Annual Report and Accounts 2012

The heart of student living

UNITE

The UNITE Group plc

# Sustainable performance

## Who we are

**UNITE is the UK's leading provider of student accommodation, providing a home to 42,000 students in over 120 properties across 23 of the UK's strongest University cities.**

**Students living in our high-quality buildings receive Wi-Fi or broadband internet, utilities, insurance, maintenance and 24/7 security inclusive in their rent. The foundation for our success is offering high quality, well-located, safe accommodation that is close to University campuses, transport and local amenities.**

We work closely with our University partners to ensure we are providing an excellent student experience.

We are focused on delivering attractive returns for our investors, while balancing investment in customer service, our operating platform and future development opportunities.

UNITE is also a manager and investor in four specialist fund and joint ventures:

- UNITE Student Accommodation Fund (USAF) in which we have a 16% stake
- Oasis Capital Bank (OCB) in which we have a 25% stake
- UNITE Capital Cities (UCC) in which we have a 30% stake
- London Student Accommodation Vehicle (LSAV) in which we have a 50% stake.

We employ almost 1,000 people and our mission is to deliver the best accommodation experience for students, with passion and pride.

## Contents

# Introduction

2012 was a year of continued momentum for UNITE, with the benefits of the work we have done to enhance our business model and strengthen our footprint in the sector reflected in our financial results.

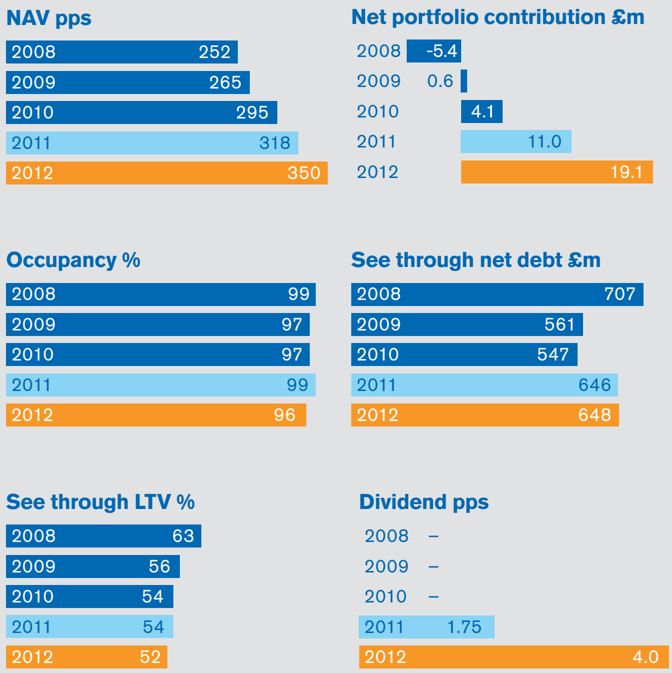
Our deep understanding of the Universities we work with, our student customers and knowledge of the market context ensure we can continue to build a sustainable, market-leading position in the months and years to come.

Our achievement of key financing milestones including the extension and enlargement of our significant joint venture with GIC, our £120 million loan from Legal & General, and our successful £90 million retail bond, also illustrate the continued appeal of the student accommodation sector for UK and international investors.

In light of the progress made during the year and our strong performance across all our financial metrics, we are pleased to announce a substantial increase in the total dividend for the year, demonstrating our confidence in the strength of our business and the prospects it offers for attractive future returns.

**Cover image**
Our new flagship property Moonraker Point opened in 2012. It is situated in an excellent Zone 1 location and provides a home for 674 students, including five of our UNITE Foundation bursary recipients. UNITE has signed a 15 year agreement with King's College London for the property.

## Financial highlights




## Strong financial performance

— Net Portfolio Contribution (NPC) up 74% to £19.1 million

— Adjusted earnings per share up 280% to 9.9 pence representing a yield on opening adjusted NAV of 3.1%

— Adjusted Net Asset Value (NAV) per share up 10% to 350 pence, equating to a total return on equity (including dividends) of 11.3%

— Final dividend increased to 3.0 pence per share, making 4.0 pence for the full year

— Adjusted loan-to-value ratio reduced to 52% from 54% at December 2011

— Weighted average loan maturity extended to 4.9 years and average cost of debt reduced to 5.5%.

## Positive outlook

— Student numbers for 2013/14 academic year likely to increase by 25,000 to 30,000 following positive Government policy announcements and 3.5% growth in applications

— Net positive demand/supply movement of approximately 18,000 after taking into account 9,500 new beds in the market for 2013/14

— Reservations for 2013/14 at 62% as at 5 March 2013 and supportive of rental growth in line with recent years

— Three developments secured for delivery in 2014 and 2015, expected to contribute a further 19 pence per share of NAV uplift

— Good progress with LSAV London development plans, with first project secured (759 beds) and a second scheme (950 beds) under lock-out.

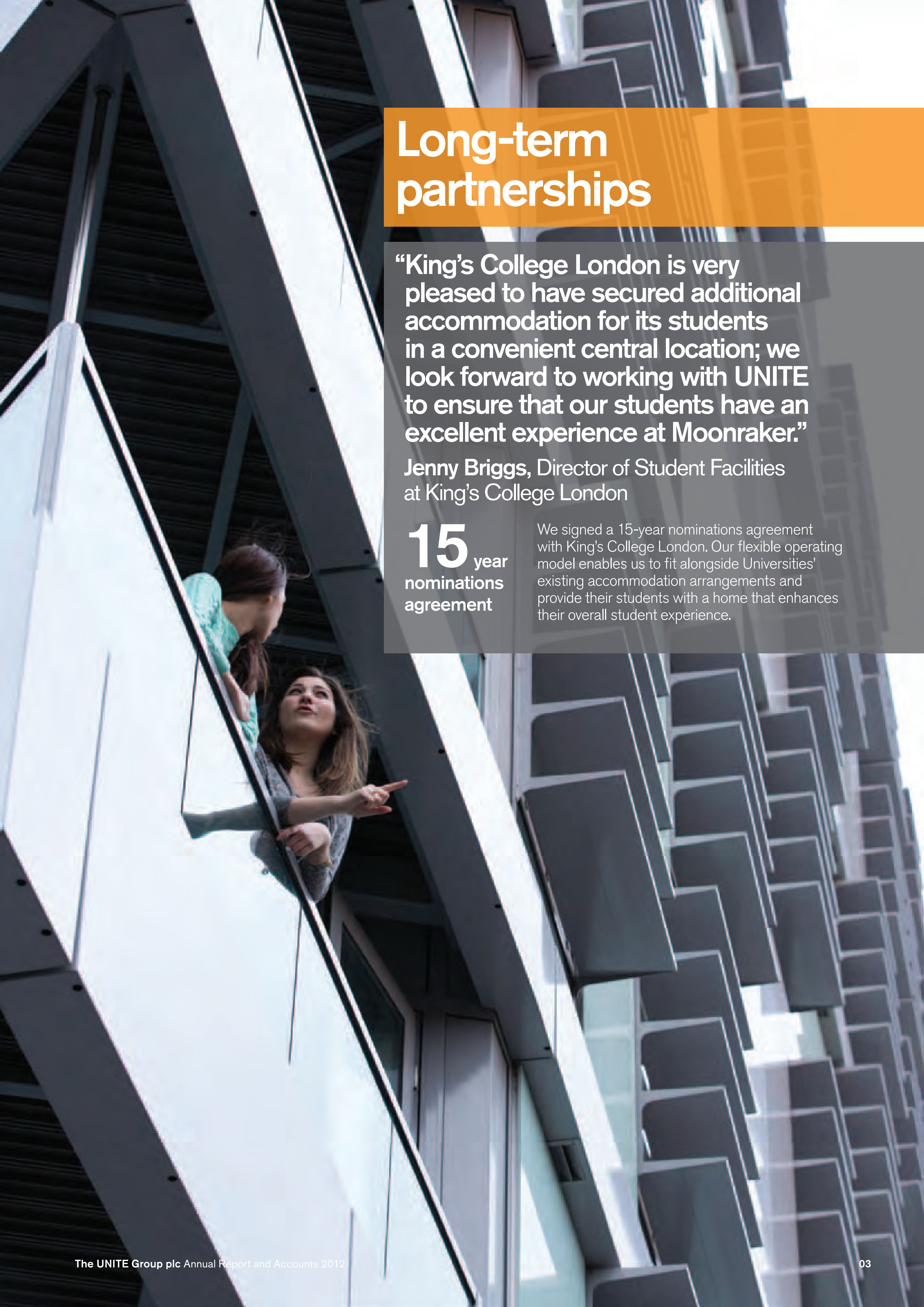
# First class customer satisfaction

**“The on-site team are very helpful and attentive; it makes me feel like a resident as opposed to a number. The building is in excellent condition and maintenance issues are dealt with swiftly.”**

**Nadeem,** Glasgow

**Score of 67**

This year our increased customer focus led to our best ever customer satisfaction score. The results of this independent survey showed an increase in customer advocacy demonstrating the clear and increasing value of our brand.



# Long-term partnerships

**"King's College London is very pleased to have secured additional accommodation for its students in a convenient central location; we look forward to working with UNITE to ensure that our students have an excellent experience at Moonraker."**

**Jenny Briggs,** Director of Student Facilities at King's College London

**15** **year nominations agreement**

We signed a 15-year nominations agreement with King's College London. Our flexible operating model enables us to fit alongside Universities' existing accommodation arrangements and provide their students with a home that enhances their overall student experience.

