PRESS RELEASE

21 February 2018

THE UNITE GROUP PLC

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

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

Richard Smith, Chief Executive of Unite Group, commented:

"I am pleased to report on another successful year for Unite. Our continuing focus is to deliver sustainable growth in our recurring earnings and cash flows. Our strong results are underpinned by our brand, our sector leading operating system, our deep and valuable University relationships and sector fundamentals. These factors combine in our purpose, to provide all students who live with us a Home for Success.

"We continue to align our high-quality portfolio to the strongest Universities in the UK where student demand is at its strongest. During the year, we made significant progress with our University partnerships and further increased the proportion of our beds secured under nomination agreements to 60%. This, alongside our development pipeline, is a key driver of continued growth and forward visibility of our earnings.

"Looking ahead, the business remains in a good position. Reservations for the 2018/19 academic year are at record levels for this time of year, supporting our rental growth guidance of 3.0-3.5% on a like-for-like basis. Our secured development and University partnerships pipeline of 9,400 beds, delivering over the next four years, will further improve operating efficiency, margins and earnings growth. This, coupled with a positive outlook for the student accommodation sector, reinforces our ongoing confidence in our business and is reflected in a 26% increase in our dividend and a sustainable increase in the future pay-out ratio."

Operational delivery drives continued strong financial performance

Year ended	31 December 2017	31 December 2016	Change
EPRA earnings*	£70.5m	£62.7m	+12%
EPRA earnings per share*	30.3p	28.4p	+7%
Profit before tax	£229.4m	£201.4m	+14%
Dividend per share	22.7p	18.0p	+26%
Total accounting return*	14%	15%	
Like-for-like rental growth*	3.4%	3.8%	
As at	**31 December 2017**	**31 December 2016**	
EPRA NAV per share*	720p	646p	+11%
Net debt*	£803m	£776m	+3%
Loan to value*	31%	34%	

EPRA Earnings up 12% to £70.5m (2016: £62.7m)

- EPRA earnings now represent one-third of total shareholder return
- Like-for-like rental growth of 3.4% (2016: 3.8%)
- Profit before tax up 14% to £229.4 million (2016: £201.4 million)

Dividend increased 26% to 22.7p, dividend pay-out to increase to 85% from 2018

- Increase in final dividend to 15.4p (2016: 12.0p)
- Dividend pay-out to increase to 85% of EPRA earnings from the current level of 75%
- 14% total accounting return (2016: 15%)

Record level of reservations for 18/19 academic year supports rental growth outlook

- Reservations for 2018/19 academic year at 75%, a record level for this time of year (2016: 73%)
- Supports rental growth outlook for 2018/19 of 3.0-3.5% on a like-for-like basis

Earnings growth underpinned by nomination agreements, development pipeline & improved margins

- Nomination agreements with Universities now represent 60% of accommodation (2016: 58%), with an average remaining life of six years (2016: six years) providing income and rental growth certainty on over half of revenue
- Secured development pipeline of 7,550 beds for delivery over the next three years (2016: 7,000 beds), generating an attractive 8.1% yield on cost
- Together with rental growth, these new openings net of disposals could add 13p to 17p to earnings per share over the next few years
- Delivery of £5 million of operational efficiencies (Unite share: £3.8 million) in 2017 will improve margin from 74.1% and overhead efficiency from 40bps to targets of 75% and 25-30bps in 2018

Significant progress with University partnerships

- Acquisition of Aston Student Village (3,067 beds), delivering returns ahead of plan
- A new development-led partnership secured with Oxford Brookes University with planning in place to deliver 887 beds in 2019
- A new development-led partnership in London, secured subject to planning, to deliver c.1,000 beds in 2021 supported through planning by King's College, London

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

- Operational portfolio increased to 50,000 beds valued at £4.6 billion; Unite share £2.4 billion, with a further 9,400 beds being developed (2016: 49,000 beds, valued at £4.3 billion; Unite share £2.1billion)
- 85% of Unite's portfolio now located at high and mid-ranked Universities (2016: 82%), increasing to 90% on completion of our development and University partnership pipeline and planned acquisitions and disposals

Strong financial position

- LTV of 31% (2016: 34%), cost of debt reduced to 4.1% (2016: 4.2%)
- Unite Group plc assigned an investment grade corporate rating of BBB from Standard & Poor's and Baa2 from Moody's
- New £500 million unsecured debt facility will reduce average cost of debt to 3.9% when fully drawn

* 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 08.00 at the London Stock Exchange. A live webcast will be available at: www.unite-group.co.uk. To register for the event or to receive dial-in details, please contact unite@powerscourt-group.com.

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CHAIRMAN'S STATEMENT

In 2017, the business continued the positive performance of recent years. Building on the strength of our brand and our reputation with customers and Universities, we entered our first on-campus University partnership with Aston University and secured two further development-led University partnerships with Oxford Brookes University and in London with planning support from King's College, London.

Financial performance has again been strong, with a total accounting return of 14% and growth in EPRA earnings, up 12% to £70.5 million. Profit before tax was £229.4 million, which includes property revaluations and disposal profits of £169.2 million (2016: £201.4 million and £136.3 million respectively). As a result of this performance, we are declaring a final dividend of 15.4p to deliver a total dividend of 22.7p for the full year, an increase of 26% 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.

I would also like to take this opportunity to pay tribute to one of our Directors, Manjit Wolstenholme, who sadly passed away last November. Manjit was a friend and colleague and her judgement, insight and humanity will be greatly missed.

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

The outlook for our market remains positive, with ongoing structural growth being generated by 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 ongoing Brexit negotiations and political landscape in the UK present a backdrop of some uncertainty, these sector fundamentals, together with our high-quality portfolio, University relationships and market-leading operating platform, position us to continue performing well in the years to come.

Given our confidence in the sector and the sustainability of our business model, the Board has agreed to increase our dividend pay-out ratio to 85 per cent of EPRA earnings in 2018 onwards.

CHIEF EXECUTIVE'S REVIEW

I am pleased to report another strong set of results for the year ended 31 December 2017. 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 great service and operating brilliant buildings, designed specifically for students. Our investment discipline ensures we maintain a robust capital structure and deliver high-quality earnings.

Performance in 2017 resulted in another year of growth in EPRA earnings, like-for-like rents and development profits. EPRA earnings increased by 12% to £70.5 million and now represents one-third of total shareholder returns. The focus on delivery of the ongoing earnings performance of the business is increasingly underpinned by University backed contracts giving us the confidence to increase our dividend pay-out from 75% to 85% of EPRA EPS in 2018.

Financial highlights

	2017	2016
EPRA earnings	£70.5m	£62.7m
EPRA EPS	30.3p	28.4p
Profit before tax	£229.4m	£201.4m
Basic EPS	95.3p	101.3p
Dividend per share	22.7p	18.0p
Total accounting return	14%	15%
EPRA NAV per share	720p	646p
Loan to value (LTV)	31%	34%

We will continue to focus on growing earnings, both in absolute terms and as a proportion of our total return. This is driven by our ability to maintain full occupancy, to continue growing rental levels on an annual basis, the consistent focus on cost efficiencies and from the completion of our high-quality development pipeline.

Our PRISM operating platform, which became fully operational in 2016, coupled with our experienced management and leadership teams, give us a unique capability to drive value from our portfolio through scale efficiencies and revenue management, supporting our ongoing income focus.

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. We completed two important strategic initiatives during the year with the acquisition of a 3,067-bed, on-campus portfolio at Aston University and the sale of 4,800 beds that did not meet the long-term strategic goals of our portfolio. These initiatives are supported by our ongoing development activity and further University partnership opportunities to ensure that we are increasingly focused on the best Universities in the UK.

Delivering for students

Our business is focused on delivering a Home for Success: an affordable, consistent and high quality living environment that helps students make the most of their time at University. Going to University should be more than simply a stepping stone to employment and we strongly believe that where a student lives has a material impact on their social and academic development. We strive to ensure that every aspect of our student proposition is therefore designed to provide a safe and secure environment where they can integrate and develop, academically and socially.

Our student proposition is delivered by 1,400 highly experienced employees, whose understanding of students is a cornerstone of our success. As part of our strategy, we continue to invest in recruiting, retaining and developing the very best people. This commitment is reflected in the results of our employee effectiveness surveys and the prestigious Investors in People Gold Standard accreditation and we are pleased to have achieved the Living Wage Employer accreditation.

We also recognise that going to University is a significant investment for young people and offer a variety of accommodation at different price points, with the majority of our rooms concentrated at a mid-range price point for purpose-built student accommodation.

This commitment to the customer is reflected in average occupancy of 98% and rental growth of 3.5% over the last five years. Growing numbers of second and third year students, who have traditionally preferred to live in private rented accommodation, are choosing to return to us and now account for over two-thirds of our direct-let bookings. 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.

Partner of choice for Universities

Our focus on customer service is closely aligned with the priorities of our University partners, for whom student experience is now a key performance metric under the Government's new Teaching Excellence Framework. With students spending more time in their accommodation than on campus, we can increasingly demonstrate to Universities how Home for Success supports their strategic ambitions.

This, combined with a long standing commitment to building relationships with key University decision–makers, is reflected in the latest results of our independently assessed University trust survey and means that 60% of our accommodation is now let to Universities through nominations agreements. With an average remaining life of six years, these agreements provide income and rental growth certainty on over half of our revenue.

The delivery of great customer service to students and Universities has translated into a strong financial performance in 2017, delivering occupancy of 99% and rental growth of 3.4% (2016: 98%, 3.8%). With our new operating system, PRISM, we have also delivered further improvements to our NOI margin and overhead efficiency measure.

Our people, University relationships, the quality of our portfolio and PRISM, our operating platform, set us apart from the other operators in the sector. Going forward, I am confident they will support the future growth and financial performance of the business.

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 focusing our portfolio activity on further improving alignment to high and mid ranked Universities and, in the process, underpinning rental growth over the medium and long term. We currently have 85% of our beds occupied by students attending such Universities, which will increase to 90% on completion of our existing development pipeline, planned acquisitions and disposals.

During 2017, we opened 2,150 new beds, added 3,067 beds to our portfolio through the Aston Student Village acquisition and sold 4,800 beds. Taking into account these activities, together with valuation movements, the value of our investment portfolio (including our share of USAF and LSAV) is £2.4 billion as at 31 December 2017.

The purpose-built student accommodation sector continues to attract a significant level of institutional capital. Over £4 billion of assets were traded in the year, driving yield compression across the sector. The yield movement on our portfolio, on a like-for-like basis, was 15 basis points and the portfolio is valued at an average portfolio yield of 5.2% (2016: £2.1 billion and 5.45% yield).

Development pipeline

We also made excellent progress with our development pipeline during the year. We completed five new buildings over the summer and secured an additional two new development schemes, which increases our secured development pipeline for delivery over the next three years to 7,550 beds. The construction of all our 2018 openings is progressing in line with plans. Planning consents and build contracts are in place for all of our 2019 deliveries and we are finalising our plans for schemes delivering in 2020.

