)	(7.9)	(19.4)	(48.0)
<b>Net operating income</b>	<b>84.1</b>	<b>27.5</b>	<b>28.7</b>	<b>56.2</b>	<b>140.3</b>
Management fees	21.8	(3.2)	(3.0)	(6.2)	15.6
Operating expenses	(20.9)	(0.3)	(0.5)	(0.8)	(21.7)
Operating lease rentals*	(11.5)	-	-	-	(11.5)
Net financing costs	(13.4)	(6.2)	(8.9)	(15.1)	(28.5)
<b>Operations segment result</b>	<b>60.1</b>	<b>17.8</b>	<b>16.3</b>	<b>34.1</b>	<b>94.2</b>
<b>Property segment result</b>	<b>(1.1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1.1)</b>
<b>Unallocated to segments</b>	<b>(4.3)</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.4)</b>	<b>(4.7)</b>
<b>EPRA earnings</b>	<b>54.7</b>	<b>17.6</b>	<b>16.1</b>	<b>33.7</b>	<b>88.4</b>

\* Operating lease rentals arise from properties which the Group has sold and is now leasing back. These properties were sold to generate financing and they now contribute to the Group's rental income and incur property operating expenses. Therefore, the Group considers these lease costs to be a form of financing.

Included in the above is rental income of £18.6 million and property operating expenses of £7.0 million relating to sale and leaseback properties.

The unallocated to segments balance includes the fair value of share-based payments of (£1.1 million), UNITE Foundation of (£0.9 million), deferred tax of £1.2 million and current tax charges of (£3.9 million).

## Section 2: Results for the year continued

### 2.2 Earnings continued

#### a) EPRA earnings continued

2017

	UNITE Total £m	Share of joint ventures		Total £m	Group on
		USAF £m	LSAV £m		EPRA basis
					Total £m
Rental income	99.7	36.9	34.2	71.1	170.8
Property operating expenses	(28.4)	(10.2)	(5.7)	(15.9)	(44.3)
<b>Net operating income</b>	<b>71.3</b>	<b>26.7</b>	<b>28.5</b>	<b>55.2</b>	<b>126.5</b>
Management fees	21.0	(2.9)	(4.0)	(6.9)	14.1
Operating expenses	(23.9)	(0.3)	(0.4)	(0.7)	(24.6)
Operating lease rentals*	(12.6)	–	–	–	(12.6)
Net financing costs	(17.2)	(5.7)	(9.7)	(15.4)	(32.6)
<b>Operations segment result</b>	<b>38.6</b>	<b>17.8</b>	<b>14.4</b>	<b>32.2</b>	<b>70.8</b>
<b>Property segment result</b>	<b>(1.5)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(1.5)</b>
<b>Unallocated to segments</b>	<b>2.4</b>	<b>(0.8)</b>	<b>(0.4)</b>	<b>(1.2)</b>	<b>1.2</b>
<b>EPRA earnings</b>	<b>39.5</b>	<b>17.0</b>	<b>14.0</b>	<b>31.0</b>	<b>70.5</b>

\* Operating lease rentals arise from properties which the Group has sold and is now leasing back. These properties were sold to generate financing and they now contribute to the Group's rental income and incur property operating expenses. Therefore, the Group considers these lease costs to be a form of financing.

Included in the above is rental income of £19.9 million and property operating expenses of £7.5 million relating to sale and leaseback properties.

The unallocated to segments balance includes the fair value of share-based payments of (£1.5 million), UNITE Foundation of (£0.7 million), fees received from USAF relating to acquisitions of £0.9 million, USAF performance fee of £3.4 million (net of adjustment related to trading with joint ventures), deferred tax of £0.6 million and current tax charges of (£1.5 million).

## Section 2: Results for the year continued

### 2.2 Earnings continued

#### b) IFRS reconciliation to EPRA earnings

EPRA earnings excludes movements relating to changes in values of investment properties and interest rate swaps, profits from the disposal of properties and property impairments, which are included in the profit reported under IFRS. EPRA earnings reconcile to the profit attributable to owners of the parent company as follows:

	Note	2018 £m	2017 £m
<b>EPRA earnings</b>	2.2a	<b>88.4</b>	70.5
Net valuation gains on investment property	3.1	<b>105.8</b>	103.1
Property disposals		<b>(6.8)</b>	0.6
Share of joint venture gains on investment property	3.3b	<b>58.1</b>	65.0
Share of joint venture property disposals and write downs		<b>(3.5)</b>	0.5
Swap cancellation and loan break costs		<b>(0.1)</b>	(11.5)
Share of joint venture swap cancellation costs	3.3b	–	(0.8)
Deferred tax relating to properties	2.5d	<b>(5.5)</b>	(4.5)
Minority interest share of reconciling items*		<b>(0.7)</b>	(1.3)
<b>Profit attributable to owners of the parent company</b>		<b>235.7</b>	221.6

\* 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 Limited. More detail is provided in note 3.3.

## Section 2: Results for the year continued

### 2.2 Earnings continued

#### c) Earnings per share

The Basic EPS calculation is based on the earnings attributable to the equity shareholders of The Unite Group plc and the weighted average number of shares which have been in issue during the year. Basic EPS is adjusted in line with EPRA guidelines in order to allow users to compare the business performance of the Group with other listed real estate companies in a consistent manner and to reflect how the business is managed and measured on a day to day basis.

The calculations of basic and EPRA EPS for the year ended 31 December 2018 and 2017 are as follows:

	Note	2018 £m	2017 £m
<b>Earnings</b>			
Basic		<b>235.7</b>	221.6
Diluted		<b>235.7</b>	223.0
EPRA	2.2a	<b>88.4</b>	70.5
<b>Weighted average number of shares (thousands)</b>			
Basic		<b>259,466</b>	232,503
Dilutive potential ordinary shares (share options)		<b>828</b>	5,627
Diluted		<b>260,294</b>	238,130
<b>Earnings per share (pence)</b>			
Basic		<b>90.8p</b>	95.3p
Diluted		<b>90.6p</b>	93.6p
EPRA EPS		<b>34.1p</b>	30.3p

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

In 2018, there were 10,357 options excluded from the potential dilutive shares that did not affect the diluted weighted average number of shares. In 2017, there were no options excluded from the potential dilutive shares.