# Strategically important joint venture

## We announced the extension of an existing joint venture and the creation of a new partnership – the London Student Accommodation Vehicle.

**£1 billion portfolio**

Both joint ventures are with sovereign wealth fund GIC Real Estate. The new 50:50 joint venture will be the vehicle for UNITE to undertake its next phase of London development activity, with the target of building a £1 billion London portfolio.

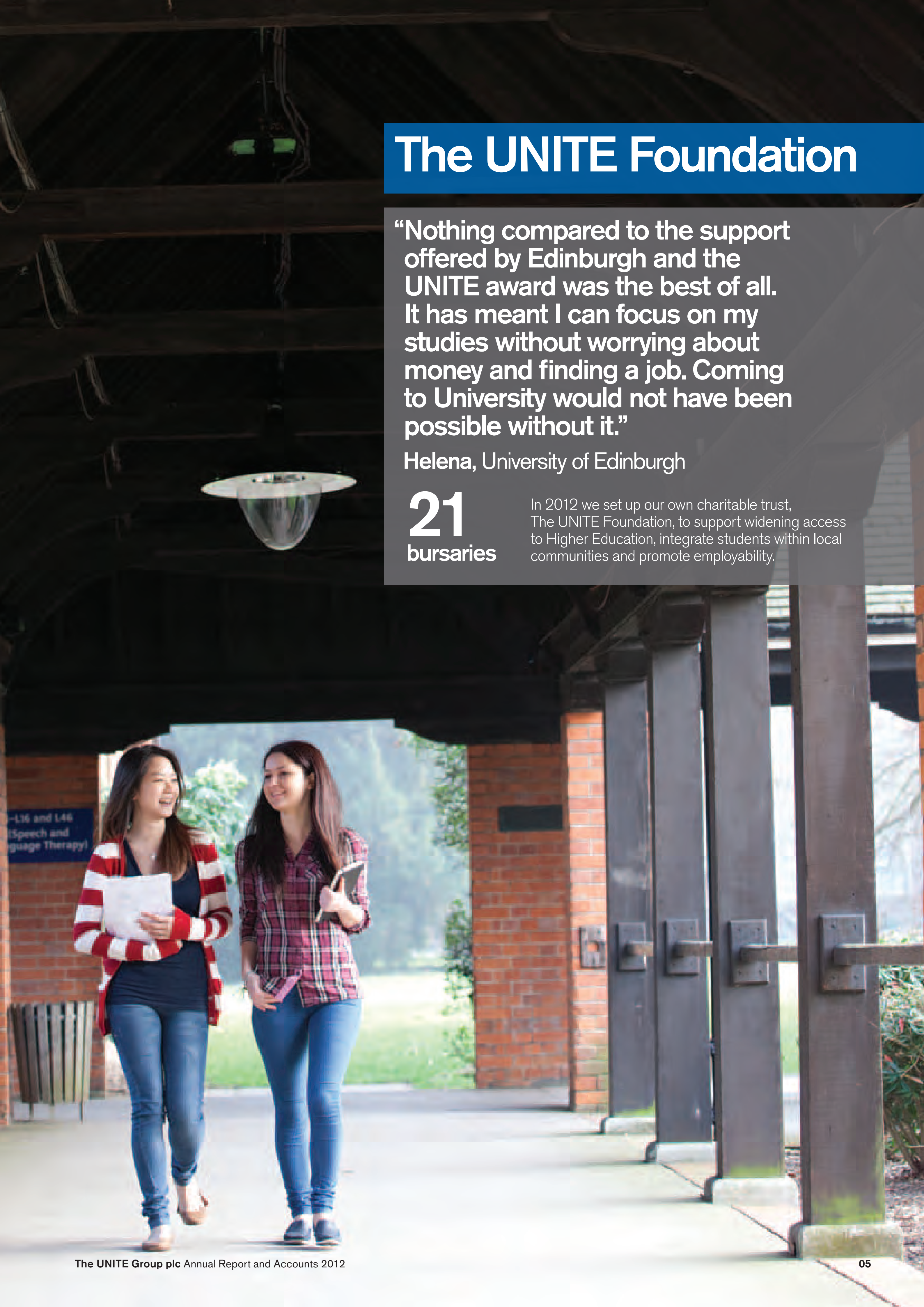
# The UNITE Foundation

"Nothing compared to the support offered by Edinburgh and the UNITE award was the best of all. It has meant I can focus on my studies without worrying about money and finding a job. Coming to University would not have been possible without it."

**Helena,** University of Edinburgh

**21**
**bursaries**

In 2012 we set up our own charitable trust, The UNITE Foundation, to support widening access to Higher Education, integrate students within local communities and promote employability.



# Developing Stratford's future

## We are building a 951 bed development in Stratford, London, E15 scheduled for completion in 2014.

**951**
**new beds**

The scheme, which is already under construction (pictured), is adjacent to the Olympic park. This property will cater for students seeking more affordable accommodation. Stratford is an ideal location due to its strong University presence and excellent transport links.

# Olympic legacy

## UNITE managed 3,600 rooms on behalf of LOCOG during the Olympic and Paralympic Games.

**3,600**
**rooms**

The experience provided us with valuable learning opportunities that we have used to improve our core business. In particular, the establishment of a robust process and supply chain to tackle multiple room turn-arounds will allow us to take a more flexible approach to shorter term tenancies in future.

## Chairman's statement

"2012 was another excellent year for UNITE, as evidenced by strong results for all of our key business performance indicators."

**Phil White CBE**
**Chairman**

2012 was another excellent year for UNITE, as evidenced by strong results for all of our key business performance indicators. Profitability, high occupancy, rental growth and important margin improvements meant that Net Portfolio Contribution increased 74% to £19.1 million from £11.0 million in 2011 and adjusted earnings per share increased 280% to 9.9 pence for the year. Adjusted NAV per share increased 10% to 350 pence primarily as a result of rental growth, retained earnings and development activity.

Together with dividends, this equates to a 11.3% total return on equity for the year and, importantly, this performance was based on sustainable improvements to our operating platform which have translated into strong customer satisfaction and advocacy.

As a result of the significant earnings growth in the year and high cash conversion we have increased our dividend meaningfully, to 4.0 pence for the full year (2011: 1.75 pence). At this level the dividend is covered more than two and a half times from operating cashflow and we intend to maintain cover at around this level in the coming years.

Alongside this strong financial and operating performance we continued to have some important successes in further strengthening the Group's financial position. New debt facilities, most notably a £120 million ten year senior debt facility with Legal & General and a £90 million new issue of unsecured bonds to retail investors, contributed to a significant improvement in the maturity, diversity and cost profiles of our debt facilities, while £128 million of non-core asset disposals in late 2011 and throughout 2012 enabled us to reduce leverage to 52% loan-to-value. In September we also extended and expanded our joint venture relationship with GIC RE, one of the world's largest and most respected real estate investors. The new JV relationship provides much greater visibility of the Group's financing and returns for the coming years, and allows us to accelerate our London development activity at a time when returns remain compelling.

We also continued to improve our portfolio quality meaningfully through our on-going development activity and the successful conclusion of our targeted non-core asset disposal programme. As at 31 December 2012, 90% of our portfolio was classified as core (2011: 82%) and 45% was in London (2011: 45%), increasing to 50% when built out. As development and disposal activity continues in 2013 both of these measures will continue to improve.

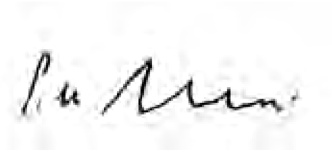
2012 also saw some changes to the non-executive composition of our Board. Nigel Hall retired from the Board at the May AGM, with Manjit Wolstenholme taking on the role of Chair of the Audit Committee. In February 2013 Andrew Jones, Chief Executive of London Metric, joined our Board as an additional Non-Executive Director while Stuart Beevor, currently UNITE's Senior Independent Director, will be stepping down from the Board in May 2013 following nine years' service. I would like to thank Stuart for his valued contribution during his time on the Board.

**"As a business working in partnership with the Higher Education sector, we realise the value of a University education; it provides a unique opportunity for intellectual development and wider enrichment, as well as often being the best route to a more certain future."**

As a business working in partnership with the Higher Education sector, we realise the value of a University education; it provides a unique opportunity for intellectual development and wider enrichment, as well as often being the best route to a more certain future. It is important that UNITE is clear in the contribution it makes to the sector, beyond simply the provision of accommodation, and in 2012 we launched The UNITE Foundation, a grant-making trust funded entirely by profits from UNITE. The Foundation supports the twin objectives of widening participation in Higher Education and promoting student engagement with their local communities and made a promising start in 2012.

The UK Higher Education market has been through a period of transition following the various Government policy changes that came into effect during 2012 and our business has weathered this uncertainty well. Recent Government policy announcements have been supportive of the sector and 2013/14 application numbers are encouraging. However, the wider economy remains unsettled and it is important that our business remains appropriately agile in order to respond proactively to market developments.

With a clear strategy in place, a healthy, cash generative and efficient operating business, a well-positioned property portfolio and a sustainable capital structure I am confident that our business is well equipped for the future.