During 2017, USAF completed its two forward-funding schemes in Oxford and Edinburgh and acquired three further forward-fund schemes in Durham and Birmingham, adding 1,000 beds to the portfolio on completion in 2018 and 2019.

The anticipated yield on cost of our secured development pipeline is 8.1% and prospective returns on new schemes outside London remain attractive at around 8.0%. The secured development pipeline is highly accretive and remains a significant component of our future earnings growth and could contribute 10-12 pence per share to EPRA earnings once built out.

University partnerships

Following the success of the Aston University transaction, Unite has secured two further University partnership schemes. Firstly, during the year, we acquired the former Cowley Barracks in Oxford. Working with Oxford Brookes University, we have 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 1,365 beds. The agreement provides the University with much-needed accommodation and Unite with income and rental growth certainty over the long term.

Secondly, following the year end, Unite recently secured a new development site in London. Working with planning support from King's College, London we will submit a planning application to build around 1,000 beds of cluster-flat accommodation in the second half of the year. We expect to enter into a long-term nominations agreement over this property, providing much needed capacity in a location where there is a severe shortage of high quality affordable student accommodation. This is our first land acquisition in London since 2013, facilitated by the correction in land values seen in certain zone 1 locations and our ability to unlock value through our relationships with Universities.

The initial development returns on these University-backed schemes are 6-7%, around 100 basis points lower than a scheme where Unite takes full letting and rental growth risk. However, total returns are expected to be 9-10% and given the University relationships and the security of income the agreements provide, these opportunities are strategically important and remain value enhancing.

We continue to see attractive development and partnership opportunities in strong University markets and we plan to invest selectively in target markets to enhance portfolio quality and deliver target returns.

Acquisitions and disposals

We also continue to target acquisitions of completed assets and portfolios that enhance the quality of our portfolio and the earnings profile of the business. These acquisitions are generally targeted through our co-investment vehicles due to their lower cost of capital, allowing us to generate enhanced returns through our asset management and acquisition fees. During 2017, USAF acquired one 437-bed completed asset in Sheffield for £36 million. Since the year end, USAF has acquired a 331-bed investment asset in Edinburgh for £24 million.

Disposals remain an important part of our strategy and we will continue to recycle assets out of our portfolio to ensure that we can continue increasing our exposure to the UK's best Universities, while generating capital to invest in further development activity and exciting opportunities such as the Aston Student Village acquisition. During 2017, we sold £181 million of assets at a £5 million premium to book valuations (Unite share). We intend to sell £75-125 million (Unite share) of assets during 2018 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.

High-quality earnings and a strong capital structure

We have achieved 99% occupancy across our portfolio and rental growth of 3.4%. With 60% of this income underpinned by University nomination agreements, we have a high level of visibility in the ongoing occupancy and rental growth outlook of the portfolio. In addition to revenue growth, a focus on efficiency has resulted in further improvements in our NOI margin, which is up to 74.1% (2016: 73.1%), and in our overhead efficiency which shows that our overheads, net of management fees, represents 40 basis points of gross asset value (2016: 40 basis points). Having put in place a £5 million efficiency programme in 2017 (Unite share: £3.8 million), we remain confident about achieving further efficiency gains and delivering our targets of 75% and 25-30 basis points by the end of 2018 and will continue to review how to deliver further efficiencies in 2019 and beyond.

Unite's share of net debt grew by £27 million to £803 million in 2017. The majority of our property and development expenditure (Unite share £185 million) was funded by our disposal programme with the remainder from retained earnings. We reduced LTV to 31% (2017: 34%) as a result of disposals, the conversion of the convertible bond and asset value appreciation. This is at the lower end of our target range, and we expect to increase back to around the mid-30% level as we build out the development pipeline. Our net debt to EBITDA ratio is 6.5 (2016: 6.9), again within our target level of 6.0-7.0, which we intend to maintain.

The Group also secured an investment grade credit rating and arranged a new £500 million, five-year unsecured debt facility, providing 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 12 out of the world's top 100 Universities and 59 of Europe's top 200 Universities. In February 2018, the Government announced a Funding Review. The details of the review are yet to be made clear but we do not believe that it will not have a detrimental impact on the UK's globally-renowned Higher Education sector.

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 2017 was at 700,000 and 534,000 respectively (2016: 725,000 and 540,000). Despite a fall in applications of 3%, Universities were able to recruit from the excess of applications, resulting in intake falling by less than 0.5% with applicants still outstripping acceptances by 166,000. The small reduction in applications was driven principally by changes to funding for some medical related courses and a small reduction in EU students.

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. Since 2015, a demographic trend has seen a reduction in the number of 18-21 year olds, and this trend affects the next three years. However, participation rates continue to increase with applicants still outstripping the places offered by Universities. We expect high and mid-ranked Universities, where our business is focused, to continue attracting more students than those at the lower end of the league tables and therefore we believe our portfolio remains well placed to withstand any potential reductions in applications.

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 580,000 beds representing around one-third of the UK's student population. At this level, there remains a shortage of purpose-build accommodation compared to the numbers of first years, international and increasingly second and third-year students. The outlook suggests that the rate of new supply will continue at a similar rate of around 25,000 beds in 2018, before starting to reduce in 2019. Moreover, a large proportion of the new supply is focused on the premium end of the market and we believe the competitive threat that it poses to our more mainstream proposition is limited.

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

Outlook

Building on our consistent performance record and supportive market fundamentals the Group remains well placed to deliver sustainable earnings growth in the years ahead. UK Universities continue to demonstrate their ability to adapt and respond to a changing landscape and retain their globally recognised status. The demand for high quality Higher Education among both UK and international students continues to grow. Our development pipeline and operational expertise provides good visibility of future rental growth and increasing recurring earnings. 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 2017, resulting in a 12% increase in EPRA earnings to £70.5 million (2016: £62.7 million). This growth has again been driven by high occupancy, rental growth and the impact of portfolio movements, as well as further operational efficiencies and ongoing cost discipline.

Summary EPRA income statement

	2017 £m	2016 £m
Rental income	170.8	159.1
Property operating expenses	(44.3)	(42.8)
Net operating income (NOI)	**126.5**	**116.3**
NOI margin	*74.1%*	*73.1%*
Management fees	14.1	14.0
Operating expenses	(24.6)	(23.1)
Finance costs	(45.2)	(45.9)
Acquisition and net performance fees	4.3	6.9
Development and other costs	(4.6)	(5.5)
EPRA earnings	**70.5**	**62.7**
EPRA EPS	**30.3p**	**28.4p**

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 £11.7 million, up 7%, as a result of new openings and sustained rental growth, after the impact of disposals made in the year. NOI margin improved to 74.1% (December 2016: 73.1%), reflecting further operating efficiencies from the PRISM operating platform. PRISM provides us with the ability to differentiate ourselves from other operators, driving efficiencies through the use of technology, which also provides enhanced levels of service for our customers. We maintain our expectation that NOI margins will improve to 75% in 2018 whilst ensuring that we remained focused on service level enhancements.

In 2017, we implemented an efficiency programme which will deliver £5 million of savings (Unite share: £3.8 million). These savings were driven by streamlined processes and procedures as a result of our student insight, PRISM and the scale of the business and will reduce the £24.6 million of operating costs incurred during 2017. These savings mean that we are on track to deliver our overhead efficiency target in 2018. Recurring management fee income from joint ventures remained at £14.1 million (2016: £14.0 million), as a result of the valuation growth of assets under management in USAF and LSAV offset by disposal activity. In addition to the recurring asset management fees, a further £4.3 million of net performance and acquisition fees were generated from USAF and LSAV (2016: £6.9 million). The USAF net performance fee is based on USAF's cumulative total return at 31 December 2017 and is payable in USAF units.

Finance costs decreased to £45.2 million (2016: £45.9 million). An increase in net debt of £27 million to £803 million (2016: £776 million) was offset by a lower average cost of finance of 4.1% (2016: 4.2%) 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 driven largely by spend on development activities which has, in turn, led to an increase to £7.4 million in the amount of interest that is capitalised into development schemes, up from £5.9 million in 2016. We expect the level of interest capitalisation to remain at around this level given the ongoing level of development activity in 2018 and 2019. Development (pre-contract) and other costs fell to £4.6 million (2015: £5.5 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 2017/18 academic year stands at 99% and for like-for-like rental growth of 3.4% was achieved on our portfolio. We have continued to grow the proportion of beds let to Universities, with 60% of rooms under nominations agreements (2016/17: 58%), up by 5,000 beds over the last three years. Enhanced service levels and our extensive understanding of student needs have resulted in longer term and more robust partnerships with Universities.

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	%	Rental income £'000	%
Single year	9,038	31	52,357	29
2-10 years	12,017	41	80.795	44

11-20 years	3,783	13	25,517	14
20+ years	4,225	15	24,515	13
Total	29,063	100	183,183	100

Reservations for the 2018/19 academic year are encouraging, at 75% (73% at the same point last year) as a result of our continued focus of working alongside the UK's best Universities, as well as the success of our online marketing strategy and further progress through our local marketing operation in China. The structural growth within the cities we operate, together with our differentiated service offering, provides us with further confidence in future occupancy and supporting rental growth for the 2018/19 academic year, which we expect to be in the region of 3.0-3.5%.

Home for Success

Our popularity with students and relationship with Universities are both consequences of continuous investment in our purpose: Home for Success.

During the year, we continued to drive value from our proprietary PRISM operating platform, delivering both the anticipated operational efficiencies and a better experience for students. Building on this and our unique insight into student life, we introduced some significant enhancements to our service with a range of new digital services, including uChat, which provides the opportunity for students to meet their flatmates before arriving at University and logged over 80,000 messages in the first three months of operation. The enhanced app, which has been downloaded by over 40,000 customers and allows app-based reporting of noise complaints and maintenance requests, has been introduced together with a more comprehensive pack of pre-arrival information and a smoother booking system for in-house services, such as laundry. We also enhanced our Wi-Fi provision, upgrading both bandwith and access to ensure satisfaction. The range and quality of our digital services now represents a key point of competitive differentiation for Unite and, going forward, we will continue to invest in technology to provide a living experience tailored to the needs and preferences of today's student.

Working closely with our University partners, we are enhancing our service to make the sometimes challenging transition to University life as smooth and painless as possible and increase student retention. As part of this, during the year we expanded our network of paid student Ambassadors, who provide valuable peer-to-peer support for students at critical points in their journey through University.

Our student insight tells us that employability is a key driver of student satisfaction. With this in mind, we recently entered a joint venture with The National Centre for Universities and Business (NCUB) and digital education specialists Jisc to launch Placer, an app-based service that matches students with potential employers that will be fully launched in the next few months. Placer is working with 22 Universities and over 200 employers, of whom half have already signed up to the service.

We strongly believe that University is an opportunity that should be open to all, regardless of their background. During the year, we have significantly expanded our commitment to the Unite Foundation which now provides scholarships for 170 young people from disadvantaged backgrounds who may not have otherwise gone to

University. The Foundation works in partnership with 28 Universities up and down the country, for whom it forms an important part of their efforts to widen participation.