## Section 2: Results for the year continued

### 2.3 Net assets

EPRA net asset value per share makes adjustments to IFRS measures by principally removing some items that are not expected to materialise in normal circumstances such as items of deferred tax and the fair value of financial derivatives. The reconciliation between IFRS NAV and EPRA NAV is available in note 2.3 (c).

The Group's Property business undertakes the acquisition and development of properties. The Property segment's revenue comprises revenue from development management fees earned from joint ventures.

#### a) EPRA net assets

2018

	UNITE	Share of joint ventures		Group on EPRA basis	
	Total £m	USAF £m	LSAV £m	Total £m	Total £m
Investment properties	1,497.1	567.1	621.7	1,188.8	2,685.9
Investment properties under development	278.9	3.2	–	3.2	282.1
<b>Total property portfolio</b>	<b>1,776.0</b>	<b>570.3</b>	<b>621.7</b>	<b>1,192.0</b>	<b>2,968.0</b>
Debt on properties	(594.8)	(174.6)	(267.0)	(441.6)	(1,036.4)
Cash	123.6	32.4	23.9	56.3	179.9
<b>Net debt</b>	<b>(471.2)</b>	<b>(142.2)</b>	<b>(243.1)</b>	<b>(385.3)</b>	<b>(856.5)</b>
Other assets and (liabilities)	(13.3)	(4.9)	(7.9)	(12.8)	(26.1)
<b>EPRA net assets</b>	<b>1,291.5</b>	<b>423.2</b>	<b>370.7</b>	<b>793.9</b>	<b>2,085.4</b>
<b>Loan to value</b>	<b>27%</b>	<b>25%</b>	<b>39%</b>	<b>32%</b>	<b>29%</b>

2017

	UNITE	Share of joint ventures		Group on EPRA basis	
	Total £m	USAF £m	LSAV £m	Total £m	Total £m
Investment properties	1,261.4	538.7	579.3	1,118.0	2,379.4
Investment properties under development	205.7	10.2	–	10.2	215.9
<b>Total property portfolio</b>	<b>1,467.1</b>	<b>548.9</b>	<b>579.3</b>	<b>1,128.2</b>	<b>2,595.3</b>
Debt on properties	(512.9)	(169.5)	(212.3)	(381.8)	(894.7)
Cash	51.2	25.0	15.6	40.6	91.8
<b>Net debt</b>	<b>(461.7)</b>	<b>(144.5)</b>	<b>(196.7)</b>	<b>(341.2)</b>	<b>(802.9)</b>
Other assets and (liabilities)	(34.7)	(5.2)	(12.1)	(17.3)	(52.0)
<b>EPRA net assets</b>	<b>970.7</b>	<b>399.2</b>	<b>370.5</b>	<b>769.7</b>	<b>1,740.4</b>
<b>Loan to value</b>	<b>31%</b>	<b>26%</b>	<b>34%</b>	<b>30%</b>	<b>31%</b>

## Section 2: Results for the year continued

### 2.3 Net assets continued

#### b) Movement in EPRA NAV during the year

Contributions to EPRA NAV by each segment during the year is as follows:

2018

	UNITE Total £m	Share of joint ventures		Total £m	Group on EPRA basis Total £m
		USAF £m	LSAV £m		
<b>Operations</b>					
Operations segment result	60.1	17.8	16.3	34.1	94.2
<b>Property</b>					
Rental growth	38.8	6.4	19.8	26.2	65.0
Yield movement	37.4	7.9	22.3	30.2	67.6
Disposals and acquisition gains	(6.8)	(3.4)	0.1	(3.3)	(10.1)
Investment property gains	69.4	10.9	42.2	53.1	122.5
Development property gains	29.6	0.8	-	0.8	30.4
Pre-contract/other development costs	(1.1)	-	-	-	(1.1)
Total property	97.9	11.7	42.2	53.9	151.8
<b>Unallocated</b>					
Shares issued	166.7	-	-	-	166.7
Investment in joint ventures	63.4	(5.3)	(58.1)	(63.4)	-
Dividends paid	(62.5)	-	-	-	(62.5)
USAF performance fee	-	-	-	-	-
JV property acquisition fee	-	-	-	-	-
Swap cancellation and debt break costs	(0.1)	-	-	-	(0.1)
Other	(4.7)	(0.2)	(0.2)	(0.4)	(5.1)
Total unallocated	162.8	(5.5)	(58.3)	(63.8)	99.0
<b>Total EPRA NAV movement in the year</b>	<b>320.8</b>	<b>24.0</b>	<b>0.2</b>	<b>24.2</b>	<b>345.0</b>
Total EPRA NAV brought forward	970.7	399.2	370.5	769.7	1,740.4
<b>Total EPRA NAV carried forward</b>	<b>1,291.5</b>	<b>423.2</b>	<b>370.7</b>	<b>793.9</b>	<b>2,085.4</b>

The £5.1 million charge that comprises the other balance within the unallocated segment includes a tax charge of £2.7 million, fair value of share options charge of £1.1 million, purchase of own shares of £0.4 million and £0.9 million for the UNITE Foundation.