**Phil White CBE**
Chairman
6 March 2013

# How we operate

UNITE is split into two Business units, Operations and Property. Both units are represented at Board level by their respective Managing Directors.

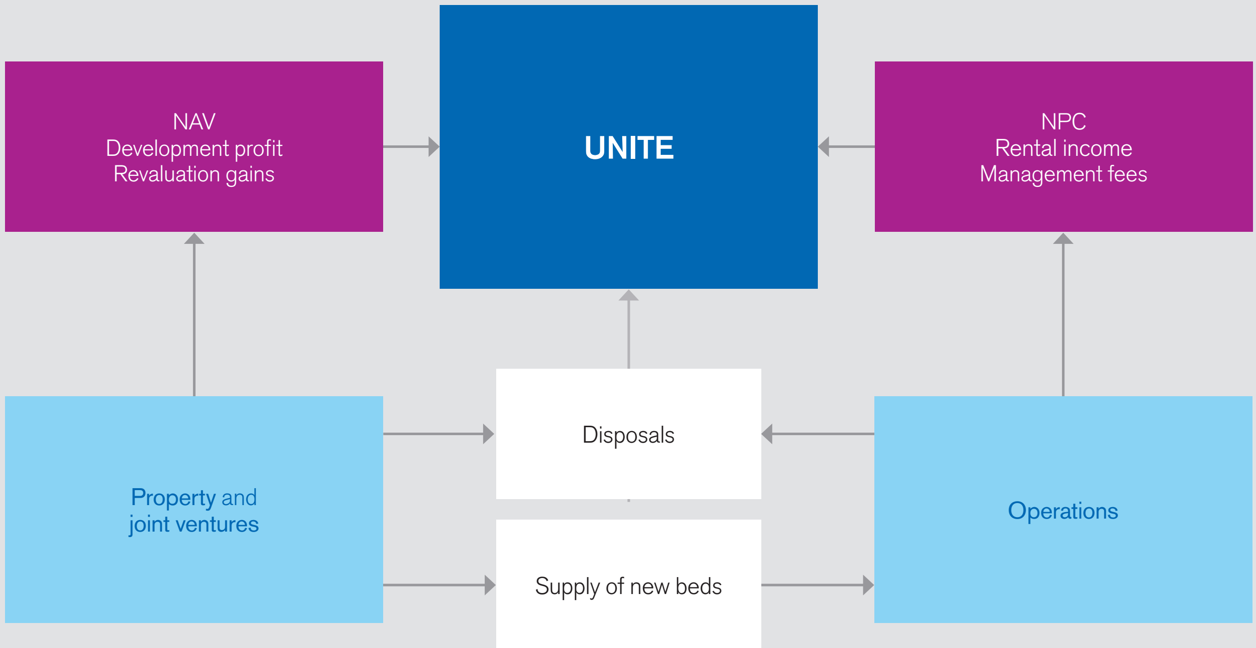
The Property Business, led by Richard Simpson, is responsible for our Development Strategy as well as overseeing the fund management for each of our four co-investment vehicles/funds. The Property Business drives our development profit, as well as our revaluation gains as a result of careful asset management.

The Operations Business, led by Richard Smith, is responsible for the running of all our properties; this includes the properties managed and operated on behalf of our funds. The Operations Business is responsible for delivering our operating cash flow and NPC through rental income and delivery of our service platform.

Profits from disposals either to our funds or onto the open market drive capital into our business for further development or paying down debt.

Our Chief Financial Officer, Joe Lister, is responsible for our debt management and control of gearing.

We earn a management fee for operating all properties on behalf of our joint ventures as well as our percentage share of the other income through rental growth and valuation increase.



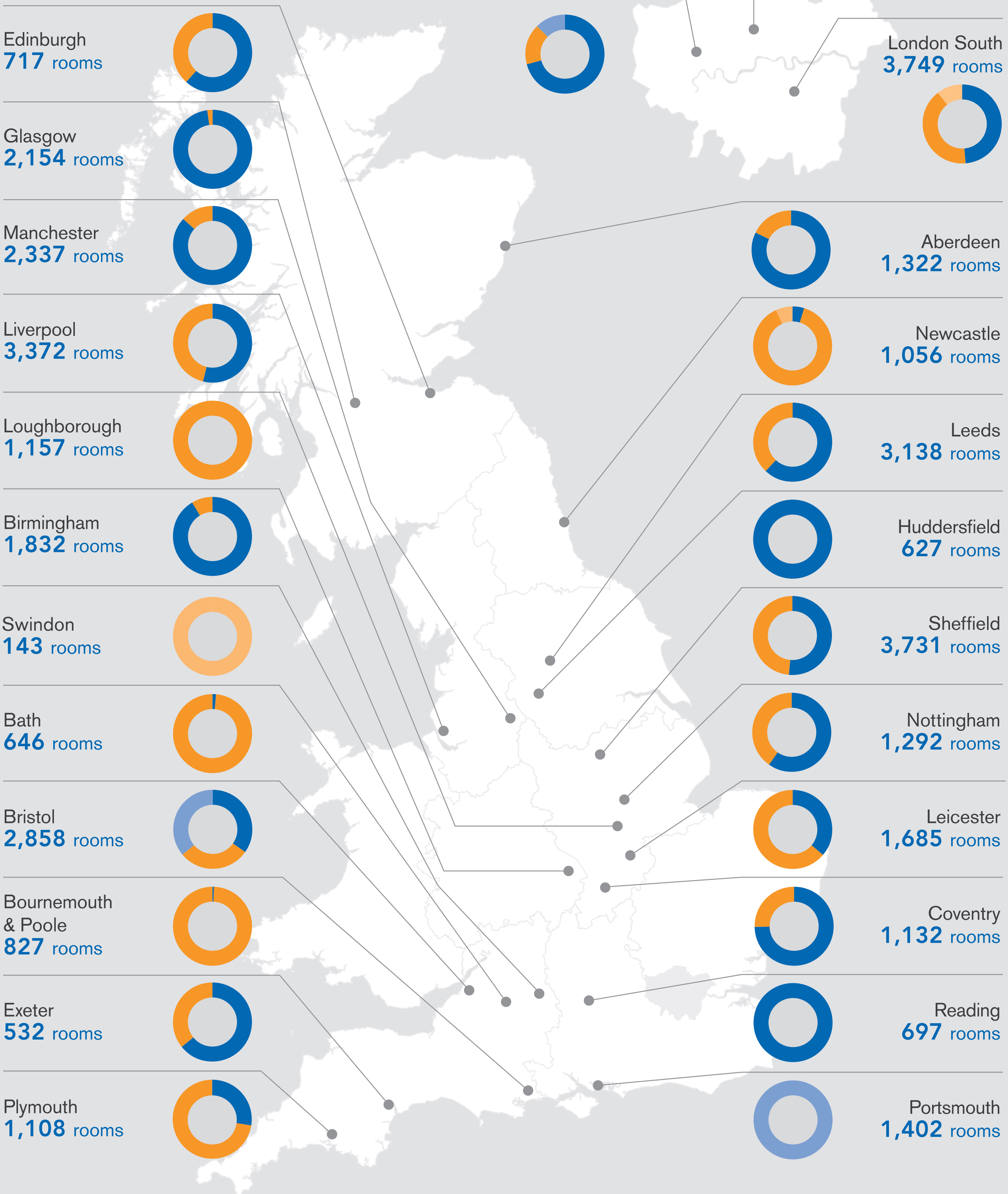

## Top ten markets

| 2013 Rank | 2012 Rank | City | Completed Beds (13/14) | Completed Beds (12/13) | FT Student Numbers (11/12) | Projected Market Share |
|---|---|---|---|---|---|---|
| 1 | 1 | London | 7,712 | 8,074 | 292,734 | 2.8% |
| 2 | 2 | Sheffield | 3,731 | 3,731 | 48,632 | 7.7% |
| 3 | 3 | Liverpool | 3,372 | 3,372 | 42,911 | 7.9% |
| 4 | 4 | Leeds | 3,138 | 3,138 | 53,402 | 5.9% |
| 5 | 5 | Bristol | 2,858 | 2,858 | 38,942 | 7.3% |
| 6 | 6 | Manchester | 2,337 | 2,716 | 81,256 | 3.3% |
| 7 | 7 | Glasgow | 2,154 | 2,154 | 60,990 | 3.5% |
| 8 | 9 | Birmingham | 1,832 | 1,832 | 54,759 | 3.3% |
| 9 | 10 | Leicester | 1,685 | 1,685 | 29,606 | 5.7% |
| 10 | 11 | Portsmouth | 1,402 | 1,402 | 19,103 | 7.3% |
| | | | 30,216 | 30,957 | 722,335 | 4.1% |
| Proportion of UNITE portfolio | | | 73% | 72% | | 4.3% |

# Where we operate

**Tenancies**

| | |
|---|---|
| Leased directly to students | **22,999** |
| Leased to students via Universities | **15,238** |
| Leased to Universities | **2,641** |
| Leased to key workers | **599** |



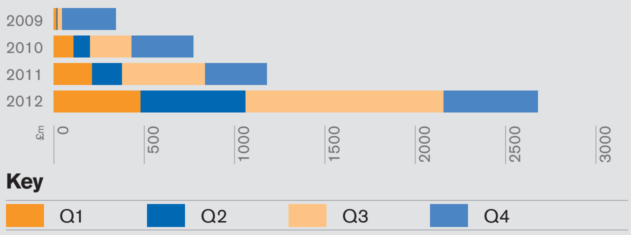
## Student accommodation market

There was a record £2.7 billion invested in student accommodation in 2012, representing a 125% increase on 2011 (£1.2 billion) (source: CBRE). There were two large deals involving UPP and Nido – the UPP transaction, with an estimated value of £840 million, was the largest transaction of the year.