The Unite Foundation is our flagship social investment and complements a wide range of grass roots charitable activity, community engagement and employee volunteering. Together with programmes to drive deeper levels of diversity and inclusion across the organisation and reduce waste and energy use, it is a key cornerstone of our Up to uS responsible business programme.

At the heart of Home for Success are 1,400 highly experienced and dedicated people with a passion for helping students. Developing our teams remains a priority for us and we have implemented new Service Style training to the whole organisation over the year. This programme ensures that we are providing our teams with the training required to deliver excellent customer service as well as developing their careers. Our approach to training and development has been an integral part of our Investors in People Gold accreditation and we remain committed to remaining a Living Wage Employer.

We also continue to invest in our reputation and relationships within the Higher Education Sector. Our Universities Partnerships and Engagement team is dedicated to building strong working relationships with key University partners. This systematic approach has seen us integrate specific University requirements into new developments and, in the process, helped drive the growth in the number and length of our nomination agreements. Our Insight Reports, meanwhile, looking at different aspects of the student experience have become a valuable source of thought leadership within the sector.

In China, our marketing office is well established and benefitting from a local online presence. We are building on our relationships with both local and British Universities in China, as well as providing important support to our Chinese customers before they travel to the UK and to their parents while their children are overseas. We are confident that this investment will deliver long-term benefit to the business, as well as to Chinese students and UK Universities.

PROPERTY REVIEW

EPRA NAV growth

EPRA NAV per share increased by 11% to 720 pence at 31 December 2017, up from 646 pence at 31 December 2016. In total, EPRA net assets were £1,740 million at 31 December 2017, up from £1,557 million a year earlier.

The main factors behind the 74 pence per share growth in EPRA NAV per share were:

- The growth in the value of the Group's share of investment assets (+53 pence), as a result of rental growth (+26 pence) and yield compression (+27 pence)
- The value added to the development portfolio (+16 pence)
- EPRA earnings for the period (+30 pence)
- Dividends paid of 18 pence and debt exit costs of 5 pence both reduced NAV

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 69 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 2017, including our share of gross assets held in USAF and LSAV, was £2,595 million (31 December 2016: £2,277 million). The £318 million increase in portfolio value (Unite share) was attributable to:

- Valuation increases of £168 million on the investment and development portfolios, with like-for-like rental growth of 3.4% and yield compression of 15 basis points
- Capital expenditure on developments of £155 million and £16 million on investment assets relating to refurbishment
- Acquisitions of £122 million – primarily Aston Student Village
- Disposals of £176 million
- Increased share of USAF of £33 million, as a result of the performance fee earned in 2016 and acquisitions of units purchased in the secondary market

Summary balance sheet

	2017 £m			2016 £m		
	Wholly owned £m	**Share of Fund/JV £m**	**Total £m**	**Wholly owned £m**	**Share of Fund/JV £m**	**Total £m**
Rental properties	1,261	1,118	2,379	1,062	1,023	2,085
Properties under development	206	10	216	185	7	192
	1,467	1,128	2,595	1,247	1,030	2,277
Adjusted net debt	(462)	(341)	(803)	(432)	(344)	(776)
Other assets/(liabilities)	(35)	(17)	(52)	(15)	(14)	(29)
Convertible bond	-	-	-	85	-	85
EPRA net assets	970	770	1,740	**885**	**672**	**1,557**

* 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 92%, which is in line with December 2016, with 8% 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 2017

		USAF	LSAV	Wholly owned	Lease	Total	Unite share
London	Value (£m)	350	915	466	-	**1,731**	**1,009**
	Beds	*1,886*	*5,406*	*1,989*	*260*	***9,541***	***42%***
	Properties	*7*	*13*	*6*	*1*	***27***	
Major provincial	Value (£m)	1,517	244	566	-	**2,327**	**1,062**
	Beds	*18,222*	*3,067*	*7,000*	*2,577*	***30,866***	***45%***
	Properties	*50*	*1*	*16*	*7*	***74***	
Provincial	Value (£m)	324	-	229	-	**553**	**308**
	Beds	*4,804*	*-*	*3,336*	*1,059*	***9,199***	***13%***
	Properties	*16*	*-*	*9*	*3*	***28***	
Total	**Value (£m)**	**2,191**	**1,159**	**1,261**	**-**	**4,611**	**2,379**
	Beds	*24,912*	*8,473*	*12,325*	*3,896*	***49,606***	***100%***
	Properties	*73*	*14*	*31*	*11*	***129***	
Unite ownership share		24.6%	50%	100%	-		
Unite ownership (£m)		539	579	1,261	-	**2,379**	

The sale of two high-value London studio schemes during the year has reduced our overall London exposure to 42%, down from 47% in 2016. The regional focus of our development pipeline means that the London weighting is likely to fall to around 40% as the portfolio is built out.

Student accommodation yields

The level of transactions in the student accommodation sector has remained high in 2017 following the trend seen over the last few years, with over £4 billion of assets trading during the year. The majority of buyers have been supported by global institutional capital.

As a result of this 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, where there has been the strongest level of demand for assets. This yield compression has been reflected in our portfolio and the average yield at 31 December 2017 was 5.2%, an inward movement of 15 basis points on a like-for-like basis over the year.

Indicative valuation yields

	31 December 2017	31 December 2016
London	4.25 – 4.5%	4.5 - 5.0%
Prime provincial	5.0 to 5.5%	5.25 – 5.75%
Provincial	6.0 to 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 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. 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.

Development activity

Development activity continues to be a significant driver of growth in future earnings and NAV. We have added two sites in Leeds and Manchester, representing 1,600 beds, to our development pipeline during the year and secured planning on three new buildings. We are continuing to see opportunities to secure sites for delivery in 2020 and 2021 in strong regional locations alongside high-quality Universities within our target range of around 8.0% yield on cost. Returns on potential new direct-let projects in London still remain below our hurdle rate of 7.0% due principally to higher alternative use values for prospective sites and planning levies.

2017 and 2018 completions

We completed five schemes during 2017 in line with budget and programme. Over 70% of these beds are let to Universities under nominations agreements for the 2017/18 academic year, with an average duration of 10 years.

The 2018 pipeline is progressing well. We are on track to deliver five wholly-owned schemes in Bristol, Newcastle, Sheffield, Portsmouth and Birmingham and, in USAF, two forward funded developments, both in Durham, adding a total of 3,062 beds. We expect all of the schemes to be fully let for the 2018/19 academic year.

Regional development pipeline

During the year, we have continued to add to our 2019 and 2020 regional pipeline and have a total of five schemes secured which are expected to deliver approximately 4,000 beds in addition to our ongoing 2018 projects. All new regional developments are being undertaken wholly on balance sheet and prospective returns for the secured pipeline are very attractive at an average 8.1% yield on cost.

Planning is in place on all but two of the schemes in the pipeline. During the year, we have reorganised the phasing of deliveries, bringing Liverpool forward to 2019 and Aberdeen and Bristol being pushed back to 2020. The two new schemes, in Leeds and Manchester, will be delivered in 2020.

Secured development pipeline (wholly owned)

		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 %
2018 completions								
Newgate Street	Newcastle	575	40	37	11	18	5	8.0%
Brunel House	Bristol	246	30	22	3	8	2	8.5%
Chaucer House	Portsmouth	484	41	33	15	11	3	8.0%
St Vincent's	Sheffield	598	49	38	16	21	4	8.2%
International House	Birmingham	586	50	38	23	14	5	8.0%
2019 completions								
Skelhorne	Liverpool	1,085	96	74	11	49	13	8.0%
2020 completions								
Tower North	Leeds	1,019	107	83	1	82	24	8.0%
Constitution Street	Aberdeen	600	50	42	0	35	3	8.4%
New Wakefield Street	Manchester	603	76	56	12	44	11	8.2%
Old BRI[1]	Bristol	751	98	79	2	61	20	8.4%
Total (wholly owned)		**6,547**	**637**	**501**	**95**	**343**	**91**	**8.1%**

[1] Subject to obtaining planning consent

Secured forward fund pipeline (USAF)

USAF completed two forward fund assets in 2017, adding new operational beds in Oxford and Edinburgh. USAF also secured three further assets on a forward fund basis in Durham and Birmingham and acquired two investment assets in Sheffield and Edinburgh. These acquisitions are consistent with its strategy to increase exposure to high-quality Universities and to expand its presence in markets to take advantage of scale. USAF has around £50 million of acquisition capacity which it intends to invest in the first half of the year.

		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 %
USAF								
2018 completions								
Old Hospital	Durham	363	37	32	21	11	5	
Houghnall College	Durham	222	20	16	8	8	4	
2019 completions								
Battery Park	Birmingham	418	43	37	9	28	6	
Total USAF		**1,003**	**100**	**85**	**39**	**46**	**15**	**6.3%**
Unite share of USAF		**n/a**	**25**	**21**	**10**	**11**	**4**	**6.3%**

University partnerships

In addition to growing 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. In February, we acquired Aston University's entire accommodation provision, Aston Student Village, totalling 3,067 beds, for £227 million (Unite share: £113 million) in our LSAV joint venture. The acquisition, which was supported by Aston University, demonstrates the depth of our relationship with the University and the strength of the Unite Students brand amongst Universities. The refurbishment works to common areas and shared kitchens are complete and, along with the lettings performance and cost efficiencies, are supporting financial performance ahead of plan.

Unite has recently secured two further University partnership schemes. Firstly, during the year, we acquired the former Cowley Barracks in Oxford. Working with Oxford Brookes University, we have 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 agreement provides the University with much-needed accommodation in a location where new development is difficult and Unite with income and rental growth certainty over the long term.

Secondly, following the year end, Unite secured a new development site, our first in London since 2013, in Middlesex Street, E1. Working with King's College London, we will submit a planning application to build around 1,000 beds of cluster-flat accommodation in the second half of the year. We expect to enter into a long-term nominations agreement over this property, providing much needed, capacity in a location where there is a severe shortage of high quality affordable student accommodation.

		Secured beds	Total completed value	Total development costs	Capex in period	Capex remaining	Forecast NAV remaining	Forecast yield on cost
		No.	£m	£m	£m	£m	£m	%
2019 completions								
Cowley Barracks	Oxford	887	91	73	1	72	18	6.5%
2021 completions								
Middlesex Street[1]	London	1,000	250	195	1	194	55	6.25%
Total (wholly owned)		**1,887**	**341**	**268**	**2**	**266**	**73**	**6.3%**

[1] Subject to obtaining planning consent

We are currently reviewing a range of funding options to provide the financing for these schemes and will ensure that this is in place prior to committing to the build phase.

Asset disposals

During 2017, £472 million of assets were sold in third-party transactions (Unite share: £181 million), generating £5 million profit on a Unite share basis.

The assets were selected for disposal based on their relative performance and forecast future rental growth. The disposals form part of our strategy to align our portfolio to high and mid-ranked Universities and to focus on more affordable accommodation in the best locations in the cities in which we operate. Following the completion of the disposals, 92% of the Group's beds are in shared apartments, also known as cluster flats.

We will continue to recycle assets in the portfolio to maintain our focus on quality and to maintain capital discipline as we continue to see further growth opportunities.