## Section 2: Results for the year continued

### 2.3 Net assets continued

#### b) Movement in EPRA NAV during the year continued 2017

	UNITE Total £m	Share of joint ventures		Total £m	Group on
		USAF £m	LSAV £m		EPRA basis Total £m
<b>Operations</b>					
Operations segment result	<b>38.6</b>	<b>17.8</b>	<b>14.4</b>	<b>32.2</b>	<b>70.8</b>
<b>Property</b>					
Rental growth	41.0	10.3	10.0	20.3	61.3
Yield movement	23.6	11.8	30.8	42.6	66.2
Disposals and acquisition gains	0.6	(1.2)	1.8	0.6	1.2
Investment property gains	65.2	20.9	42.6	63.5	128.7
Development property gains	38.5	0.6	–	0.6	39.1
Pre-contract/other development costs	(1.5)	–	–	–	(1.5)
<b>Total property</b>	<b>102.2</b>	<b>21.5</b>	<b>42.6</b>	<b>64.1</b>	<b>166.3</b>
<b>Unallocated</b>					
Shares issued	87.7	–	–	–	87.7
Investment in joint ventures	(3.7)	8.8	(5.1)	3.7	–
Convertible bond	(85.4)	–	–	–	(85.4)
Dividends paid	(44.4)	–	–	–	(44.4)
USAF performance fee	4.0	(0.6)	–	(0.6)	3.4
USAF property acquisition fee	1.6	(0.2)	(0.5)	(0.7)	0.9
Swap cancellation costs	(11.5)	–	(0.8)	(0.8)	(12.3)
Other	(3.3)	(0.2)	(0.4)	(0.6)	(3.9)
<b>Total unallocated</b>	<b>(55.0)</b>	<b>7.8</b>	<b>(6.8)</b>	<b>1.0</b>	<b>(54.0)</b>
<b>Total EPRA NAV movement in the year</b>	<b>85.8</b>	<b>47.1</b>	<b>50.2</b>	<b>97.3</b>	<b>183.1</b>
Total EPRA NAV brought forward	884.9	352.1	320.3	672.4	1,557.3
<b>Total EPRA NAV carried forward</b>	<b>970.7</b>	<b>399.2</b>	<b>370.5</b>	<b>769.7</b>	<b>1,740.4</b>

The £3.9 million charge that comprises the other balance within the unallocated segment includes a tax charge of £0.9 million, fair value of share options charge of £1.4 million, £0.7 million relating to the redemption of convertible bond, purchase of own shares of £0.3 million and £0.7 million for the UNITE Foundation.



## Section 2: Results for the year continued

### 2.3 Net assets continued

#### c) Reconciliation to IFRS

To determine EPRA NAV, net assets reported under IFRS are amended to exclude the mark to market valuation of swaps, deferred tax liabilities and to recognise all properties at market value.

The Group also manages NAV using EPRA NNNAV, which adjusts EPRA NAV to include the fair value of swaps and debt. Under EPRA best practice guidelines this is considered to give stakeholders the most relevant comparable information on the current fair value of all the assets and liabilities in the Group.

The net assets reported under IFRS reconcile to EPRA NAV and EPRA NNNAV as follows:

	Note	2018 £m	2017 £m
<b>Net asset value reported under IFRS</b>		<b>2,073.0</b>	<b>1,729.0</b>
Mark to market interest rate swaps		0.2	2.1
Realised swap gain		(2.3)	–
Deferred tax		14.5	9.3
<b>EPRA NAV</b>	2.3a	<b>2,085.4</b>	<b>1,740.4</b>
Mark to market of fixed rate debt		(38.0)	(55.1)
Mark to market interest rate swaps		(0.2)	(2.1)
Deferred tax		(14.5)	(9.3)
<b>EPRA NNNAV</b>		<b>2,032.7</b>	<b>1,673.9</b>

#### d) NAV per share

Basic NAV is based on the net assets attributable to the equity shareholders of The Unite Group plc and the number of shares in issue at the end of the year. The Board uses EPRA NAV and EPRA NNNAV to monitor the performance of the Property segment on a day to day basis.

	Note	2018 £m	2017 £m
<b>Net assets</b>			
Basic	2.3c	2,073.0	1,729.0
EPRA	2.3a	2,085.4	1,740.4
EPRA diluted		2,088.7	1,743.0
EPRA NNNAV (diluted)		2,036.0	1,676.5
<b>Number of shares (thousands)</b>			
Basic		263,541	241,279
Outstanding share options		917	919
Diluted		264,458	242,198
<b>Net asset value per share (pence)</b>			
Basic		787p	717p
EPRA		791p	721p
<b>EPRA (fully diluted)</b>		<b>790p</b>	<b>720p</b>
<b>EPRA NNNAV (fully diluted)</b>		<b>770p</b>	<b>692p</b>

## Section 2: Results for the year continued

### 2.4. Revenue and costs

The Group earns revenue from the following activities:

		Note	2018 £m	2017 £m
Rental income	Operations segment	2.2a	112.7	99.7
Management fees	Operations segment		15.8	16.5
USAF performance fee	Unallocated		–	3.4
			<b>128.5</b>	119.6
Impact of minority interest on management fees			<b>(0.2)</b>	(0.3)
<b>Total revenue</b>			<b>128.3</b>	119.3

The cost of sales included in the consolidated income statement includes property operating expenses of £28.7 million (2017: £28.5 million), operating lease rentals of £11.5 million (2017: £12.6 million).

## Section 2: Results for the year continued

### 2.5 Tax

As a REIT, rental profits and gains on disposal of investment properties are exempt from corporation tax. The Group pays UK corporation tax on the profits from its residual business, including profits arising on construction operations and management fees received from joint ventures, together with UK income tax on rental income that arises from investments held by offshore subsidiaries in which the Group holds a minority interest.

#### a) Tax – income statement

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

	2018 £m	2017 £m
Corporation tax on residual business income arising in UK companies	3.7	1.7
Income tax on UK rental income arising in non-UK companies	0.4	–
<b>Current tax charge</b>	<b>4.1</b>	<b>1.7</b>
Origination and reversal of temporary differences	4.4	4.5
Effect of change in tax rate	–	(0.6)
<b>Deferred tax charge</b>	<b>4.4</b>	<b>3.9</b>
<b>Total tax charge in income statement</b>	<b>8.5</b>	<b>5.6</b>

The movement in deferred tax provided is shown in more detail in note 2.5 d.

## Section 2: Results for the year continued

### 2.5 Tax continued

#### a) Tax – income statement continued

In the income statement, a tax charge of £8.5 million arises on a profit before tax of £245.8 million. The taxation charge that would arise at the standard rate of UK corporation tax is reconciled to the actual tax charge as follows:

	2018 £m	2017 £m
<b>Profit before tax</b>	<b>245.8</b>	229.4
Income tax using the UK corporation tax rate of 19% (2017: 19.25%)	<b>46.7</b>	44.2
Property rental business profits exempt from tax in the REIT Group	<b>(13.5)</b>	(11.2)
Property revaluations not subject to tax	<b>(24.9)</b>	(25.0)
Effect of indexation on investments	–	(1.1)
Effect of statutory tax reliefs	<b>(0.2)</b>	(0.6)
Effect of tax deduction transferred to equity on share schemes	<b>0.3</b>	0.5
Rate difference on deferred tax	–	(0.5)
Prior year adjustments	<b>0.1</b>	(0.7)
<b>Total tax charge in income statement</b>	<b>8.5</b>	5.6

As a UK REIT, the Group is exempt from UK corporation tax on the profits from its property rental business. Accordingly, the element of the Group's profit before tax relating to its property rental business has been separately identified in the reconciliation above.