These volumes indicate the strength of the sector and the continued appetite for student accommodation to UK and international investors attracted by the stable annual income.

CBRE data shows that student housing is outperforming other asset classes by some margin, delivering 9.6% total returns in 2012. This compares to 4.4% for all offices and 2.2% for all retail over the same period.

**Volumes of deals in UK student accommodation 2009-2012**




Source: CBRE

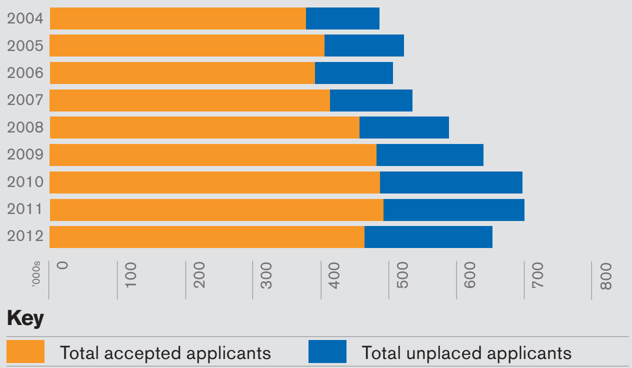
## Full-time student numbers

There has been steady year-on-year growth in student numbers over the long term, however for the first time in 14 years student numbers decreased in 2012.

The reduction was the result of changes to policy mechanisms, the impact of the low rate of deferrals in 2011 (prior to the first year of increased tuition fees) and cautious offer making behaviour of Universities.
More information on p.36

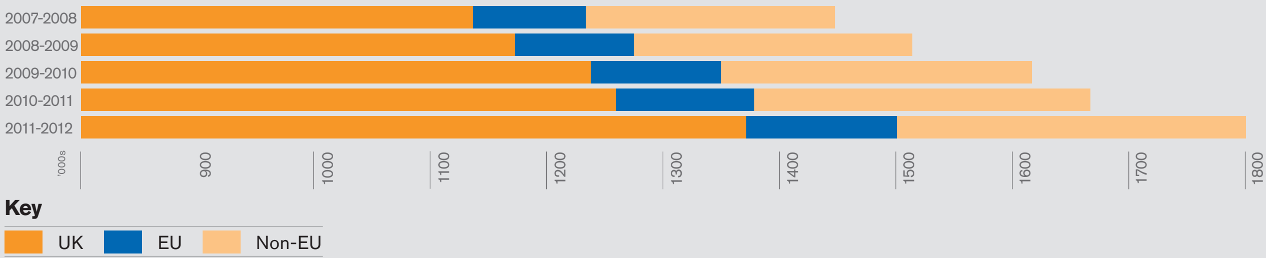
These disruptions are thought to be temporary and we expect to see 25,000-30,000 more students in 2013/14.

**UCAS accepted and unplaced applicants**




Source: UCAS

**Full-time student numbers**



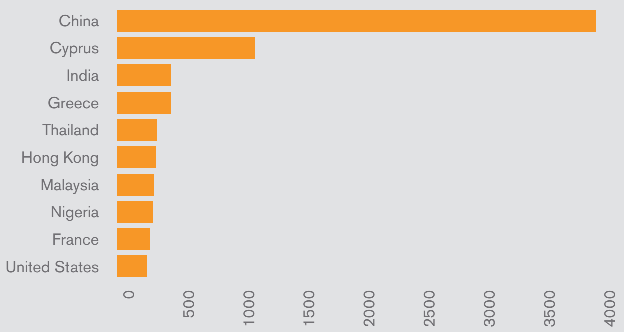

Source: HESA

## International students

The strength of UK Universities, with 30 Universities in the top 200 of the Times Higher Education's World University Ranking, make the UK an attractive place for international students. For the first time, international students represent 50% of UNITE's direct let students.

The majority of international growth in UNITE's portfolio is driven by Asian nationalities; particularly China which now represents 18% of UNITE's direct let customers (13% in 2011/12). In total UNITE has students from 164 different nationalities within its direct let customer base for the 2012/13 academic year.

**Top 10 international markets**




**Key**

Number of students

Source: UNITE

## The London student market

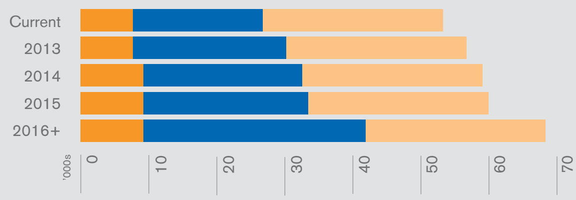
London has three important characteristics that distinguish it from the wider UK market:

- **A full-time student population** (293,000) that is larger than the next five largest student markets combined
- **A very low supply ratio**. London's Universities can only supply c. 30% of the bed spaces required to meet their accommodation 'guarantee' (all first year and international students) compared to a national average of c. 65%
- **A large international student population** (c. 80,000) with high accommodation requirements and expectations.

UNITE has built a substantial London student accommodation business in recent years:

- For the academic year 2012/13 UNITE is operating over 8,000 bed spaces in London.

**Total Purpose Built Student Acommodation (PBSA) beds in Central London**




**Key**

UNITE | Other corporate | University

Source: UNITE

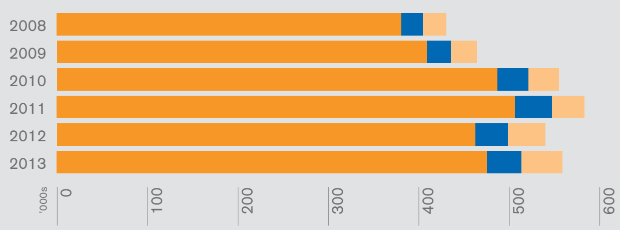
## Rent and occupancy outlook

**Demand:** The increase in UCAS applications for the 2013/14 academic year illustrates the continued demand for Higher Education. Applications increased by 3.5% year-on-year. Applications from Non-EU students were up by 9.6% and 18-19 year old participation was at an all-time high – both groups representing key markets for UNITE. Applications at this level mean there are likely to be over 190,000 unplaced applicants in September.

**Supply:** There will be an additional 9,500 new beds in the market for 2013/14, with around 4,090 of these beds in London and 5,400 within the regions, resulting in a net demand/supply movement of c.+18,000.

**Rental Growth:** Encouragingly, our portfolio is showing clear signs of strong occupancy for 2013/14 as a result of improved University application procedures and increased demand. Reservations were at 62% as of 5 March 2013, supportive of retail growth in line with recent years.

**UCAS applicants as at 15th January deadline**




**Key**

UK | EU | Non-EU

Source: UCAS

## Our top ten managed properties by value

NEW

**Moonraker Point, London**
**Beds: 674 (Wholly owned)**
Moonraker Point offers 147 studios and 527 rooms in cluster flats. Situated in Zone 1 and close to shops and local amenities, Moonraker Point is well located for King's College London's main teaching campuses.

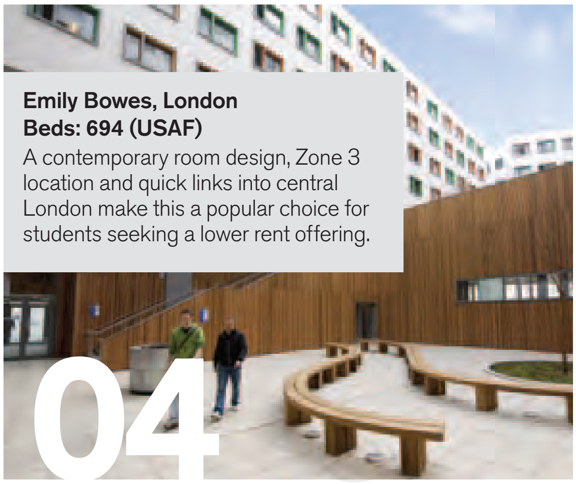
01

**Woburn Place, London**
**Beds: 462 (UCC)**
Woburn Place is ideally located adjacent to three University campuses at the heart of student life in central London. A smart collection of twin and studio rooms sit alongside one and two bedroom flats. Customers enjoy an assortment of high end communal and in-room facilities.

02

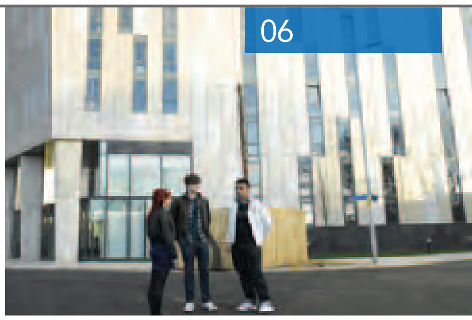
**Woodland Court, London**
**Beds: 577 (OCB)**
Shared en-suite flats set around a communal courtyard, one stop from King's Cross underground.