Fire safety and cladding

Following the tragic events caused by the fire at Grenfell Tower, we completed a full review of fire safety across our estate. Working with the Department of Communities and Local Government (DCLG), we undertook testing of cladding materials from an estate of 132 buildings. Samples from six buildings did not meet the standards as set out in the initial test. Following the initial test, samples from three of the buildings have been submitted for retesting to ensure that the full cladding system (rather than a sample) is subject to test. We expect results in the next few weeks.

Following the receipt of the initial test results, experts from local fire and rescue authorities undertook a detailed inspection of the overall design of all six properties and the safety measures and procedures in place. We took the decision to close one of the buildings, Sky Plaza in Leeds, for the 2017/8 academic year. We worked closely with the two Universities and our customers in Leeds and were able to find alternative accommodation for all affected customers across our estate in Leeds. We thank them for their understanding and support during this challenging period. The local fire and rescue authorities concluded that the remaining five properties remain safe for occupation subject to some minor improvements that have all been implemented.

The cost of replacing the cladding is expected to be £3-4 million and a provision has been included in the 2017 financial results. If we are successful in claims under build contracts, the cost for Unite could be lower than the provision.

Where cladding needs to be replaced, work is on track and we expect all buildings to be open for the 2018/19 academic year. The loss of income from the closure of Sky Plaza has been reflected in the 2017 results.

The safety of our customers and staff remains our primary responsibility. Our buildings are modern, well maintained and built with advanced fire management specifications, and have rigorous fire safety management and maintenance regimes. We work in partnership with the Avon Fire Authority, as our primary fire authority, in the development of our fire systems and management strategies and have been externally audited by the British Safety Council in the last 18 months.

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.

	2017 £m	2016 £m
EPRA earnings	70.5	62.7
Valuation gains and profit on disposal	169.2	136.3
Changes in valuation of interest rate swaps and debt break costs	(12.3)	(1.0)
Minority interest and tax included in EPRA earnings	2.0	3.4
Profit before tax	**229.4**	**201.4**
EPRA earnings per share	30.3	28.4p
Basic earnings per share	95.3	101.3p

The increase in profit before tax is primarily the result of a higher level of unrealised valuation gains of £168.1 million being recognised in 2017 compared with the £136 million recognised in 2016. As part of the new unsecured debt facility, the Group cancelled £200 million of interest rate swaps at a cost of £11.3 million.

Cash flow and net debt

The Operations business generated £63.2 million of net cash in 2017 (2016: £61.3 million) and net debt increased marginally to £803 million (2016: £776 million). The key components of the movement in net debt were the operational cash flow, convertible bond and the disposal programme (generating total inflows of £332 million) offset by total capital expenditure of £288 million, USAF unit acquisitions of £18 million and debt exit costs of £11 million and dividends paid of £42 million. In 2018, we expect net debt to increase as capital expenditure on investment and development activity will exceed anticipated asset disposals.

Dividend

We are declaring a fully covered final dividend payment of 15.4 pence per share (2016: 12.0 pence), making 22.7 pence for the full year (2016: 18.0 pence). All of the 15.4 pence dividend will be comprised of a Property Income Distribution (PID).

Subject to approval at Unite's Annual General Meeting on 10 May 2018, the dividend will be paid in either cash or new ordinary shares (a "scrip dividend alternative") on 18 May 2018 to shareholders on the register at close of business on 13 April 2018. The last date for receipt of scrip elections will be 26 April 2018.

Further details of the scrip scheme, the terms and conditions and the process for election to the scrip scheme will be provided to shareholders with the Annual General Meeting documentation when it is sent to shareholders in March 2018.

As a result of the quality predictable earnings outlook for the business, we are planning to increase our dividend pay-out to 85% of EPRA earnings in 2018 from the current level of 75%.

Tax and REIT conversion

The Group converted to REIT status and is exempt from tax on its property business, with effect from 1 January 2017. The deferred tax liability relating to unrealised gains on joint venture investments of £20.6 million, which are not exempt from tax, exceeds the deferred tax asset relating to tax adjusted losses carried forward of £11.3 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.

Certain activities, primarily the fees generated from the investment management of joint ventures, are subject to tax which we expect to be in the region of £2-3 million per annum.

Debt financing

The Group has continued to maintain a disciplined approach to managing leverage, with LTV of 31% at 31 December 2017 at the lower end of our target range. The Unite Group plc was assigned 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 the transition to an unsecured capital structure with a new £500 million unsecured debt facility that will reduce the average cost of debt to 3.9% when fully drawn.

Key debt statistics (Unite share basis)

	2017	2016
Net debt	£803m	£776m
LTV	31%	34%
Net debt:EBITDA ratio	6.5	6.5
Average debt maturity	5.3 years	4.9 years
Average cost of debt	4.1%	4.2%
Proportion of investment debt at fixed rate	80%	100%

LTV improved to 31% at 31 December 2017, from 34% at the end of 2016 as a result of the value growth of the portfolio exceeding the increase in net debt and the impact of the conversion of the convertible bond. 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 greater focus on the earnings profile of the business, we are also now monitoring our net debt to EBITDA ratio, which was 6.5 times in 2017 and we plan to keep this in line with current levels going forward.

Interest rate hedging arrangements and cost of debt

Our cost of debt has come down marginally to 4.1% (2016: 4.2%). Following the shift to an unsecured structure, there is an opportunity to reduce the cost of debt over time as we add new debt to build out the development pipeline, replacing expensive legacy facilities. Following the cancellation of interest rate swaps, the Group has 80% of its share of investment debt subject to a fixed interest rate (2016: 100%) for an average term of 5.3 years.

Convertible bond

The Group’s £90 million convertible bond fully converted into equity in June. The conversion has resulted in a reduction in net debt of £90 million and the issue of 18,593,589 ordinary shares in Unite Group plc. The reduction in net debt has reduced LTV by 4% points. The additional shares were reflected in the calculation of NAV per share in December 2016.

Funds and joint ventures

The table below summarises the key financials for each vehicle:

	Property assets £m	Net debt £m	Other assets £m	Net assets £m	Unite share of NAV £m	Total return	Maturity	Unite share
Vehicle								
USAF	2,233	(588)	(33)	1,612	399	10.8%	Infinite	25%
LSAV	1,159	(394)	(24)	741	371	16.0%	2027	50%

USAF and LSAV have continued to perform well in 2017. LSAV's higher total return is driven by stronger yield compression in London. USAF has over £50 million of acquisition capacity following the forward fund acquisitions and will continue to monitor acquisition opportunities. Following the acquisition of the Aston Student Village, LSAV does not have any acquisition capacity. The development phase of the joint venture expired at the end of 2017. Any further acquisitions or investments would require mutual consent from both Unite and GIC.

Unite has increased its share in USAF to 24.6% through the additional units issued from the performance fee and third-party acquisition of £19 million of units during 2017.

Fees

During the year, the Group recognised net fees of £18.4 million (2016: £21.9 million) from its fund and asset management activities as follows:

	31 December 2017 £m	31 December 2016 £m
USAF		
Asset management fee	10.1	10.0
Acquisition fee	0.4	0.4
Net performance fee	3.4	6.5
LSAV		
Asset and property management fee	4.0	4.0
Acquisition fee	0.5	-
Development management fee	-	1.0
Total fees	18.4	21.9

* A full breakdown of the net performance fee is in note 3.4(c) of the notes to the financial statements

The asset management fees from both USAF and LSAV have remained at similar levels to prior years as a result of the valuation growth in the portfolios under management during the year being offset by disposal activity.

A net performance fee of £3.4 million was earned from USAF and this fee was paid in units in early February. The level of the fee is sensitive to movements in property valuations and is therefore lower than in 2016 due to the high level of yield compression in 2015 and 2016.

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	Joe Lister
Chief Executive Officer	Chief Financial Officer

21 February 2018

INTRODUCTION AND TABLE OF CONTENTS

These financial statements are prepared in accordance with IFRS. The Board of Directors also present 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 b) 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.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Note	2017 £m	2016 £m
Rental income	2.4	**99.7**	97.1
Property sales and other income	2.4	**19.6**	23.6
Total revenue		**119.3**	120.7
Cost of sales	2.4	**(41.1)**	(44.9)
Operating expenses		**(26.9)**	(25.0)
Results from operating activities		**51.3**	50.8
Profit on disposal of property		**0.6**	0.4
Net valuation gains on property	3.1	**103.1**	77.2
Profit before net financing costs		**155.0**	128.4
Loan interest and similar charges	4.3	**(17.3)**	(20.9)
Swap cancellation and loan break costs	4.3	**(11.5)**	(1.0)
Finance costs	4.3	**(28.8)**	(21.9)
Finance income	4.3	**0.1**	0.1
Net financing costs	4.3	**(28.7)**	(21.8)
Share of joint venture profit	3.3b	**103.1**	94.8
Profit before tax		**229.4**	201.4
Current tax	2.5	**(1.7)**	(2.3)
Deferred tax	2.5	**(3.9)**	27.3
Profit for the year		**223.8**	226.4
Profit for the year attributable to			
Owners of the parent company	2.2c	**221.6**	224.0
Minority interest		**2.2**	2.4
		223.8	226.4
Earnings per share			
Basic	2.2c	**95.3p**	101.3p
Diluted	2.2c	**93.6p**	94.7p

All results are derived from continuing activities.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 £m	2016 £m
Profit for the year		**223.8**	226.4
Movements in effective hedges	4.2	**10.8**	(9.2)
Deferred tax in relation to movements in effective hedges	2.5d	**–**	(1.1)
Share of joint venture movements in effective hedges	3.3b	**2.1**	(1.4)
Deferred tax in relation to share of joint venture movements in effective hedges	2.5d	**–**	(0.5)
Other comprehensive income/(loss) for the year		**12.9**	(12.2)
Total comprehensive income for the year		**236.7**	214.2
Attributable to			
Owners of the parent company		**234.5**	211.8
Minority interest		**2.2**	2.4
		236.7	214.2

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

CONSOLIDATED BALANCE SHEET

At 31 December 2017

	Note	2017 £m	2016 £m
Assets			
Investment property	3.1	**1,261.4**	1,061.6
Investment property under development	3.1	**205.7**	184.6
Investment in joint ventures	3.3b	**793.5**	692.9
Other non-current assets		**32.4**	29.8
Total non-current assets		**2,293.0**	1,968.9
Inventories	3.2	**4.5**	2.9
Trade and other receivables		**82.9**	77.9
Cash and cash equivalents	5.1	**51.2**	42.7
Total current assets		**138.6**	123.5
Total assets		**2,431.6**	2,092.4
Liabilities			
Borrowings	4.1	**(1.3)**	(1.3)
Trade and other payables		**(152.1)**	(123.7)
Current tax liability		**(4.1)**	(2.4)
Total current liabilities		**(157.5)**	(127.4)
Borrowings	4.1	**(511.5)**	(473.5)
Interest rate swaps	4.2	**(0.8)**	(11.6)
Deferred tax liability	2.5d	**(7.6)**	(4.4)
Total non-current liabilities		**(519.9)**	(489.5)
Total liabilities		**(677.4)**	(616.9)
Net assets		**1,754.2**	1,475.5
Equity			
Issued share capital	4.6	**60.2**	55.5
Share premium	4.6	**579.5**	493.6
Merger reserve		**40.2**	40.2
Retained earnings		**1,051.2**	867.9
Hedging reserve		**(2.1)**	(15.0)
Equity portion of convertible instrument	4.1	**–**	9.4
Equity attributable to the owners of the parent company		**1,729.0**	1,451.6
Minority interest		**25.2**	23.9
Total equity		**1,754.2**	1,475.5