Although the Group does not pay UK corporation tax on the profits from its property rental business, it is required to distribute 90% of the profits from its property rental business after accounting for tax adjustments as a Property Income Distribution (PID). PIDs are charged to tax in the same way as property income in the hands of the recipient. For the year ended 31 December 2018, the required PID is expected to be £58.2 million of which £55.9 million has been distributed at the year end, with the remainder to be distributed in May 2019.

#### b) Tax – other comprehensive income

Within other comprehensive income a tax charge totalling £nil (2017: £nil) has been recognised representing deferred tax.

#### c) Tax – statement of changes in equity

Within the statement of changes in equity a tax credit totalling £0.1 million (2017: £0.7 million credit) has been recognised representing deferred tax.

#### d) 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:

	At 31 December 2017 £m	Charged/ (credited) in income £m	Charged/ (credited) in equity £m	At 31 December 2018 £m
Investments	20.6	3.8	–	<b>24.4</b>
Property, plant and machinery	(0.8)	0.1	–	<b>(0.7)</b>
Share schemes	(0.9)	0.1	0.2	<b>(0.6)</b>
Tax value of carried forward losses recognised	(11.3)	0.4	(0.3)	<b>(11.2)</b>
<b>Net tax liabilities/(assets)</b>	<b>7.6</b>	<b>4.4*</b>	<b>(0.1)</b>	<b>11.9</b>

\* The £4.4 million balance (above) includes two tax movements (Property, plant and machinery and Share schemes) which are included in EPRA, which is why they are not included in the IFRS reconciliation in note 2.2 b); removing them results in achieving the £5.5 million movement which is excluded as per EPRA's best practice recommendations.

## Section 2: Results for the year continued

### 2.5 Tax continued

#### d) Tax – balance sheet continued

2017

	At 31 December 2016 £m	Charged/ (credited) in income £m	Charged/ (credited) in equity £m	At 31 December 2017 £m
Investments	17.2	3.4	–	<b>20.6</b>
Property, plant and machinery	(0.1)	(0.7)	–	<b>(0.8)</b>
Share schemes	(0.9)	0.1	(0.1)	<b>(0.9)</b>
Tax value of carried forward losses recognised	(11.8)	1.1	(0.6)	<b>(11.3)</b>
<b>Net tax liabilities/(assets)</b>	<b>4.4</b>	<b>3.9*</b>	<b>(0.7)</b>	<b>7.6</b>

\* The £3.9 million balance (above) includes two tax movements (Property, plant and machinery and Share schemes) which are included in EPRA, which is why they are not included in the IFRS reconciliation in note 2.2 b); removing them results in achieving the £4.5 million movement which is excluded as per EPRA's best practice recommendations.

The UK corporation tax rate will reduce from 19% to 17% with effect from 1 April 2020. This will reduce the Group's future current tax charge accordingly. The deferred tax liability at 31 December 2018 has been calculated based on the rate at which it is expected to reverse.

As a REIT, disposals of investment property are exempt from tax and as a result no deferred tax liability has been recognised in relation to these assets. At the balance sheet date, the Group's investments in property unit trusts (being primarily its interests in joint ventures) were not exempt from tax as a REIT. Where they remain within the charge to tax, a deferred tax liability has been recognised on the excess of the market value of these assets over their historic tax base cost. At 31 December 2018, the deferred tax liability in relation to these investments was £24.4 million.

The unit trusts in which the Group invests derive their value from UK land. On 8 January, the Finance Act 2019 was substantively enacted, which contains provisions that will exempt capital gains on such units from the charge to UK tax to the extent they derive their value from UK property. As these provisions had not been substantively enacted at the balance sheet date, the Group is recognising a deferred tax liability in respect of its investments. However, the Group will reverse this deferred tax liability during 2019, resulting in a credit to the income statement. The deferred tax asset in respect of losses will also be reversed, to the extent that it has been recognised against the liability on investments. The expected impact of the reversal of these deferred tax items is shown in the table below.

#### Impact of Finance Act 2019

	At 31 December 2018 £m	Charged/ (credited) in income £m	Charged/ (credited) in equity £m	Deferred tax (asset)/liability after release £m
Investments	24.4	(24.4)	–	–
Property, plant and machinery	(0.7)	–	–	(0.7)
Share schemes	(0.6)	–	–	(0.6)
Tax value of carried forward losses recognised	(11.2)	9.9	–	(1.3)
<b>Net tax (assets)/liabilities</b>	<b>11.9</b>	<b>(14.5)</b>	<b>–</b>	<b>(2.6)</b>

Deferred tax is an accounting adjustment intended to reflect tax that the Group may have to pay in the future if certain events occur, and is distinct from the Group's current tax charge (the latter being the tax actually payable to HM Revenue & Customs for the year). Accordingly, a reversal of the deferred tax provision is an accounting only adjustment, and does not result in the Group receiving a tax credit or refund.

## Section 3: Asset management

### 3.1 Wholly owned property assets

The Group's wholly owned property portfolio is held in two groups on the balance sheet at the carrying values detailed below.

In the Group's EPRA NAV, all these groups are shown at market value.

#### i) Investment property (fixed assets)

These are assets that the Group intends to hold for a long period to earn rental income or capital appreciation. The assets are held at fair value in the balance sheet with changes in fair value taken to the income statement.

#### ii) Investment property under development (fixed assets)

These are assets which are currently in the course of construction and which will be transferred to Investment property on completion. The assets are held at fair value in the balance sheet with changes in fair value taken to the income statement.

#### Valuation process

The valuations of the properties are performed twice a year on the basis of valuation reports prepared 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. CB Richard Ellis Ltd, Jones Lang LaSalle Ltd and Messrs Knight Frank, Chartered Surveyors were the valuers in the years ended 31 December 2018 and 2017.