03



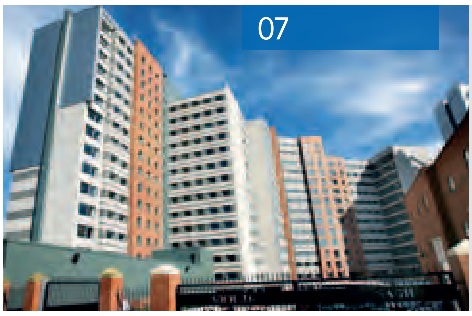
**Emily Bowes, London**
**Beds: 694 (USAF)**
A contemporary room design, Zone 3 location and quick links into central London make this a popular choice for students seeking a lower rent offering.

04


**Parkway Gate, Manchester**
**Beds: 729 (Wholly owned)**
Our architectural flagship building in the centre of Manchester ideally located for the two main Universities in the city.

**Grand Central, Liverpool**
**Beds: 1,210 (USAF)**
The largest, most centrally located student residence in Liverpool, ideally located for Lime Street station, the city centre and the city's Universities.




**The Plaza, Leeds**
**Beds: 964 (Wholly owned)**
Modern premises completed in 2006 convenient for both Universities in Leeds. The property offers a range of en-suite rooms in 3-6 bedroom flats.


**North Lodge, London**
**Beds: 528 (LSAV)**
Located next to Emily Bowes Court and just over the road from Tottenham Hale Retail Park, North Lodge has excellent transport links. All rooms include en-suite bathrooms and a study area with a shared kitchen/lounge.


**The Forge, Sheffield**
**Beds: 1,157 (Wholly owned)**
Campus-style living within a city centre environment that includes retail facilities let to Sainsbury's and Wilkinsons.


**Wedgewood Court, London**
**Beds: 323 (OCB)**
Immediately opposite London Metropolitan University, offering shared flats for 2, 4, 5, and 6 people and a range of studios with retail units let to Sainsbury's and Costa Coffee.

## Our rising stars

**Central Point, Plymouth**
Central Point was given a £2 million facelift in 2012, refurbishing the property internally and externally while keeping its 1950s features. The eight week refurbishment project updated all 234 bedrooms, installed in-room Wi-Fi for all students, created a new reception and common room, and added ten extra rooms utilising existing unused space in the building.

**Piccadilly Point, Manchester**
We obtained a change of planning permission to convert our vacant commercial space at this popular Manchester property, thereby adding 58 new rooms (14 double studios and 44 beds in cluster flats) to the building. These new rooms, along with the Central Point refurbishment, were the first properties to feature our improved room specification.

**Wellington Lodge, London**
One of our four new properties for 2012, five minutes' walk from Waterloo station. Our team's hard work during the construction resulted in a new nominations agreement with the London School of Economics. The 146 bed property provides a range of flats of different sizes, all with en-suite bathrooms, as well as nine studio flats.

**Apollo Court, Liverpool**
Apollo Court was our top performing property for student satisfaction in 2012. The property has a choice of over 200 rooms in 5-7 bed cluster flats, all with en-suite bathrooms. There are also 13 studios. Apollo Court is a lively first year property for Liverpool John Moores University.

# Chief Executive's review

"The Group's strong financial performance has been underpinned by the substantial and sustainable improvements we have made to our operating platform."

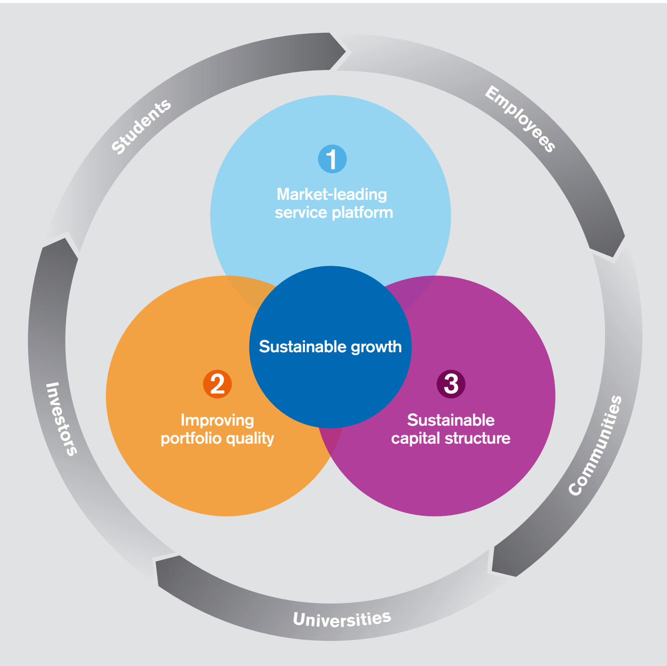
**Mark Allan**
**Chief Executive Officer**

Our objectives for 2012 were to continue growing recurring profit and cashflow through the delivery of rental growth, portfolio activity and cost savings; to establish a sustainable capital structure and to enhance our portfolio quality further through our London-focussed development activity and non-core asset disposal programme.

**Financial highlights**

| | 2012 | 2011 |
|---|---|---|
| NPC | £19.1m | £11.0m |
| Adjusted earnings per share (pre UMS for 2011) | 9.9p | 2.6p |
| NAV (adjusted, fully diluted) | 350p | 318p |
| Full year dividend | 4.0p | 1.75p |
| Total return | 11.3% | 8.1% |
| See through loan-to-value ratio | 52% | 54% |
| Operating cashflow | £17.2m | £13.8m |

We successfully achieved these objectives, a continuation of the positive progress we made in 2010 and 2011, despite a more challenging environment as Government policy changes took effect. As a result we were able to grow rents, earnings and net asset value meaningfully while also reducing leverage and investing in our portfolio and development pipeline.

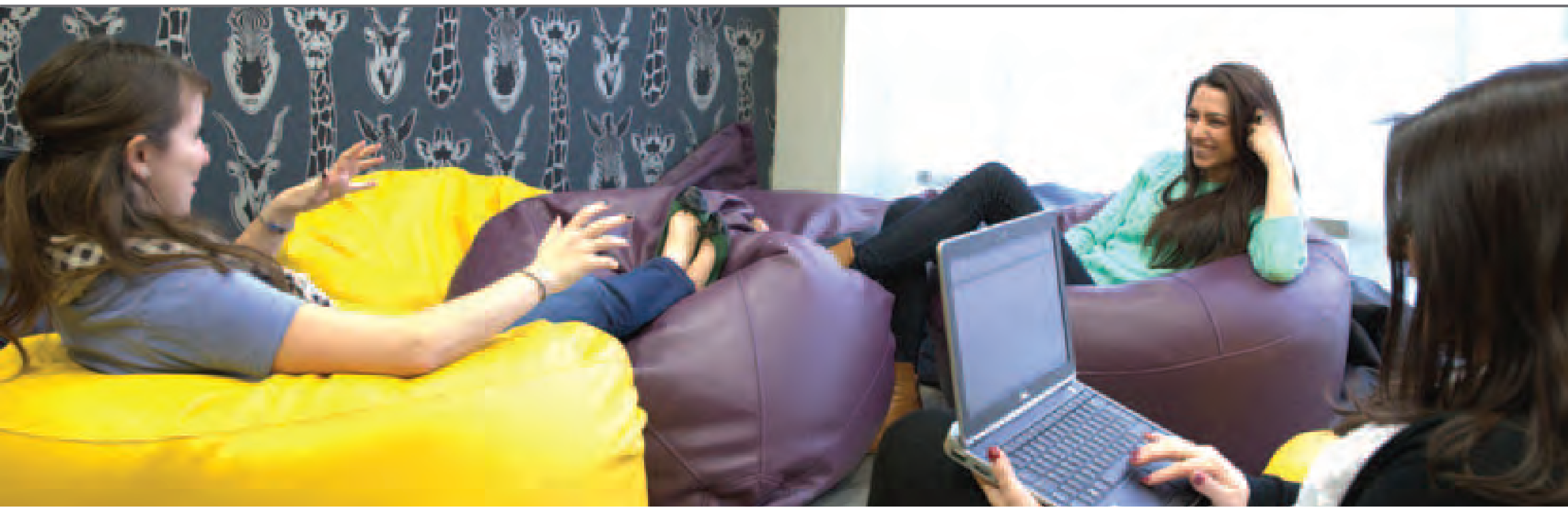



## 1 Market-leading service platform

Achieved by focusing on developing our people, processes and technology in an integrated, scalable and sustainable way. These improvements will drive improved efficiency and increased service levels, measured by our customer satisfaction survey. Aligned with a clear brand identity and positioning, this will also form the basis for longer term growth opportunities.

**Progress in 2012**

- **People –** We reviewed the activities our front-line staff carry out to ensure they all add value to the student experience, and improved our learning and development programmes.
- **Process –** We significantly improved the consistency of our operating processes.
- **Technology –** We invested heavily in the latest technology including handheld devices for maintenance teams and a new student website. **See p.24**



The progress we have made in recent years is evidenced both by the level of returns we have achieved (an average annual total return of 10.3% over the past three years) and the more balanced profile of those returns, with recurring earnings accounting for 27% of returns in 2012 compared to 11% in 2011 and 6% in 2010.