These financial statements of The Unite Group plc, registered number 03199160, were approved by the Board of Directors on 21 February 2018 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 2017

	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
At 1 January 2017	**55.5**	**493.6**	**40.2**	**867.9**	**(15.0)**	**9.4**	**1,451.6**	**23.9**	**1,475.5**
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)
At 31 December 2017	**60.2**	**579.5**	**40.2**	**1,051.2**	**(2.1)**	**–**	**1,729.0**	**25.2**	**1,754.2**

	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
At 1 January 2016	**55.5**	**493.3**	**40.2**	**679.5**	**(2.8)**	**9.4**	**1,275.1**	**22.6**	**1,297.7**
Profit for the year	–	–	–	224.0	–	–	224.0	2.4	226.4
Other comprehensive loss for the year	–	–	–	–	(12.2)	–	(12.2)	–	(12.2)
Total comprehensive income for the year	–	–	–	224.0	(12.2)	–	211.8	2.4	214.2
Shares issued	–	0.3	–		–	–	0.3	–	0.3
Deferred tax on share based payments	–	–	–	(0.1)	–	–	(0.1)	–	(0.1)
Fair value of share based payments	–	–	–	1.2	–	–	1.2	–	1.2
Own shares acquired	–	–	–	(2.5)	–	–	(2.5)	–	(2.5)
Dividends paid to owners of the parent company	–	–	–	(34.2)	–	–	(34.2)	–	(34.2)
Dividends to minority interest	–	–	–	–	–	–	–	(1.1)	(1.1)
At 31 December 2016	**55.5**	**493.6**	**40.2**	**867.9**	**(15.0)**	**9.4**	**1,451.6**	**23.9**	**1,475.5**

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2017

		Group	
	Note	**2017 £m**	2016 £m
Cash flows from operating activities	5.1	**58.4**	**70.3**
Cash flows from taxation		**(2.1)**	**(2.2)**
Investing activities			
Proceeds from sale of investment property		**30.8**	126.1
Payments to/on behalf of subsidiaries		**–**	–
Payments from subsidiaries		**–**	–
Dividends received		**31.6**	29.2
Interest received		**0.1**	0.1
Investment in joint ventures		**(27.0)**	–
Acquisition of intangible assets		**(5.7)**	(8.2)
Acquisition of property		**(116.4)**	(131.0)
Acquisition of plant and equipment		**(4.4)**	(3.1)
Cash flows from investing activities		**(91.0)**	**13.1**
Financing activities			
Interest paid in respect of financing activities		**(23.2)**	(23.7)
Swap cancellation costs		**(9.5)**	(1.0)
Proceeds from the issue of share capital		**0.6**	0.3
Payments to acquire own shares		**(1.9)**	(2.5)
Proceeds from non-current borrowings		**254.0**	99.0
Repayment of borrowings		**(133.6)**	(102.3)
Dividends paid to the owners of the parent company		**(42.3)**	(34.2)
Dividends paid to minority interest		**(0.9)**	(1.1)
Cash flows from financing activities		**43.2**	**(65.5)**
Net (decrease)/increase in cash and cash equivalents		**8.5**	15.7
Cash and cash equivalents at start of year		**42.7**	27.0
Cash and cash equivalents at end of year	5.1	**51.2**	**42.7**

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 2017 or 2016 but is derived from those accounts. Statutory accounts for 2016 have been delivered to the Registrar of Companies, and those for 2017 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 2016 or 2017.

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. In addition, 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 Group has prepared cash flow projections three years forward to December 2020 and the Group has sufficient headroom to meet all its commitments. The Group secured an investment grade credit rating and arranged a new £500 million unsecured debt facility during 2017 and this together with existing facilities will be sufficient to fund the Group's commitments over the next three years. 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 2017 and expects to remain so. Our debt facilities include loan-to-value, interest cover and asset class ratio, 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 resources to continue in operational existence for the foreseeable future.

Section 2: Results for the year

Performance measures

	Note	2017	2016
Earnings basic	2.2c	**£221.6m**	£224.0m
Earnings diluted	2.2c	**£223.0m**	£227.7m
Basic earnings per share (pence)	2.2c	**95.3p**	101.3p
Diluted earnings per share (pence)	2.2c	**93.6p**	94.7p
Net assets basic	2.3c	**£1,729.0m**	£1,451.6m
Basic NAV per share (pence)	2.3d	**717p**	653p

EPRA performance measures

	Note	2017	2016
EPRA earnings	2.2a	**£70.5m**	£62.7m
EPRA earnings per share (pence)	2.2c	**30.3p**	28.4p
Adjusted EPRA earnings	2.2a	**£70.5m**	£61.3m
Adjusted EPRA earnings per share (pence)	2.2c	**30.3p**	27.7p
EPRA NAV	2.3a	**£1,740.4m**	£1,557.3m
EPRA NAV per share (pence)	2.3d	**720p**	646p
EPRA NNNAV	2.3c	**£1,673.9m**	£1,517.3m
EPRA NNNAV per share (pence)	2.3d	**692p**	630p

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 2017 and 31 December 2016 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

2017

	UNITE	Share of joint ventures			Group on EPRA basis
	Total £m	USAF £m	LSAV £m	Total £m	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)
Net operating income	71.3	26.7	28.5	55.2	126.5
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)
Operations segment result	38.6	17.8	14.4	32.2	70.8
Property segment result	(1.5)	–	–	–	(1.5)
Unallocated to segments	2.4	(0.8)	(0.4)	(1.2)	1.2
EPRA earnings	39.5	17.0	14.0	31.0	70.5

* 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 £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

a) EPRA earnings continued

2016

	UNITE	Share of joint ventures			Group on EPRA basis
	Total £m	USAF £m	LSAV £m	Total £m	Total £m
Rental income	97.1	36.9	25.1	62.0	159.1
Property operating expenses	(29.3)	(10.7)	(2.8)	(13.5)	(42.8)
Net operating income	**67.8**	**26.2**	**22.3**	**48.5**	**116.3**
Management fees	20.8	(2.8)	(4.0)	(6.8)	14.0
Operating expenses	(22.4)	(0.4)	(0.3)	(0.7)	(23.1)
Operating lease rentals*	(13.5)	–	–	–	(13.5)
Net financing costs	(20.8)	(5.7)	(5.9)	(11.6)	(32.4)
Operations segment result	**31.9**	**17.3**	**12.1**	**29.4**	**61.3**
Property segment result	**(1.0)**	**–**	**–**	**–**	**(1.0)**
Unallocated to segments	**2.4**	**–**	**–**	**–**	**2.4**
EPRA earnings	**33.3**	**17.3**	**12.1**	**29.4**	**62.7**
Yield related USAF performance fees	(1.4)	–	–	–	(1.4)
Adjusted EPRA earnings	**31.9**	**17.3**	**12.1**	**29.4**	**61.3**

* 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 £18.5 million and property operating expenses of £5.9 million relating to sale and leaseback properties.

The unallocated to segments balance includes the fair value of share based payments of (£1.2 million), UNITE Foundation of (£1.0 million), fees received from USAF relating to acquisitions of £0.4 million, net USAF performance fee of £6.5 million, deferred tax of (£0.3 million) and current tax charges of (£2.0 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	**2017 £m**	2016 £m
EPRA earnings	2.2a	**70.5**	**62.7**
Net valuation gains on investment property	3.1	**103.1**	77.2
Property disposals and write downs		**0.6**	0.3
Share of joint venture gains on investment property	3.3b	**65.0**	58.8
Share of joint venture property disposals and write downs		**0.5**	–
Swap cancellation and loan break costs		**(11.5)**	(1.0)
Share of joint venture swap cancellation costs	3.3b	**(0.8)**	–
Deferred tax relating to properties	2.5d	**(4.5)**	27.6
Minority interest share of reconciling items*		**(1.3)**	(1.6)
Profit attributable to owners of the parent company		**221.6**	**224.0**

* The minority interest share, or non-controlling interest, arises as a result of the Company not owning 100% of the share capital of one of its subsidiaries, USAF (Feeder) Guernsey Ltd. More detail is provided in note 3.4.

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. EPRA EPS and EPRA EPS pre yield related USAF performance fee are calculated using EPRA earnings.

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

	Note	**2017 £m**	2016 £m
Earnings			
Basic		**221.6**	224.0
Diluted		**223.0**	227.7
EPRA	2.2a	**70.5**	62.7
Adjusted EPRA (excluding yield related USAF performance fee)	2.2a	**70.5**	61.3
Weighted average number of shares (thousands)			
Basic		**232,503**	221,013
Dilutive potential ordinary shares (convertible bond and share options)		**5,627**	19,315
Diluted		**238,130**	240,328
Earnings per share (pence)			
Basic		**95.3p**	101.3p
Diluted		**93.6p**	94.7p
EPRA EPS		**30.3p**	**28.4p**
Adjusted EPRA EPS (excluding yield related USAF performance fee)		**30.3p**	**27.7p**

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

In 2017 there are no options excluded from the potential dilutive shares. In 2016 there were 16,838 options excluded that did not affect the diluted weighted average number of 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 like 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
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
Total property portfolio	1,467.1	548.9	579.3	1,128.2	2,595.3
Debt on properties	(512.9)	(169.5)	(212.3)	(381.8)	(894.7)
Cash	51.2	25.0	15.6	40.6	91.8
Net debt	(461.7)	(144.5)	(196.7)	(341.2)	(802.9)
Other assets/(liabilities)	(34.7)	(5.2)	(12.1)	(17.3)	(52.0)
EPRA net assets (pre convertible)	970.7	399.2	370.5	769.7	1,740.4
Convertible bond*	–	–	–	–	–
EPRA net assets	970.7	399.2	370.5	769.7	1,740.4
Loan to value	31%	26%	34%	30%	31%

* During the year Unite redeemed the full principal value of £89.9m of the convertible bond in exchange for 18,593,589 shares.