The valuations are based on:

- > Information provided by the Group such as current rents, occupancy, operating costs, terms and conditions of leases and nomination agreements, capital expenditure, etc. This information is derived from the Group's financial systems and is subject to the Group's overall control environment.
- > Assumptions and valuation models used by the valuers – the assumptions are typically market related, such as yield and discount rates. These are based on their professional judgement and market observation.

The information provided to the valuers – and the assumptions and the valuation models used by the valuers – are reviewed by the Property Board and the CFO. This includes a review of the fair value movements over the year.

## Section 3: Asset management continued

### 3.1 Wholly owned property assets continued

The movements in the carrying value of the Group's wholly owned property portfolio during the year ended 31 December 2018 are shown in the table below. The fair value of the Group's wholly owned properties at the year ended 31 December 2018 is also shown below.

**2018**

	Investment property £m	Investment property under development £m	Total £m
At 1 January 2018	1,261.4	205.7	1,467.1
Cost capitalised	10.5	230.7	241.2
Interest capitalised	–	10.5	10.5
Transfer from investment property under development	204.5	(204.5)	–
Transfer from work in progress	–	0.9	0.9
Disposals	(49.5)	–	(49.5)
Valuation gains	75.6	47.4	123.0
Valuation losses	(5.4)	(11.8)	(17.2)
Net valuation gains	70.2	35.6	105.8
<b>Carrying and market value at 31 December 2018</b>	<b>1,497.1</b>	<b>278.9</b>	<b>1,776.0</b>

The movements in the carrying value of the Group's wholly owned property portfolio during the year ended 31 December 2017 are shown in the table below. The fair value of the Group's wholly owned property portfolio at the year ended 31 December 2017 is also shown below:

**2017**

	Investment property £m	Investment property under development £m	Total £m
At 1 January 2017	1,061.6	184.6	1,246.2
Cost capitalised	7.6	130.7	138.3
Interest capitalised	–	7.4	7.4
Transfer from investment property under development	156.3	(156.3)	–
Transfer from work in progress	–	0.8	0.8
Disposals	(28.7)	–	(28.7)
Valuation gains	78.6	43.6	122.2
Valuation losses	(14.0)	(5.1)	(19.1)
Net valuation gains	64.6	38.5	103.1
<b>Carrying and market value at 31 December 2017</b>	<b>1,261.4</b>	<b>205.7</b>	<b>1,467.1</b>

Included within investment properties at 31 December 2018 are £29.9 million (2017: £30.5 million) of assets held under a long leasehold and £0.1 million (2017: £9.0 million) of assets held under short leasehold.

Total interest capitalised in investment and development properties at 31 December 2018 was £49.8 million (2017: £41.5 million) on a cumulative basis. Total internal costs relating to construction and development costs of Group properties amount to £59.6 million at 31 December 2018 (2017: £54.6 million) on a cumulative basis.

## Section 3: Asset management continued

### 3.1 Wholly owned property assets continued

#### Recurring fair value measurement

All investment and development properties are classified as Level 3 in the fair value hierarchy.

Class of asset	2018 £m	2017 £m
London – rental properties	499.8	465.9
Prime provincial – rental properties	298.3	266.3
Major provincial – rental properties	409.4	300.4
Other provincial – rental properties	289.6	228.8
London – development properties	49.1	–
Prime provincial – development properties	125.4	57.9
Major provincial – development properties	104.4	120.8
Other provincial – development properties	–	27.0
<b>Market value</b>	<b>1,776.0</b>	<b>1,467.1</b>

The valuation technique for investment properties is a discounted cash flow using the following inputs: net rental income, estimated future costs, occupancy and property management costs.

Where the asset is leased to a University, the valuations also reflect the length of the lease, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and the market's general perception of the lessee's creditworthiness.

The resulting valuations are cross-checked against the initial yields and the capital value per bed derived from actual market transactions.

For development properties, the fair value is usually calculated by estimating the fair value of the completed property (using the discounted cash flow method) less estimated costs to completion.

#### Fair value using unobservable inputs (Level 3)

	2018 £m	2017 £m
Opening fair value	1,467.1	1,246.2
Gains and losses recognised in income statement	105.8	103.1
Capital expenditure	252.6	146.5
Disposals	(49.5)	(28.7)
<b>Closing fair value</b>	<b>1,776.0</b>	<b>1,467.1</b>



## Section 3: Asset management continued

### 3.1 Wholly owned property assets continued

#### Quantitative information about fair value measurements using unobservable inputs (Level 3)

2018

	Fair value £m	Valuation technique	Unobservable inputs	Range	Weighted average
London – rental properties	499.8	Discounted cash flows	Net rental income (£ per week)	£184 – £355	£267
			Estimated future rent (%)	2% – 7%	3%
			Discount rate (yield) (%)	4% – 5%	4.2%
Prime provincial – rental properties	298.3	Discounted cash flows	Net rental income (£ per week)	£139 – £166	£153
			Estimated future rent (%)	2% – 6%	3%
			Discount rate (yield) (%)	4.5% – 6.0%	5.1%
Major provincial – rental properties	409.4	Discounted cash flows	Net rental income (£ per week)	£99 – £149	£135
			Estimated future rent (%)	1% – 5%	2%
			Discount rate (yield) (%)	4.8% – 6.1%	5.6%
Other provincial – rental properties	289.6	Discounted cash flows	Net rental income (£ per week)	£100 – £174	£138
			Estimated future rent (%)	2% – 7%	4%
			Discount rate (yield) (%)	4.9% – 15%	5.8%
London – development properties	49.1	Discounted cash flows	Estimated cost to complete (£m)	£63.3m – £186.3m	£135.4m
			Estimated future rent (%)	3%	3%
			Discount rate (yield) (%)	4.3%	4.3%
Major provincial – development properties	229.8	Discounted cash flows	Estimated cost to complete (£m)	£15m –	£36.3m
			Estimated future rent (%)	£59.4m	3%
			Discount rate (yield) (%)	3%	5.2%
				4.5% – 5.5%	
<b>Fair value at 31 December 2018</b>	<b>1,776.0</b>				