A balanced return profile with modest risk will continue to be a feature of our strategy going forward. Our portfolio is of a high quality and will continue to support healthy capital growth in the years ahead; we will continue to pursue accretive development activity on a prudent and highly selective basis and we intend to continue growing recurring earnings meaningfully and steadily reduce leverage.

We continue to target low double digit returns on equity and are aiming to grow our adjusted EPS yield to in excess of 4.5% by the end of 2015 as a result of further rental growth, new openings and continued cost vigilance. Our focus on growing adjusted earnings has allowed us to grow our dividend substantially this year, to 4.0 pence per share for the full year and we intend to maintain dividend cover at its current levels (in excess of 2.5 times operating cashflow) for the time being given the attractive investment opportunities we see for our business.

**Total return on equity**

| Components of total return on equity | 2012 | 2011 | 2010 |
|---|---|---|---|
| Adjusted EPS yield | 3.1% | 0.9% | 0.7% |
| Capital growth | 5.4% | 4.9% | 6.6% |
| Development profits | 4.6% | 7.0% | 6.5% |
| Other* | (1.8%) | (4.7%) | (2.2%) |
| Total return** | 11.3% | 8.1% | 11.6% |

* Other factors relate primarily to swap close-outs in 2012 and UMS costs in 2011 and 2010.

** Calculated as NAV growth plus interim and declared final dividend.

## 2 Improving portfolio quality

Achieved through portfolio enhancing development activity, with our London pipeline delivered through LSAV, as well as selective disposals of non-core assets.

**Progress in 2012**

- **Opened four new properties –** We opened Moonraker Point, Wellington Lodge and North Lodge in London, and Kelvin Court in Glasgow. **See p.29**
- **Asset disposals –** We successfully achieved our non-core asset disposal target. **See p.31**
- **Investment in Sheffield, Plymouth and Manchester –** We completed three significant refurbishments at properties in Manchester, Plymouth and Sheffield, with our share of capital expenditure amounting to £1 million. **See p.31**

## 3 Sustainable capital structure

Achieved by bringing gearing down over time (through targeted disposals and retained profits), extending/replacing core JVs, removing non-core vehicles and diversifying the sources and maturity profile of debt finance.

**Progress in 2012**

- **L&G –** We completed a new £121 million debt facility with Legal & General, representing their first real estate debt financing deal. **See p.33**
- **Extended JV partnership –** We extended our existing joint venture (UCC) and created a new partnership (LSAV) with GIC Real Estate. **See p.34**
- **New Carnegie Court –** We sold our leasehold interest in New Carnegie Court to PRUPIM for £33 million. **See p.37**
- **Retail Bond –** We issued £90 million Sterling Bonds due in 2020. **See p.25**
- **USV joint venture –** We acquired the minority stake in this JV, consistent with our aim to simplify our balance sheet.

The Group's strong financial performance has been underpinned by the substantial and sustainable improvements we have made to our operating platform: clearer, more accountable management structures, investment in technology and infrastructure and customer-focused training and development for our front line staff. Customer satisfaction levels are now at an all-time high, as are operating margins and profitability. As a result, our operating platform is a source of genuine competitive advantage that we will be building on further in the coming years.

At the heart of our progress is the committed team of people we have across the business, both front-of-house and in support roles; I would like to thank them and congratulate them on their achievements.

Our strong performance also reflects the quality of our property portfolio and we enhanced it still further in 2012, through a programme of London-focused development, selective non-core asset disposals and on-going refurbishments. These activities, together with the rental growth achieved through our consistent focus on only the strongest Universities and locations, contributed to the 10% increase in adjusted NAV to 350 pence per share. As market forces in the Higher Education sector increase, those Universities with the strongest brands, domestically and internationally, are those most likely to prosper. Our portfolio has always been targeted towards these Universities and consequently we remain well placed to perform strongly.

Our development plans for the coming years are clear and we are making good progress. We have three committed development projects in place, two in London for 2014 delivery and one in Bristol for 2015 completion, and we expect these projects, together with UNITE's share of the LSAV development pipeline, to contribute a combined 19 pence per share to adjusted NAV by 2015.

We have also made encouraging progress with our LSAV development plans. We secured our first LSAV development project, a second scheme in Stratford, East London, in October 2012; 759 beds targeted for completion in 2015. We have also recently secured an exclusive position on a second project, subject to contract and planning and offering the potential of 950 beds for 2016 delivery. Taken together, these two projects would account for approximately 40% of LSAV's planned development pipeline and both are forecast to achieve our target 9% yield on cost. Outside of LSAV and London, an increasing number of interesting regional opportunities are beginning to emerge.

Crucially, success in our sector is linked to strong University relationships and during 2012 we continued to build on existing partnerships as well as forge new ones. Accommodation provision is a strategically important matter for Universities; it is capital intensive at a time of funding constraints but it has a significant bearing on the student experience which is so vital to a University's long term success. We believe we have a deep understanding of these twin factors and this level of market understanding, coupled with our portfolio scale, is proving increasingly valuable.

Capital availability was a prominent topic for most businesses in 2012 and it is pleasing that we were able to make substantial progress on all fronts. Leverage reduced to 52% loan-to-value as a result of asset disposals and capital growth in the core portfolio, average debt maturities increased to 4.9 years (2011: 2.6 years) and we successfully diversified our sources of debt finance. 43% of the Group's debt (including its share of co-investment vehicles) is now from non-bank sources. We expect leverage to fall to 50% loan-to-value in 2013 as a result of further disposals and capital growth and intend to reduce it steadily further in the medium term.

### Outlook

UNITE has entered 2013 with a healthy, cash generative and flexible operational business, a strong capital position and an exciting pipeline of opportunities in its property portfolio. This combination leaves the business well placed both to benefit from further opportunities in its market as well as respond proactively to any challenges that may arise.

Recent Government policy announcements have been supportive of the Higher Education sector in the UK and the most recent applications data from UCAS showed that demand amongst young adults for University education remains strong; a 3.5% increase year-on-year. These are clear signs that the recent instability in the sector resulting from tuition fee increases is beginning to abate.

Our focus for the year ahead is to build further on the successes of recent years; to keep growing recurring profits and cashflow in a sustainable way, taking advantage of our increasingly valuable brand; to continue improving portfolio quality through highly selective development and divestment activity; and to manage the Group's financial position prudently. London will continue to be our primary development focus but we are also beginning to see interesting opportunities in a select number of high quality University cities elsewhere in the UK.

**"UNITE has entered 2013 with a healthy, cash generative and flexible operational business, a strong capital position and an exciting pipeline of opportunities in its property portfolio."**

The Group is well poised to deliver further growth in earnings and net asset value in the future. We consider the outlook for rental growth to be consistent with recent years, we have three committed development projects on balance sheet which we expect to deliver a combined 19 pence per share of NAV uplift by 2015, we are making good progress with our longer term LSAV development plans and the full effect of cost efficiency measures taken in 2012 will flow through into 2013 earnings.

Our market has been going through a period of transition as Government policy changes take effect. However, with much of the initial impact already absorbed in the 2012/13 academic year and our business in a strong operational and competitive position we continue to look forward with confidence.

**Mark Allan**
**Chief Executive Officer**
**6 March 2013**

# Key performance indicators

| Financial KPI | Definition | Performance | | Target |
|---|---|---|---|---|
| | | 2012 | 2011 | |
| **Net Portfolio Contribution** | Our key indicator of operational performance measuring the income from rental properties after financing costs and our total non-development related overheads. | **£19.1** High occupancy and important margin improvements have delivered a 74% increase in NPC. | £11.0m | Annualised impact of 2012 openings and continued focus on operational efficiencies and cost management will continue to grow recurring profits. |
| **Adjusted NAV per share** | Our adjusted NAV per share measures the market value of properties and developments less any debt used to fund them plus any working capital in the business. | **350pps** Rental growth, development profits, and retained earnings, drove a 10% increase. | 318pps | Well placed to continue delivering strong balanced returns through capital growth, development profits and retained earnings. |
| **Total returns** | Measures the total return to shareholders calculated by the growth in adjusted NAV plus interim and declared final dividends. | **11.3%** Total return has been driven by growth in recurring earnings, NAV and dividend. | 8.1% | Continue to deliver low double digit total returns. |
| **Adjusted net debt (see through)** | Measures the net indebtedness of the business and our ability to generate cash and control expenditure calculated as debt net of cash and excluding the mark to market interest rate swaps. | **£648m** Capital expenditure on developments and USV acquisition offset by disposals and earnings. | £646m | Continue to manage total net debt by matching expenditure with targeted disposals. |
| **LTV (see through)** | Measures our ratio of debt to property values. | **52%** Maintained our focus on controlling adjusted net debt and adding value to the portfolio. | 54% | 50% by the end of 2013. |
| **Operating cashflow** | Measures conversion of recurring profit from the Operations business into cash. | **£17.2m** Growth in net portfolio contribution and working capital management drove the increase in operating cashflow. | £13.8m | Operations cashflow growth aligned to net portfolio contribution growth. |
| **Adjusted EPS yield** | EPS yield is calculated by the earnings per share dividend by opening adjusted net asset value. | **3.1%** Achieved through meaningful growth in recurring earnings. | 0.9% | We are aiming to grow our adjusted EPS yield to 4.5% by the end of 2015 as a result of further rental growth and continued cost vigilance. |