2016

	UNITE	Share of joint ventures			Group on EPRA basis
	Total £m	USAF £m	LSAV £m	Total £m	Total £m
Investment properties	1,061.6	518.7	504.5	1,023.2	2,084.8
Investment properties under development	184.6	7.2	–	7.2	191.8
Total property portfolio	**1,246.2**	**525.9**	**504.5**	**1,030.4**	**2,276.6**
Debt on properties	(474.8)	(173.6)	(190.7)	(364.3)	(839.1)
Cash	42.7	9.6	13.5	23.1	65.8
Net debt	**(432.1)**	**(164.0)**	**(177.2)**	**(341.2)**	**(773.3)**
Other assets/(liabilities)	(14.6)	(9.8)	(7.0)	(16.8)	(31.4)
EPRA net assets (pre convertible)	**799.5**	**352.1**	**320.3**	**672.4**	**1,471.9**
Convertible bond	85.4	–	–	–	85.4
EPRA net assets	**884.9**	**352.1**	**320.3**	**672.4**	**1,557.3**
Loan to value	**35%**	**31%**	**35%**	**33%**	**34%**

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:

2017	**UNITE**	**Share of joint ventures**			**Group on EPRA basis**
	Total £m	**USAF £m**	**LSAV £m**	**Total £m**	**Total £m**
Operations	**38.6**	**17.8**	**14.4**	**32.2**	**70.8**
Operations segment result					
Property					
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)**
Total property	**102.2**	**21.5**	**42.6**	**64.1**	**166.3**
Unallocated					
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**
JV property acquisition fee	**1.6**	**(0.2)**	**(0.5)**	**(0.7)**	**0.9**
Swap cancellation and debt break costs	**(11.5)**	**–**	**(0.8)**	**(0.8)**	**(12.3)**
Other	**(3.3)**	**(0.2)**	**(0.4)**	**(0.6)**	**(3.9)**
Total unallocated	**(55.0)**	**7.8**	**(6.8)**	**1.0**	**(54.0)**
Total EPRA NAV movement in the year	**85.8**	**47.1**	**50.2**	**97.3**	**183.1**
Total EPRA NAV brought forward	**884.9**	**352.1**	**320.3**	**672.4**	**1,557.3**
Total EPRA NAV carried forward	**970.7**	**399.2**	**370.5**	**769.7**	**1,740.4**

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 £0.3m and £0.7million 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

2016	UNITE	Share of joint ventures			Group on EPRA basis
	Total £m	USAF £m	LSAV £m	Total £m	Total £m
Operations					
Operations segment result	**31.9**	**17.3**	**12.1**	**29.4**	**61.3**
Property					
Rental growth	35.8	14.8	12.0	26.8	62.6
Yield movement	4.9	7.2	7.5	14.7	19.6
Disposals and acquisition gains	1.0	–	–	–	1.0
Investment property gains	41.7	22.0	19.5	41.5	83.2
Development property gains	36.5	0.4	14.5	14.9	51.4
Pre-contract/other development costs	(1.0)	–	–	–	(1.0)
Total property	**77.2**	**22.4**	**34.0**	**56.4**	**133.6**
Unallocated					
Shares issued	0.3	-	-	-	0.3
Investment in joint ventures	3.5	7.1	(10.6)	(3.5)	–
Convertible bond	2.3	–	–	–	2.3
Dividends paid	(34.2)	–	–	–	(34.2)
USAF performance fee	6.5	–	–	–	6.5
USAF property acquisition fee	0.4	–	–	–	0.4
Swap cancellation costs	(1.0)	–	–	–	(1.0)
Other	(6.3)	–	–	–	(6.3)
Total unallocated	**(28.5)**	**7.1**	**(10.6)**	**(3.5)**	**(32.0)**
Total EPRA NAV movement in the year	**80.6**	**46.8**	**35.5**	**82.3**	**162.9**
Total EPRA NAV brought forward	804.3	305.3	284.8	590.1	1,394.4
Total EPRA NAV carried forward	**884.9**	**352.1**	**320.3**	**672.4**	**1,557.3**

The £6.3 million charge that comprises the other balance within the unallocated segment includes a tax charge of £2.3 million, fair value of share options charge of £3.0 million and £1.0 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	2017 £m	2016 £m
Net asset value reported under IFRS		**1,729.0**	**1,451.6**
Mark to market interest rate swaps		**2.1**	14.9
Deferred tax		**9.3**	5.4
EPRA NAV (pre convertible)	2.3a	**1,740.4**	**1,471.9**
Convertible bond		**–**	85.4
EPRA NAV		**1,740.4**	**1,557.3**
Mark to market of fixed rate debt		**(55.1)**	(19.7)
Mark to market interest rate swaps		**(2.1)**	(14.9)
Deferred tax		**(9.3)**	(5.4)
EPRA NNNAV		**1,673.9**	**1,517.3**

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	2017 £m	2016 £m
Net assets			
Basic	2.3c	**1,729.0**	1,451.6
EPRA	2.3a	**1,740.4**	1,557.3
EPRA diluted		**1,743.0**	1,559.9
EPRA NNNAV (diluted)		**1,676.5**	1,520.0
Number of shares (thousands)			
Basic		**241,279**	222,268
Convertible bond shares		**–**	18,426
Outstanding share options		**919**	762
Diluted		**242,198**	241,456
Net asset value per share (pence)			
Basic		**717p**	653p
EPRA		**721p**	647p
EPRA (fully diluted)		**720p**	**646p**
EPRA NNNAV (fully diluted)		**692p**	**630p**

Section 2: Results for the year continued

2.4. Revenue and costs

The Group earns revenue from the following activities:

		Note	**2017 £m**	2016 £m
Rental income	Operations segment	2.2a	**99.7**	97.1
Management fees	Operations segment		**16.5**	16.0
Development fees	Property segment		**–**	1.0
USAF performance fee	Unallocated		**3.4**	7.0
			119.6	121.1
Impact of minority interest on management fees			**(0.3)**	(0.4)
Total revenue			**119.3**	**120.7**

The cost of sales included in the consolidated income statement includes property operating expenses of £28.5 million (2016: £30.3 million), operating lease rentals of £12.6 million (2016: £13.5 million) and costs associated with development fees of £nil million (2016: £1.1 million).

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:

	2017 £m	2016 £m
Corporation tax on residual business income arising in UK companies	**1.7**	–
Income tax on UK rental income arising in non-UK companies	**–**	2.3
Current tax charge	**1.7**	**2.3**
Reversal of deferred tax provision in respect of REIT property business assets	**–**	(39.8)
Origination and reversal of temporary differences	**4.5**	13.7
Effect of change in tax rate	**(0.6)**	(1.2)
Deferred tax charge/(credit)	**3.9**	**(27.3)**
Total tax charge/(credit) in income statement	**5.6**	**(25.0)**

The Group elected to be taxed as a REIT with effect from 1 January 2017. As a result of this, the Group's investment properties are exempt from tax and no deferred tax is required on the balance sheet in relation to these assets. Accordingly, the Group's deferred tax now only relates to non-property investments (being primarily its interests in joint ventures) and historic tax losses.

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

Section 2: Results for the year continued

2.5 Tax continued

a) Tax – income statement continued

In the income statement, a tax charge of £5.6 million arises on a profit before tax of £229.4 million. The taxation charge that would arise at the standard rate of UK corporation tax is reconciled to the actual tax charge as follows:

	2017 £m	2016 £m
Profit before tax	**229.4**	**201.4**
Income tax using the UK corporation tax rate of 19.25% (2016: 20%)	**44.2**	40.3
Release of deferred tax balances due to REIT conversion	**–**	(39.8)
Property rental business profits exempt from tax in the REIT Group	**(11.2)**	–
Property revaluations not subject to tax	**(25.0)**	(20.4)
Effect of indexation on investments	**(1.1)**	(2.1)
Effect of statutory tax reliefs	**(0.6)**	(1.5)
Income due to Unite Foundation	**–**	(1.0)
Effect of tax deduction transferred to equity on share schemes	**0.5**	0.4
Rate difference on deferred tax	**(0.5)**	(1.2)
Prior years adjustments	**(0.7)**	0.3
Total tax charge/(credit) in income statement	**5.6**	**(25.0)**

The main rate of corporation tax reduced from 20% to 19% with effect from 1 April 2017. Accordingly, the reconciliation above has been calculated at a rate of 19.25% (2016: 20%).

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 2017 the required PID is expected to be £40.7m of which £36.7m has been distributed at the year end, with the remainder to be distributed in May 2018.

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.

b) Tax – other comprehensive income

Within other comprehensive income a tax charge totalling £nil (2016: £1.6 million credit) has been recognised representing deferred tax. An analysis of this is included in the deferred tax movement in note 2.5 d).

c) Tax – statement of changes in equity

Within the statement of changes in equity a tax credit totalling £0.7 million (2016: £0.1 million charge) has been recognised representing deferred tax. An analysis of this is included in the deferred tax movement on page in note 2.5 d).

Section 2: Results for the year continued

2.5 Tax continued

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:

2017

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

* 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 per EPRA's best practice recommendations.

2016

	At 31 December 2015 £m	(Credited) in income £m	Charged in equity £m	At 31 December 2016 £m
Investments	14.7	2.5	–	17.2
Investment property (REIT property business assets)	41.1	(41.1)	–	–
Property, plant and machinery	(0.3)	0.2	–	(0.1)
Share schemes	(1.6)	0.1	0.5	(0.9)
Interest rate swaps	(1.1)	–	1.1	–
Interest rate swaps relating to joint ventures	(0.5)	–	0.5	–
Tax value of carried forward losses recognised	(22.3)	11.0	(0.4)	(11.8)
Net tax liabilities/(assets)	**30.0**	**(27.3)***	**1.7**	**4.4**

* The £27.3 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 £27.6 million movement which is excluded per EPRA's best practice recommendations.

The deferred tax liability at 31 December 2017 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. The Group's investments in property unit trusts (being primarily its interests in joint ventures) are 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 2017 the deferred tax liability in relation to these investments was £20.6m.

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 2017 and 2016.

The valuations are based on both:

- 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 Management 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 2017 are shown in the table below. The fair value of the Group's wholly owned properties 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**
Carrying and market value at 31 December 2017	**1,261.4**	**205.7**	**1,467.1**

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 2016 are shown in the table below. The fair value of the Group's wholly owned property portfolio at the year ended 31 December 2016 is also shown below:

2016

	Investment property £m	Investment property under development £m	Total £m
At 1 January 2016	1,024.4	149.8	1,174.2
Cost capitalised	7.6	101.7	109.3
Interest capitalised	–	5.9	5.9
Transfer from investment property under development	36.6	(36.6)	–
Transfer from work in progress	–	8.0	8.0
Disposals	(44.0)	(84.4)	(128.4)
Valuation gains	44.9	41.2	86.1
Valuation losses	(7.9)	(1.0)	(8.9)
Net valuation gains	37.0	40.2	77.2
Carrying and market value at 31 December 2016	**1,061.6**	**184.6**	**1,246.2**

Included within investment properties at 31 December 2017 are £30.5 million (2016: £31.5 million) of assets held under a long leasehold and £9.0 million (2016: £8.9 million) of assets held under short leasehold.

Total interest capitalised in investment and development properties at 31 December 2017 was £41.5 million (2016: £34.9 million) on a cumulative basis. Total internal costs relating to construction and development costs of Group properties amount to £54.6 million at 31 December 2017 (2016: £51.1 million) on a cumulative basis.