2017

	Fair value £m	Valuation technique	Unobservable inputs	Range	Weighted average
London – rental properties	465.9	Discounted cash flows	Net rental income (£ per week)	£183 – £345	£255
			Estimated future rent (%)	1% – 6%	3%
			Discount rate (yield) (%)	4.2% – 5.0%	4.5%
Prime provincial – rental properties	266.3	Discounted cash flows	Net rental income (£ per week)	£135 – £156	£146
			Estimated future rent (%)	1% – 6%	4%
			Discount rate (yield) (%)	4.5% – 7.0%	5.3%
Major provincial – rental properties	300.4	Discounted cash flows	Net rental income (£ per week)	£100 – £157	£127
			Estimated future rent (%)	1% – 4%	3%
			Discount rate (yield) (%)	4.5% – 6.1%	5.7%
Other provincial – rental properties	228.8	Discounted cash flows	Net rental income (£ per week)	£94 – £164	£134
			Estimated future rent (%)	2% – 8%	4%
			Discount rate (yield) (%)	5.2% – 13.5%	6.0%
Prime provincial – development properties	57.9	Discounted cash flows	Estimated cost to complete (£m)	£8.1m –	£55.4m
			Estimated future rent (%)	£72.0m	3%
			Discount rate (yield) (%)	3%	5.5%
				5.3% – 5.8%	
Major provincial – development properties	120.8	Discounted cash flows	Estimated cost to complete (£m)	£13.9m –	£42.3m
			Estimated future rent (%)	£81.9m	3%
			Discount rate (yield) (%)	3%	5.7%
				5.5% – 6.0%	
Other provincial – development properties	27.0	Discounted cash flows	Estimated cost to complete (£m)	£11.4m	£11.4m
			Estimated future rent (%)	3%	3%
			Discount rate (yield) (%)	5.7%	5.7%
<b>Fair value at 31 December 2017</b>	<b>1,467.1</b>				

A decrease in net rental income, estimated future rents or occupancy will result in a decrease in the fair value, whereas a decrease in the discount rate (yield) or the estimated costs to complete will result in an increase in fair value. There are inter-relationships between these rates as they are partially determined by market rate conditions.

## Section 3: Asset management continued

### 3.2 Inventories

	2018 £m	2017 £m
Interests in land	6.8	0.9
Other stocks	2.3	3.6
<b>Inventories</b>	<b>9.1</b>	<b>4.5</b>

At 31 December 2018, the Group had interests in one piece of land (2017: one piece of land).

### 3.3 Investments in joint ventures (Group)

The Group has two joint ventures:

Joint venture	Group's share of assets/results 2018 (2017)	Objective	Partner	Legal entity in which Group has interest
The UNITE UK Student Accommodation Fund (USAF)	26.9%* (26.2%)	Invest and operate student accommodation throughout the UK	Consortium of investors	UNITE UK Student Accommodation Fund, a Jersey Unit Trust
London Student Accommodation Venture (LSAV)	50% (50%)	Operate student accommodation in London	GIC Real Estate Pte, Ltd Real estate investment vehicle of the Government of Singapore	LSAV Unit Trust, a Jersey Unit Trust and LSAV (Holdings) Ltd, incorporated in Jersey

\* Part of the Group's interest is held through a subsidiary, USAF (Feeder) Guernsey Limited, 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 25.3 % (2017: 24.6%) of USAF.

## Section 3: Asset management continued

### 3.3 Investments in joint ventures (Group) continued

#### a) Net assets and results of the joint ventures

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

#### 2018

	USAF £m			LSAV £m		Total £m	
	Gross	MI	Share	Gross	Share	Gross	Share
Investment property	2,253.7	35.4	570.2	1,243.4	621.7	3,497.1	1,227.3
Cash	127.9	2.0	32.4	47.7	23.9	175.6	58.3
Debt	(690.0)	(10.8)	(174.6)	(534.0)	(267.0)	(1,224.0)	(452.4)
Swap liabilities	0.4	–	0.1	(0.3)	(0.2)	0.1	(0.1)
Other current assets	27.2	0.4	6.9	0.4	0.2	27.6	7.5
Other current liabilities	(57.9)	(1.1)	(11.7)	(16.1)	(8.1)	(74.0)	(20.9)
Net assets	1,661.3	25.9	423.3	741.1	370.5	2,402.4	819.7
Minority interest	–	(25.9)	–	–	–	–	(25.9)
Swap liabilities	(0.4)	–	(0.1)	0.3	0.2	(0.1)	0.1
<b>EPRA net assets</b>	<b>1,660.9</b>	<b>–</b>	<b>423.2</b>	<b>741.4</b>	<b>370.7</b>	<b>2,402.3</b>	<b>793.9</b>
<b>Profit for the year</b>	<b>124.1</b>	<b>1.8</b>	<b>32.7</b>	<b>122.6</b>	<b>61.3</b>	<b>246.7</b>	<b>95.8</b>

#### 2017

	USAF £m			LSAV £m		Total £m	
	Gross	MI	Share	Gross	Share	Gross	Share
Investment property	2,232.7	35.2	548.9	1,158.6	579.3	3,391.3	1,163.4
Cash	101.5	1.6	25.0	31.1	15.6	132.6	42.2
Debt	(689.3)	(10.9)	(169.5)	(424.6)	(212.3)	(1,113.9)	(392.7)
Swap liabilities	0.4	–	0.1	(2.8)	(1.4)	(2.4)	(1.3)
Other current assets	28.5	0.4	7.0	1.5	0.7	30.0	8.1
Other current liabilities	(61.6)	(1.2)	(12.2)	(25.5)	(12.8)	(87.1)	(26.2)
Net assets	1,612.2	25.1	399.3	738.3	369.1	2,350.5	793.5
Minority interest	–	(25.1)	–	–	–	–	(25.1)
Swap liabilities	(0.4)	–	(0.1)	2.8	1.4	2.4	1.3
<b>EPRA net assets</b>	<b>1,611.8</b>	<b>–</b>	<b>399.2</b>	<b>741.1</b>	<b>370.5</b>	<b>2,352.9</b>	<b>769.7</b>
<b>Profit for the year</b>	<b>163.7</b>	<b>2.5</b>	<b>42.1</b>	<b>117.1</b>	<b>58.5</b>	<b>280.8</b>	<b>103.1</b>

Net assets and profit for the year above include the minority interest, whereas EPRA net assets exclude the minority interest.