| Non-Financial KPI | Definition | Performance 2012 | Performance 2011 | Target |
|---|---|---|---|---|
| **Reservations for next academic year** | Measurement of how many of our rooms have been leased to students directly or through agreements with Universities by the end of February. | **62%** Improved reservations level is reflective of improved market conditions, enhanced operational capability and brand awareness. | 59% | We aim to sell 55-60% of our rooms by this point in our sales cycle. |
| **Customer satisfaction** | We undertake an independent survey twice a year where we use key indices to understand our relationship with our customers and their likelihood to rebook and recommend. Customer TRI*M is benchmarked against other high performing companies. | **67** A shift of emphasis on operational performance has been rewarded by a substantial improvement in customer satisfaction. | 52 | We aim to be in the top decile of service companies for customer satisfaction. |
| **Health and safety** | Measures the number of reportable accidents in Operations each year as a means of assessing our success in approaching health and safety. | **6** This year we have changed the way we classify our reportable incidents which has resulted in the increase. This is reflective of Safety being a high priority. | 1 | We strive to have no reportable accidents. |
| **Employee satisfaction** | Employee TRI*M is an independent benchmarked measure of the extent to which UNITE employees are committed to achieving our corporate goals, our mission, vision and values. | **67** Continued focus on improving our development programme and greater empowerment for our city teams has resulted in sustained high employee satisfaction. | 67 | Continue to be in the top decile of European service companies for employee satisfaction. |
| **HE trust score** | Each year we undertake qualitative research with over 50 of our HE partners scoring on Trust, Advocacy and Awareness. | **67** Focus on HE Engagement, as well as improving our customer service, has improved relationships with our partners. | 62 | We aim to become a more trusted partner. |

# Operations review

## Sales, rental growth and profitability

Building on the improvements we made in our operations business in 2011, we continued to deliver strong performance throughout 2012. Our focus on cash generation and profit growth delivered a £8.1 million increase in NPC to £19.1 million (with a cash conversion ratio of 90%); up from £11.0 million in 2011 and £4.1 million in 2010. This growth was driven by high occupancy levels, rental growth across the portfolio and efficiency initiatives announced in 2011. There was also a one-off contribution of £1.0 million following our successful partnership with LOCOG during the Olympic and Paralympic games.

## Net Portfolio Contribution

Net Portfolio Contribution (NPC) is our measure of the underlying pre-tax profit of the Operations Business. It includes the pre-tax results of our joint ventures, but excludes capital movements and development activity. NPC increased materially in 2012.

**Net Portfolio Contribution**

| | 2012 £m | 2011 £m |
|---|---|---|
| Total income from managed portfolio | 240.2 | 219.5 |
| UNITE's share of rental income | 111.4 | 95.6 |
| *UNITE share of total income* | *46%* | *44%* |
| UNITE's share of operating costs | (32.3) | (29.4) |
| Net operating income (NOI) | 79.1 | 66.2 |
| *NOI margin* | *71.0%* | *69.2%* |
| Management fee income | 10.3 | 10.1 |
| Operating expenses | (21.8) | (21.6) |
| Finance costs | (48.5) | (43.7) |
| **Net portfolio contribution** | **19.1** | **11.0** |

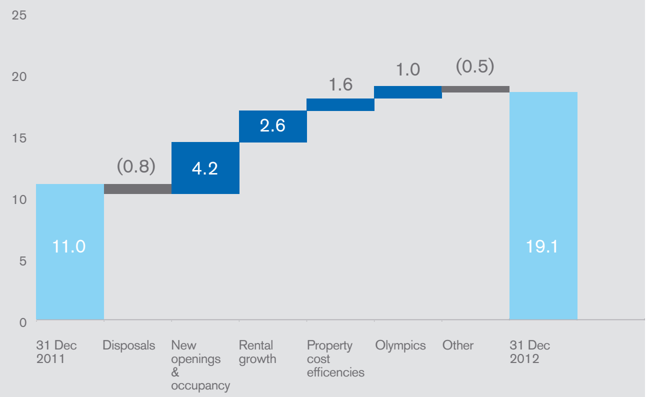
The key components of the movement in NPC were as follows:

- Income growth as a result of 2012 new openings and rental growth
- A one-off positive contribution of £1.0 million from our contract with LOCOG during the Olympics
- Cost efficiencies across the operating portfolio
- Offset by increased interest as a result of the larger portfolio.

Our share of total income from the managed portfolio increased from 44% to 46% as a result of the new properties opened in 2012 that have remained on our balance sheet and after reflecting the impact of various asset disposals. We expect to increase our share of total income further in the future as we continue to invest in new developments and retain a greater ownership stake in these assets.

Our NOI margin increased to 71.0% from 69.2% in 2011, as a result of our operating efficiencies in arrears performance, more focussed online marketing spend and a more efficient sales process, and thereby exceeded our target NOI margin of 70% for the full year. We intend to improve our NOI margin to 75% by the end of 2015 through continued focus on operational efficiencies, particularly technology.

**Total NPC (£m)**




We also made some further progress in reducing our key overhead efficiency measure (total operating expenses less management fees as a proportion of UNITE's share of gross property asset value) to 92 basis points from 95 basis points in 2011 and 110 basis points in 2010. Looking forward, we have now set a more ambitious overhead efficiency target of 60 basis points for the year to December 2015 (previously 80 basis points for 2014). The targeted areas of further improvement to achieve this target are the annualised impact of overhead efficiencies already delivered in 2012 and growth in portfolio value as a result of rental growth and development completions in 2014.

The Operations business continues to generate increasing and meaningful cash flow. In 2012 it generated net cash of £17.2 million, up from £13.8 million in 2011 and representing cash conversion from NPC of 90%. The cash conversion ratio is slightly lower than in 2011 due to working capital movements. The operational cash flow therefore covers the interim and declared final dividend of £6.4 million, more than two and a half times.

Finance costs have increased to £48.5 million (2011: £43.7 million) as a result of the increase in the level of borrowing, following project completions.

## Adjusted profit and non-NPC earnings

We also report on Adjusted profit (in line with EPRA guidelines except for minority interest) which includes costs associated with development activities that are incurred prior to securing a contract and a small number of other items. These items are excluded from NPC but included in adjusted profit and EPS.

**Profit**

| | 2012 £m | 2011 £m |
|---|---|---|
| Net portfolio contribution | 19.1 | 11.0 |
| Development pre-contract costs | (2.7) | (3.3) |
| Restructuring, share option and other costs | (0.5) | (3.6) |
| **Adjusted profit (pre-UMS for 2011)** | **15.9** | **4.1** |
| NPC per share | 11.9p | 6.9p |
| Adjusted EPS (pre UMS for 2011) | 9.9p | 2.6p |
| EPS yield | 3.1% | 0.9% |

Our income statement, and the relationship between NPC and adjusted profit, has been simplified following the disposal of UMS in June 2012. It will be simplified further in the coming years as the level of pre-contract development costs reduces as a greater proportion will be incurred through LSAV.

These changes provide much greater visibility of the Group's future earnings and as a result we are able to establish clearer targets for future profitability. Specifically, we are targeting an EPS yield (on opening adjusted NAV) of 4.5% by 2015.

### Portfolio occupancy and reservations

Occupancy across UNITE's portfolio for the 2012/13 academic year stands at 96%, a reduction on the prior academic year when occupancy reached 99%. This drop was largely anticipated and occurred as a result of the various Government policy changes introduced to our sector in 2012. However, even after accounting for the reduced occupancy the portfolio still delivered 3% like-for-like rental growth.

Encouragingly, our portfolio is showing clear signs of recovering to normalised levels of occupancy for 2013/14 as a result of improved University application procedures and increased demand. As at 5 March 2013, reservations across UNITE's portfolio for the 2013/14 academic year stood at 62% of available rooms compared to 59% at the same point in 2012.

The improved reservations level is reflective of improved market conditions but also enhanced operational capability and brand awareness. For example, unique visits to our student website increased by 50% in January 2013, compared to the same month last year, and online bookings are up 16%, following the launch of our re-designed website in December 2012.

### Investment in people, process and technology

We are increasingly building competitive advantage in our sector through a clear focus on our key operational drivers: people, process and technology. Further improvements in each area will help us improve our NOI margin further.