Recurring fair value measurement

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

Class of asset	2017 £m	2016 £m
London – Rental properties	**465.9**	424.9
Major provincial – Rental properties	**566.7**	440.2
Other provincial – Rental properties	**228.8**	196.5
Major provincial – Development properties	**178.7**	158.4
Other provincial – Development properties	**27.0**	26.2
Market value	**1,467.1**	**1,246.2**

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 credit worthiness.

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)

	2017 £m	2016 £m
Opening fair value	**1,246.2**	1,174.2
Gains and losses recognised in income statement	**103.1**	77.2
Capital expenditure	**146.5**	123.2
Disposals	**(28.7)**	(128.4)
Closing fair value	**1,467.1**	**1,246.2**

Section 3: Asset management continued

3.1 Wholly owned property assets continued
Quantitative information about fair value measurements using unobservable inputs (Level 3)

2017

	Fair value £m	**Valuation technique**	**Unobservable inputs**	**Range**	**Weighted average**
London		Discounted	Net rental income (£ per week)	**£183 – £345**	**£255**
– rental properties	**465.9**	cash flows	Estimated future rent (%)	**1% – 6%**	**3%**
			Discount rate (yield) (%)	**4.2% – 5.0%**	**4.5%**
Major provincial		Discounted	Net rental income (£ per week)	**£100 – £157**	**£134**
– rental properties	**566.7**	cash flows	Estimated future rent (%)	**1% – 6%**	**3%**
			Discount rate (yield) (%)	**4.5% – 7.0%**	**5.5%**
Other provincial		Discounted	Net rental income (£ per week)	**£94 – £164**	**£134**
– rental properties	**228.8**	cash flows	Estimated future rent (%)	**2% – 8%**	**4%**
			Discount rate (yield) (%)	**5.2% – 13.5%**	**6.0%**
Major provincial		Discounted	Estimated cost to complete (£m)	**£8.1m – £81.9m**	**£47m**
– development properties	**178.7**	cash flows	Estimated future rent (%)	**3%**	**3%**
			Discount rate (yield) (%)	**5.3% – 6.0%**	**5.6%**
Other provincial		Discounted	Estimated cost to complete (£m)	**£11.4m**	**£11.4m**
– development properties	**27.0**	cash flows	Estimated future rent (%)	**3%**	**3%**
			Discount rate (yield) (%)	**5.7%**	**5.7%**
Fair value at 31 December 2017	**1,467.1**				

2016

	Fair value £m	Valuation technique	Unobservable inputs	Range	Weighted average
London		Discounted	Net rental income (£ per week)	£179 – £327	£249
– rental properties	424.9	cash flows	Estimated future rent (%)	1% – 6%	4%
			Discount rate (yield) (%)	4.5% – 5.2%	4.7%
Major provincial		Discounted	Net rental income (£ per week)	£105 – £162	£129
– rental properties	440.2	cash flows	Estimated future rent (%)	1% – 7%	4%
			Discount rate (yield) (%)	5.2% – 7.0%	5.7%
Other provincial		Discounted	Net rental income (£ per week)	£95 – £153	£126
– rental properties	196.5	cash flows	Estimated future rent (%)	2% – 8%	3%
			Discount rate (yield) (%)	5.5% – 12.0%	6.2%
Major provincial		Discounted	Estimated cost to complete (£m)	£10.5m – £59.5m	£36.1m
– development properties	158.4	cash flows	Estimated future rent (%)	3%	3%
			Discount rate (yield) (%)	4.8% – 5.9%	5.6%
Other provincial		Discounted	Estimated cost to complete (£m)	£12.3m – £26.5m	£20.1m
– development properties	26.2	cash flows	Estimated future rent (%)	3%	3%
			Discount rate (yield) (%)	5.7% – 5.8%	5.7%
Fair value at 31 December 2016	**1,246.2**				

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.

3.2 Inventories

	2017 £m	2016 £m
Interests in land	**0.9**	0.8
Other stocks	**3.6**	2.1
Inventories	**4.5**	**2.9**

At 31 December 2017 the Group has interests in one piece of land (2016: one piece of land).

Section 3: Asset management continued

3.3 Investments in joint ventures (Group)

The Group has two joint ventures:

Joint venture	Group's share of assets/results 2017 (2016)	Objective	Partner	Legal entity in which Group has interest
The UNITE UK Student Accommodation Fund (USAF)	26.2%* (24.6%)	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%)	Develop and 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 Ltd, in which there is an external investor. A minority interest therefore occurs on consolidation of the Group's results representing the external investor's share of profits and assets relating to its investment in USAF. The ordinary shareholders of The Unite Group plc are beneficially interested in 24.6% (2016: 23.0%) 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:

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
EPRA net assets	**1,611.8**	**–**	**399.2**	**741.1**	**370.5**	**2,352.9**	**769.7**
Profit/(loss) for the year	**163.7**	**2.5**	**42.1**	**117.1**	**58.5**	**280.8**	**103.1**

2016*

	USAF £m			LSAV £m		Total £m	
	Gross	MI	Share	Gross	Share	Gross	Share
Investment property	2,287.9	36.3	525.9	1,009.0	504.5	3,296.9	1,066.7
Cash	41.8	0.7	9.6	27.0	13.5	68.8	23.8
Debt	(755.5)	(12.0)	(173.6)	(381.4)	(190.7)	(1,136.9)	(376.3)
Swap liabilities	0.7	–	0.2	(7.1)	(3.5)	(6.4)	(3.3)
Other current assets	3.5	0.1	0.7	0.8	0.4	4.3	1.2
Other current liabilities	(55.3)	(1.2)	(10.5)	(14.8)	(7.4)	(70.1)	(19.1)
Net assets	1,523.1	23.9	352.3	633.5	316.8	2,156.6	693.0
Minority Interest	–	(23.9)	–	–	–	–	(23.9)
Swap liabilities	(0.7)	–	(0.2)	7.1	3.5	6.4	3.3
EPRA net assets	**1,522.4**	**–**	**352.1**	**640.6**	**320.3**	**2,163.0**	**672.4**
Profit/(loss) for the year	**164.7**	**2.9**	**43.4**	**97.0**	**48.5**	**261.7**	**94.8**

*Table has been restated for comparative purposes.

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 has increased by £100.6 million during the year ended 31 December 2017 (2016: £82.3 million), resulting in an overall carrying value of £793.5 million (2016: £692.9 million). The following table shows how the increase has been achieved.

	2017 £m	2016 £m
Recognised in the income statement:		
Operations segment result	**32.2**	29.4
Minority interest share of Operations segment result	**1.1**	1.2
Management fee adjustment related to trading with joint venture	**5.7**	5.4
Net revaluation gains	**65.0**	58.8
Loss on cancellation of interest rate swaps	**(0.8)**	–
Profit on disposal of properties	**0.5**	–
Other	**(0.6)**	–
	103.1	94.8
Recognised in equity:		
Movement in effective hedges	**2.1**	(1.4)
Other adjustments to the carrying value:		
Profit adjustment related to trading with joint venture	**(7.4)**	(6.3)
Additional capital invested in USAF	**18.5**	–
Performance fee units issued in USAF	**8.1**	25.6
Additional capital invested in LSAV	**8.5**	–
USAF performance fee	**(0.7)**	(1.2)
Distributions received	**(31.6)**	(29.2)
Increase in carrying value	**100.6**	**82.3**
Carrying value at 1 January	**692.9**	610.6
Carrying value at 31 December	**793.5**	**692.9**

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 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.

	2017 £m	2016 £m
USAF	**13.1**	12.8
LSAV	**7.9**	8.0
Asset and property management fees	**21.0**	**20.8**
LSAV	**–**	1.0
Development management fees	**–**	**1.0**
USAF performance fee	**4.0**	8.1
USAF acquisition fee	**0.7**	0.5
LSAV acquisition fee	**1.0**	–
Investment management fees*	**5.7**	**8.6**
Total fees	**26.7**	**30.4**

* Included in the movement in EPRA NAV is a USAF performance fee of £3.4million (2016: £6.5 million). This is the gross fee of £4.0 million (2016: £8.1 million) paid by USAF net of advisory fee costs of £nil million (2016: £0.5 million) and a £0.6 million (2016: £1.1 million) adjustment related to trading with joint ventures. The USAF performance fee will be 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 £1.2 million (2016: £1.6 million). On an EPRA basis these costs are deducted from the property management fees shown above, plus an adjustment for the minority interest of £0.2 million (2016: £0.4 million). This results in the net fees included in the Operating Segment result (note 2.2a) of £14.1 million (2016: £14.0 million). Development management fees are included in the Property Segment result (note 2.2a). Investment management fees are included within the unallocated to segments (note 2.2a).

Included in the movement in EPRA NAV is a USAF property acquisition fee of £0.4 million (2016: £0.4 million). This is the gross fee of £1.0 million (2016: £0.5 million) paid by USAF net of a £0.3 million (2016: £0.1 million) adjustment related to trading with joint ventures and a £0.3 million (2016: £nil) adjustment relating to other acquisition costs paid to a third party.

Included in the movement in EPRA NAV is an LSAV property acquisition fee of £0.5 million (2016: £nil). This is the gross fee of £1.0 million (2016: £nil) paid by LSAV net of a £0.5 million (2016: £nil) adjustment related to trading with joint ventures.

During the year the Group has paid operating lease rentals to USAF relating to one property under a sale and leaseback agreement amounting to £0.7 million (2016: £2.2 million).

Section 3: Asset management continued

3.3 Investments in joint ventures (Group) continued

c) Transactions with joint ventures continued

During the year 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 the balance sheet date the proceeds had not been settled and therefore no cash flows have been disclosed. In 2016 the Group sold two properties to USAF for £88.4 million. Both properties had been held on the balance sheet as investment property under development within non-current assets; the proceeds and carrying value of the property are therefore recognised in profit on disposal of property and the cash flows in investing activities. The profits relating to sales and associated disposal costs and related cash flows are set out below:

	Profit and loss 2017	Profit and loss 2016
	LSAV £m	USAF £m
Included in profit on disposal of property (net of joint venture trading adjustment)	**1.0**	3.2
Profit on disposal of property	**1.0**	**3.2**

	Cash flow 2017	Cash flow 2016
	LSAV £m	USAF £m
Gross proceeds	**–**	88.4
Net cash flows included in cash flows from investing activities	**–**	**88.4**

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	
	2017	2016
	Carrying value £m	Carrying value £m
Current		
In one year or less, or on demand	**1.3**	1.3
Non-current		
In more than one year but not more than two years	**1.4**	108.1
In more than two years but not more than five years	**379.4**	126.3
In more than five years	**130.7**	239.1
	511.5	473.5
Total borrowings	**512.8**	**474.8**

In addition to the borrowings currently drawn as shown above, the Group has available undrawn facilities of £327.0 million (2016: £245.0 million). A further overdraft facility of £10.0 million (2016: £10.0 million) is also available.

Properties with a carrying value of £609.1 million (2016: £998.0 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:

	2017		2016	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Level 1 IFRS fair value hierarchy	**90.0**	**96.1**	176.2	212.5
Level 2 IFRS fair value hierarchy	**239.1**	**263.8**	240.3	215.0
Other loans	**183.7**	**183.7**	58.3	54.7
Total borrowings	**512.8**	**543.6**	**474.8**	**482.2**

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.