## Section 3: Asset management continued

### 3.3 Investments in joint ventures (Group) continued

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

The carrying value of the Group's investment in joint ventures increased by £26.2 million during the year ended 31 December 2018 (2017: £100.6 million), resulting in an overall carrying value of £819.7 million (2017: £793.5 million). The following table shows how the increase has been achieved.

	2018 £m	2017 £m
<b>Recognised in the income statement:</b>		
Operations segment result	34.1	32.2
Minority interest share of Operations segment result	1.1	1.1
Management fee adjustment related to trading with joint venture	6.4	5.7
Net revaluation gains	58.1	65.0
Loss on cancellation of interest rate swaps	–	(0.8)
(Loss)/profit on disposal of properties	(3.5)	0.5
Other	(0.4)	(0.6)
	<b>95.8</b>	103.1
<b>Recognised in equity:</b>		
Movement in effective hedges	1.2	2.1
<b>Other adjustments to the carrying value:</b>		
Profit adjustment related to trading with joint venture	(6.4)	(7.4)
Additional capital invested in USAF	8.6	18.5
Performance fee units issued in USAF	4.0	8.1
(Redemption of units)/additional capital invested in LSAV	(39.5)	8.5
USAF performance fee	–	(0.7)
Distributions received	(37.5)	(31.6)
<b>Increase in carrying value</b>	<b>26.2</b>	100.6
Carrying value at 1 January	793.5	692.9
<b>Carrying value at 31 December</b>	<b>819.7</b>	793.5

## Section 3: Asset management continued

### 3.3 Investments in joint ventures (Group) continued

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

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 performance fees from USAF and LSAV if the joint ventures outperform certain benchmarks. The Group receives cash or an enhanced equity interest in the joint ventures as consideration for the performance fee. The Group has recognised the following fees in its results for the year.

	2018 £m	2017 £m
USAF	13.5	13.1
LSAV	5.9	7.9
<b>Asset and property management fees</b>	<b>19.4</b>	21.0
USAF performance fee	–	4.0
USAF acquisition fee	–	0.7
LSAV acquisition fee	–	1.0
<b>Investment management fees*</b>	–	5.7
<b>Total fees</b>	<b>19.4</b>	26.7

\* Included in the movement in EPRA NAV is a USAF performance fee of £nil million (2017: £3.4 million). This is the gross fee of £nil million (2017: £4.0 million) paid by USAF net of a £nil million (2017: £0.6 million) adjustment related to trading with joint ventures. In 2018, the 2017 USAF performance fee was settled in units in The UNITE UK Student Accommodation Fund rather than cash.

Included in share of joint venture profit in the income statement is a share of joint venture property management fee costs of £nil (2017: £1.2 million). On an EPRA basis these costs are deducted from the property management fees shown above, and there is an adjustment for the minority interest of £0.2 million (2017: £0.2 million). This results in the net fees included in the Operating segment result (note 2.2a) of £15.6 million (2017: £14.1 million). Development management fees are included in the Property segment result (note 2.2a). Investment management fees are included within the unallocated to segments section (note 2.2a).

## Section 3: Asset management continued

### 3.3 Investments in joint ventures (Group) continued

#### c) Transactions with joint ventures continued

During 2017, the Group recognised additional proceeds of £2 million in relation to the sale of a property to LSAV in 2015 under the terms of the original sale agreement. At 31 December 2017, the proceeds had not been settled and therefore no cash flows were disclosed in 2017. The proceeds were settled in cash in 2018. The profits relating to sales and associated disposal costs and related cash flows are set out below:

	<b>Profit and loss</b>	Profit and loss
	<b>2018</b>	2017
	<b>LSAV</b>	LSAV
	<b>£m</b>	£m
Included in profit on disposal of property (net of joint venture trading adjustment)	–	1.0
<b>Profit on disposal of property</b>	<b>–</b>	<b>1.0</b>

	<b>Cash flow</b>	Cash flow
	<b>2018</b>	2017
	<b>LSAV</b>	LSAV
	<b>£m</b>	£m
Gross proceeds	<b>1.0</b>	–
<b>Net cash flows included in cash flows from investing activities</b>	<b>1.0</b>	–

## 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:

	Group	
	2018 Carrying value £m	2017 Carrying value £m
<b>Current</b>		
In one year or less, or on demand	1.3	1.3
<b>Non-current</b>		
In more than one year but not more than two years	85.6	1.4
In more than two years but not more than five years	110.3	379.4
In more than five years	395.4	130.7
<b>Total borrowings</b>	<b>591.3</b>	<b>511.5</b>
	<b>592.6</b>	<b>512.8</b>

In addition to the borrowings currently drawn as shown above, the Group has available undrawn facilities of £350.0 million (2017: £327.0 million). A further overdraft facility of £10.0 million (2017: £10.0 million) is also available.

Properties with a carrying value of £638.1 million (2017: £609.1 million) have been pledged as security against the Group's drawn down borrowings.

The carrying value of borrowings is considered to be approximate to fair value, except for the Group's fixed rate loans as analysed below:

	2018		2017	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Level 1 IFRS fair value hierarchy	365.0	373.5	90.0	96.1
Level 2 IFRS fair value hierarchy	237.8	251.2	239.1	263.8
Other loans	(10.2)	(10.2)	183.7	183.7
<b>Total borrowings</b>	<b>592.6</b>	<b>614.5</b>	<b>512.8</b>	<b>543.6</b>

The fair value of loans classified as Level 1 in the IFRS fair value hierarchy is determined using quoted prices in active markets for identical liabilities.

The fair value of loans classified as Level 2 in the IFRS fair value hierarchy has been calculated by a third party expert discounting estimated future cash flows on the basis of market expectation of future interest rates.

## Section 4: Funding continued

### 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:

	2018 £m	2017 £m
Current	–	–
Non-current	0.1	0.8
<b>Fair value of interest rate swaps</b>	<b>0.1</b>	<b>0.8</b>

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 13 fair value hierarchy.