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:

	2017 £m	2016 £m
Current	**–**	–
Non-current	**0.8**	11.6
Fair value of interest rate swaps	**0.8**	**11.6**

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

Recognised in the income statement:	2017 £m	2016 £m
Finance income		
– Interest income on deposit	**(0.1)**	(0.1)
Finance income	**(0.1)**	(0.1)
Gross interest expense on loans	**24.7**	26.8
Interest capitalised	**(7.4)**	(5.9)
Loan interest and similar charges	**17.3**	20.9
Swap cancellation and loan break costs	**11.5**	1.0
Finance costs	**28.8**	21.9
Net financing costs	**28.7**	21.8

The average cost of the Group's wholly owned investment debt at 31 December 2017 is 4.3% (2016: 4.4%). The overall average cost of investment debt on an EPRA basis is 4.1% (2016: 4.2%).

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	2017 £m	2016 £m
Cash and cash equivalents	5.1	**51.2**	42.7
Current borrowings	4.1	**(1.3)**	(1.3)
Non-current borrowings	4.1	**(511.5)**	(473.5)
Interest rate swaps liabilities	4.2	**(0.8)**	(11.6)
Net debt per balance sheet		**(462.4)**	**(443.7)**
Mark to market of interest rate swaps		**0.8**	11.6
Adjusted net debt		**(461.6)**	**(432.1)**
Reported net asset value (attributable to owners of the parent company)	2.3c	**1,729.0**	1,451.6
EPRA net asset value	2.3c	**1,740.4**	1,557.3
Gearing			
Basic (Net debt/Reported net asset value)		**27%**	31%
Adjusted gearing (Adjusted net debt/EPRA net asset value)		**27%**	28%
Gearing (EPRA net debt/EPRA net asset value)	2.3a	**46%**	50%
Loan to value (EPRA net debt/Total property portfolio)	2.3a	**31%**	34%

Section 4: Funding continued

4.5 Covenant compliance

Many of the Group's funding facilities carry covenants. The Group monitors its covenant position and the headroom available on an ongoing basis. At 31 December 2017, the Group was in full compliance with all of its borrowing covenants. The Group is able to use available cash to reduce debt to increase headroom on its loan to value (LTV) covenants. The covenant headroom position is outlined below and assumes that the Group is able to use available cash within net debt.

	31 December 2017		31 December 2016	
	Weighted covenant	**Weighted actual**	Weighted covenant	Weighted actual
Loan to value	**65%**	**36%**	74%	15%*
Interest cover	**1.9**	**4.2**	1.5	4.04

* Calculated on the basis that available cash is used to reduce debt and available property can be used as additional security.

4.6 Equity

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

	2017			2016		
Called up, allotted and fully paid ordinary shares of £0.25p each	**No. of shares**	**Ordinary shares £m**	**Share Premium £m**	No. of shares	Ordinary shares £m	Share Premium £m
At start of year	**222,047,816**	**55.5**	**493.6**	221,930,911	55.5	493.3
Share placing	**–**	**–**	**–**	–	–	–
Shares issued from Convertible Bond	**18,593,589**	**4.7**	**85.3**	–	–	–
Share options exercised	**188,876**	**0.0**	**0.6**	116,905	–	0.3
At end of year	**240,830,281**	**60.2**	**579.5**	222,047,816	55.5	493.6

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

4.7 Dividends

During the year, the Company declared and paid an interim dividend of £17.7 million – 7.3p per share (2016: £13.2 million – 6.0p per share) and paid a £26.7 million final dividend – 12.0p per share relating to the year ended 31 December 2016 (2015: £21.0 million – 9.5p per share).

After the year end, the Directors proposed a final dividend per share of 15.4p (2016: 12.0p), bringing the total dividend per share for the year to 22.7p (2016: 18.0p). 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 2017 and November 2017 distributions to ensure that the PID requirement will be satisfied. The combined PID from the distributions made during 2017 comprise 78% of the Group's forecast tax exempt property rental business profit, leaving a small amount that can be paid as part of the May 2018 distribution.

Section 5: Working capital

5.1 Cash and cash equivalents

The Group's cash position at 31 December 2017 was £51.2 million (2016: £42.7 million).

The Group's cash balances include £3.1 million (2016: £13.4 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:

		Group	
	Note	**2017 £m**	2016 £m
Profit/(loss) for the year		**223.8**	226.4
Adjustments for:			
Depreciation and amortisation		**7.0**	4.4
Fair value of share based payments		**1.5**	1.2
Dividends received		**–**	–
Change in value of investment property	3.1	**(103.1)**	(77.2)
Change in value of investments		**–**	–
Net finance costs	4.3	**28.7**	21.8
(Profit) on disposal of investment property		**(0.6)**	(0.4)
Share of joint venture profit	3.3b	**(103.1)**	(94.8)
Trading with joint venture adjustment		**7.2**	7.5
Tax charge/(credit)	2.5a	**5.6**	(25.0)
Cash flows from operating activities before changes in working capital		**67.0**	**63.9**
Decrease in trade and other receivables		**(13.2)**	(20.4)
Decrease/(increase) in inventories		**(2.3)**	0.7
Increase in trade and other payables		**6.9**	26.1
Cash flows from operating activities		**58.4**	**70.3**

£8.1 million of the brought forward trade and other receivables was settled in units in USAF rather than cash.

Cash flows consist of the following segmental cash inflows/(outflows): Operations £63.2 million (2016: £61.3 million), property £27.7million (2016: (£6.0 million)) and unallocated (£82.4million) (2016: £39.6 million). The unallocated amount includes Group dividends (£42.3 million) (2016: (£34.2 million)), tax payable (£2.1 million) (2016: (£2.2 million)), investment in joint ventures (£27.0) (2016: (£nil)), contributions to UNITE Foundation (£0.1 million) (2016: (£1.0 million)), purchase of own shares (£1.9 million) (2016: (£2.5 million)) and amounts received from shares issued £0.6 million (2016: £0.3 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	**2017 £m**	2016 £m
Cash	5.1	**51.2**	42.7
Trade receivables		**19.4**	17.8
Amounts due from joint ventures (excluding loans that are capital in nature)		**41.8**	36.3
		112.4	**96.8**

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 £9.0 million (2016: £8.5 million) as collateral against individual customers. Based on the Group's experience and historical low level of bad debt the Group views these receivables as recoverable balances with a low risk of default.

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.

Glossary

Adjusted EPRA earnings
Adjusted EPRA earnings are prepared on the basis of EPRA earnings excluding the yield related element of the USAF performance fee.

Adjusted EPRA earnings per share
The earnings per share based on adjusted EPRA earnings.

Adjusted net debt
The Group's debt, net of cash and unamortised debt raising costs, excluding the mark to market of interest rates swaps.

Adjusted gearing
The adjusted net debt as a percentage of the value of Unite properties.

Basis points (BPS)
A basis point is a term used to describe a small percentage, usually in the context of change, and equates to 0.01%.

Direct let
Properties where short-hold tenancy agreements are made directly between Unite and the student.

EBITDA
The Group's EPRA earnings before charging interest, tax, depreciation and amortisation. The profit number is used to calculate the ratio to net debt.

EPRA earnings
EPRA earnings are prepared on the basis recommended for real estate companies by EPRA, the European Public Real Estate Association. This excludes movements relating to changes in values of investment properties and interest rate swaps and the related tax effects.

EPRA earnings per share
The earnings per share based on EPRA earnings.

EPRA NAV
EPRA NAV is prepared on the basis recommended for real estate companies by EPRA, the European Public Real Estate Association. This includes all property at market value but excludes the mark to market of interest rate swaps. This is recommended by EPRA as a measure of net assets.

EPRA net asset value per share
The diluted NAV per share figure based on EPRA NAV.

EPRA NAV
As EPRA NAV but includes both debt and interest rate swaps carried at market value. This is recommended by EPRA as a 'spot' fair value net asset measure.

Financing costs
Gross financing costs net of interest capitalised into developments and interest received on deposits.

Gross asset value
The Group's wholly owned property portfolio together with the share of the Joint Ventures property portfolio.

Gross financing costs
This includes all interest paid by the Group, including those capitalised into developments and operating lease rentals. It includes all receipts and payments under interest rate swaps whether they are effective or ineffective under IFRS as economically they all hedge interest rate exposures.

Interest cover ratio (ICR)
The interest cover ratio is the income generated by a property as a multiple of the interest charge on the debt secured on the property.

Glossary continued

Lease
Properties which are leased to Universities for a number of years and have no Unite management presence.

Like-for-like rental growth
Like-for-like rental growth is the growth in net operating income on properties owned throughout the current and previous years under review.

Loan to value (LTV)
The Loan to value (LTV) ratio is the debt on properties as a proportion of the carrying value of the total property portfolio. This ratio is calculated on the basis of EPRA net assets.

LSAV
The London Student Accommodation Joint Venture (LSAV) is a joint venture between Unite and GIC, alongside UCC. Both Unite and GIC have a 50% stake and LSAV has the same maturity date as UCC (September 2022). It is the primary vehicle through which Unite undertakes development activity in London and it has right of first refusal over Unite's London development pipeline projects until such time as its capital investment targets are met. LSAV and UCC were merged during 2012 and the new combined entity is referred to as LSAV.

Net debt
The Group debt, net of cash and unamortised debt raising costs on the basis of EPRA net assets.

Net debt: EBITDA
The Group debt, net of cash and unamortised debt raising costs and excluding mark to market of interest rate swaps as a proportion of EBITDA.

Net initial yield (NIY or yield)
The net operating income generated by a property expressed as a percentage of its value, taking into account notional acquisition costs.

Net operating income (NOI)
The rental income from rental properties less those operating costs directly related to the property, therefore excluding central overhead.

Net rental growth
The annual growth in net operating income (measured on a like-for-like basis, ie excluding impact of completion and disposals).

Nominations
Properties where Universities have entered into a contract to guarantee occupancy. The Universities nominate students to live in the building and Unite enters into short- hold tenancies with the students.

Non-core assets
Properties that do not fit with the Group's long-term investment strategy because of their location or their size.

Overhead efficiency
The Group's overhead efficiency measure shows operating expenses, net of management fees, as a proportion of the total property portfolio.

Rental properties
Investment and completed properties whose construction has been completed and are used by the Operations segment to generate net portfolio contribution.

Sale and leaseback
Properties that have been sold to a third party investor then leased back to the Company. Unite is also responsible for the management of these assets on behalf of the owner.

Total accounting return
This is the growth in EPRA NAV per share plus dividends paid, and this is expressed as a percentage of EPRA NAV per share at the beginning of the period.

Glossary continued

USAF / THE FUND

The Unite UK Student Accommodation Fund (USAF) is Europe's largest fund that purely focuses on completed income providing student accommodation investment assets. The fund is an open- ended infinite life vehicle which has unique buying access to Unite's development pipeline. Unite acts as fund manager for the fund, as well as owning a significant minority stake.

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