## Section 4: Funding continued

### 4.3 Net financing costs

	2018 £m	2017 £m
<b>Recognised in the income statement:</b>		
Finance income		
– Interest income on deposit	(0.9)	(0.1)
<b>Finance income</b>	<b>(0.9)</b>	<b>(0.1)</b>
Gross interest expense on loans	24.8	24.7
Interest capitalised	(10.5)	(7.4)
Loan interest and similar charges	14.3	17.3
Swap cancellation and loan break costs	0.1	11.5
<b>Finance costs</b>	<b>14.4</b>	<b>28.8</b>
<b>Net financing costs</b>	<b>13.5</b>	<b>28.7</b>

The average cost of the Group's wholly owned investment debt at 31 December 2018 is 3.8% (2017: 4.3%). The overall average cost of investment debt on an EPRA basis is 3.8% (2017: 4.1%).

### 4.4 Gearing

The Group's adjusted gearing ratio is a key indicator that the Group uses to manage its indebtedness. EPRA net asset value (NAV) 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	2018 £m	2017 £m
Cash and cash equivalents	5.1	123.6	51.2
Current borrowings	4.1	(1.3)	(1.3)
Non-current borrowings	4.1	(591.3)	(511.5)
Interest rate swaps liabilities	4.2	(0.1)	(0.8)
<b>Net debt per balance sheet</b>		<b>(469.1)</b>	<b>(462.4)</b>
Mark to market of interest rate swaps		0.1	0.8
<b>Adjusted net debt</b>		<b>(469.0)</b>	<b>(461.6)</b>
Reported net asset value (attributable to owners of the parent company)	2.3c	2,073.0	1,729.0
EPRA net asset value	2.3c	2,085.4	1,740.4
<b>Gearing</b>			
Basic (net debt/reported net asset value)		23%	27%
Adjusted gearing (adjusted net debt/EPRA net asset value)		22%	27%
Gearing (EPRA net debt/EPRA net asset value)	2.3a	41%	46%
Loan to value (EPRA net debt/total property portfolio)	2.3a	29%	31%

## Section 4: Funding continued

### 4.5 Equity

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

Called up, allotted and fully paid ordinary shares of £0.25p each	2018			2017		
	No. of shares	Ordinary shares £m	Share Premium £m	No. of shares	Ordinary shares £m	Share Premium £m
At start of year	<b>240,830,281</b>	<b>60.2</b>	<b>579.5</b>	222,047,816	55.5	493.6
Share placing	<b>22,206,872</b>	<b>5.6</b>	<b>160.6</b>	–	–	–
Shares issued from Convertible Bond	–	–	–	18,593,589	4.7	85.3
Share options exercised	<b>477,998</b>	<b>0.1</b>	<b>0.4</b>	188,876	0.0	0.6
At end of year	<b>263,515,151</b>	<b>65.9</b>	<b>740.5</b>	240,830,281	60.2	579.5

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.

### 4.6 Dividends

During the year, the Company declared and paid an interim dividend of £24.3 million – 9.5p per share (2017: £17.7 million – 7.3p per share) and paid a £38.2 million final dividend – 15.4p per share relating to the year ended 31 December 2017 (2016: £26.7 million – 12.0p per share).

After the year end, the Directors proposed a final dividend per share of 19.5p (2017: 15.4p), bringing the total dividend per share for the year to 29.0p (2017: 22.7p). No provision has been made in relation to this dividend.

The Group has modelled tax adjusted property business profits for five years and declared PIDs in respect of the May 2018 and November 2018 distributions to ensure that the PID requirement will be satisfied. The combined PID from the distributions made during 2018 comprise 86% of the Group's forecast tax exempt property rental business profit, leaving a small amount that can be paid as part of the May 2019 distribution.

## Section 5: Working capital

### 5.1 Cash and cash equivalents

The Group's cash position at 31 December 2018 was £123.6 million (2017: £51.2 million).

The Group's cash balances include £2.4 million (2017: £3.1 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	Group	
		2018 £m	2017 £m
Profit/(loss) for the year		<b>237.3</b>	223.8
Adjustments for:			
Depreciation and amortisation		<b>7.3</b>	7.0
Fair value of share-based payments		<b>1.1</b>	1.5
Dividends received		–	–
Change in value of investment property	3.1	<b>(105.8)</b>	(103.1)
Change in value of investments		–	–
Net finance costs	4.3	<b>13.5</b>	28.7
Loss/(profit) on disposal of investment property		<b>6.8</b>	(0.6)
Share of joint venture profit	3.3b	<b>(95.8)</b>	(103.1)
Trading with joint venture adjustment		<b>6.4</b>	7.2
Tax charge/(credit)	2.5a	<b>8.5</b>	5.6
<b>Cash flows from operating activities before changes in working capital</b>		<b>79.3</b>	67.0
Decrease in trade and other receivables		<b>(4.5)</b>	(13.2)
Increase in inventories		<b>(5.5)</b>	(2.3)
(Decrease)/Increase in trade and other payables		<b>(5.8)</b>	6.9
<b>Cash flows from operating activities</b>		<b>63.5</b>	58.4

In 2018, £4.0 million of the brought forward trade and other receivables was settled in units in USAF rather than cash (2017: £8.1 million).

Cash flows consist of the following segmental cash inflows/(outflows): Operations £81.2 million (2017: £63.2 million), property (£138.3 million) (2017: (£27.7 million)) and unallocated £129.5 million (2017: (£82.4 million)). The unallocated amount includes Group dividends (£62.5 million) (2017: (£42.3 million)), tax payable (£3.8 million) (2017: (£2.1 million)), investment in joint ventures £30.9 million (2017: (£27.0 million)), contributions to the UNITE Foundation (£0.5 million) (2017: (£0.1 million)), purchase of own shares (£1.4 million) (2017: (£1.9 million)) and amounts received from shares issued £166.7 million (2017: £0.6 million).

## Section 5: Working capital continued

### 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 maximum exposure to credit risk was as follows:

	Note	2018 £m	2017 £m
Cash	5.1	123.6	51.2
Trade receivables		22.8	19.4
Amounts due from joint ventures (excluding loans that are capital in nature)		36.7	41.8
		<b>183.1</b>	<b>112.4</b>

#### 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 two groups – (i) students (individuals) and (ii) commercial organisations including Universities. The Group's exposure to credit risk is influenced by the characteristics of each customer. The Group holds tenant deposits of £0.9 million (2017: £9.0 million) as collateral against individual customers.

#### c) Joint ventures

Amounts receivable from joint ventures fall into two categories – working capital balances and investment loans. The Group has strong working relationships with its joint venture partners and therefore views this as a low credit risk balance.