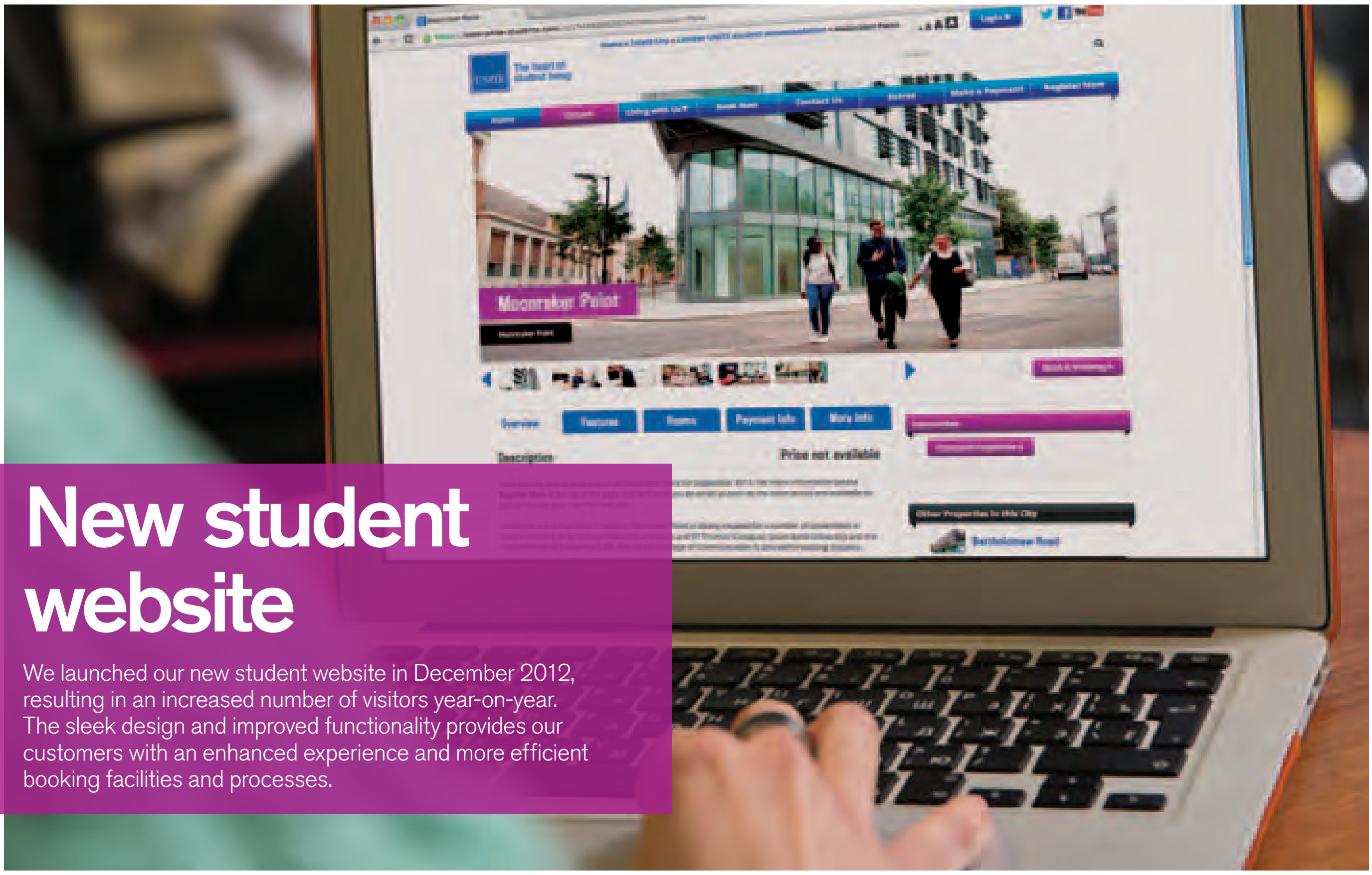
### People

Operational performance throughout the year has benefitted from the completion of the organisational improvements we began in 2011, driving recurring profits through a stronger focus on customer service, with greater empowerment and accountability in our city teams. A key part of this shift was an improved learning and development programme, increasing capacity in our front line teams and providing our employees with clearer sight of career progression opportunities. Our employee satisfaction has continued to improve as a result and we now place in the top decile of service companies benchmarked across Europe.

These changes have also contributed to an improvement in customer satisfaction, and we achieved our best ever scores in both the Spring and Autumn rounds of our survey. These independent surveys provide us with a wealth of valuable information and show a meaningful increase in customer advocacy as well as satisfaction, demonstrating the clear and increasing value of our brand.

### Process

In recent years we have significantly improved the consistency of our operating processes whilst retaining appropriate flexibility at a local level to ensure our approach to customer service remains personal. Clarity of these processes is a crucial pre-cursor to further effective investment in technology, where we have clear plans for 2013.



## New student website

We launched our new student website in December 2012, resulting in an increased number of visitors year-on-year. The sleek design and improved functionality provides our customers with an enhanced experience and more efficient booking facilities and processes.

# Operations review continued

Our successful Olympics contract, under which we housed 3,600 Olympic Association guests for periods of up to eight weeks over July and August, also provided valuable learning opportunities that we have been able to incorporate into our core business. In particular, the establishment of a robust process and supply chain to tackle multiple room turn-arounds will allow us to take a more flexible approach to shorter term tenancies in the coming years.

## Technology

Technology continues to present significant opportunities for businesses and is particularly important for UNITE, as our customer base is typically tech-savvy. This year we have made significant investments in our technology platform to ensure our operations are sustainable and built to last. We have invested in:

- **Student website –** a new and improved booking system as part of a re-launched site
- **Mobile working –** our maintenance and service teams are now using handheld devices to log and respond to maintenance requests and to conduct inspections. This has made these processes more efficient, as well as improving customer service. We will be able to develop these devices to make further process improvements in 2013
- **Wi-Fi –** We have begun a rolling programme to install Wi-Fi across our entire estate and this will be fully operational by the start of the next academic year
- **Energy management –** We piloted LED lighting and energy management systems at a number of our properties during 2012. As a result of these trials a number of energy management initiatives are being rolled out more widely in 2013. These initiatives will reduce both costs and our carbon footprint.

## Customer profile

We continue to provide accommodation for a diverse population of students and seeking to understand the likely future trends in student population make-up is an important part of our philosophy.

For the 2012/13 academic year our customer base was comprised of students who have been placed with us through University agreements, and students coming to UNITE directly, in an almost even 50/50 split. Of the direct let customer base, the charts below show the domicile breakdown and analysis of year of study:

Due to the slight reduction in UK students in the current academic year, and the forecast increases for 2013/14, we expect the proportion of international students within our direct let customer base to reduce slightly next year and return to the trend of the previous five years, which saw a much gentler increase.

For the first time international students residing in UNITE properties represent over 50% of all direct let bookings. The majority of international growth is driven by Asian nationalities; particularly China which now represents 18% of UNITE direct let customers (13% in 2011/12).

We have created an internal Research and Insight Forum to ensure we use our research most effectively for improving performance and building partnerships with Universities. We are already looking at trends in the HE sector and the impact of accommodation on the student experience to improve the value that we offer to students and Universities, and international student mobility to target our marketing efforts more strategically.

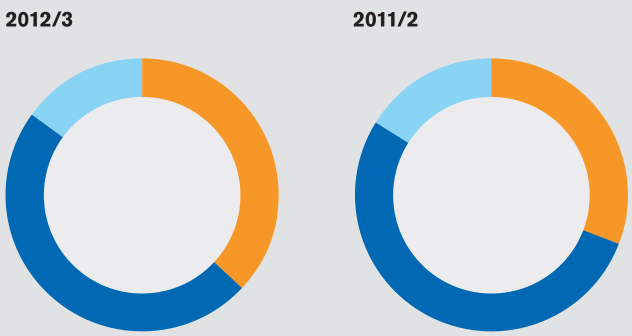
## Operations summary and outlook

Our Operations business continued to improve performance against all key measures in 2012 and is well positioned to build on this in 2013. The annualised impact of our 2012 openings will be fully realised and we will continue our focus on operational efficiencies and cost management, contributing further to generating recurring profits for the business.

Recent policy announcements and the expectation of a smoother applications process for 2013/14 provide further confidence in the level of student demand across the cities in which we operate and together with current reservation levels give us confidence that we will continue to deliver rental growth in line with recent years.

Importantly this is all underpinned by an operationally robust platform – highly motivated and customer-focused staff, efficient and consistent processes, and modern technology – with a proven ability to offer flexibility where required. Alongside our strong brand and University relationships, this will be a continuing source of competitive advantage for the future.

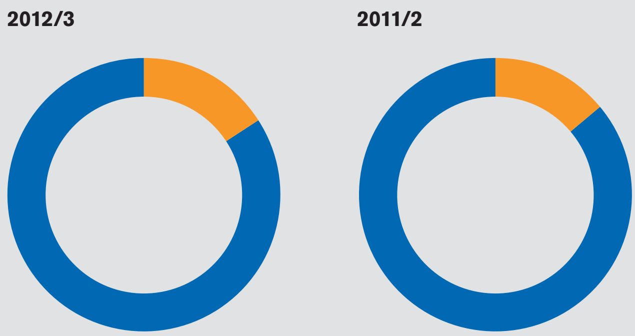
**Direct let break down by domicile**




**Key**

| | 2012/3 | 2011/2 |
|---|---|---|
| Non-EU | 31% | 37% |
| UK | 53% | 48% |
| EU | 16% | 15% |

**Analysis by year of study**




**Key**

| | 2012/3 | 2011/2 |
|---|---|---|
| Postgraduate | 14% | 16% |
| Undergraduate | 86% | 84% |

The heart of student living

UNITE

UNITE Corporate responsibility 2012

# Built to last

**We believe that UNITE should act professionally and responsibly at all times.** This means minimising our environmental impact and providing students with a safe, secure and welcoming home where they and our employees can flourish.


**We work hard to manage and reduce the environmental impact of our operations, particularly focusing on:**

- Reducing energy consumption and carbon emissions
- Reducing water consumption
- Increased levels of recycling both from our students and our corporate offices, and preventing pollution or damage to the local environment
- Openly and transparently reporting our performance via mandatory and voluntary metrics including Carbon Disclosure Project (CDP) and Global Real Estate Sustainability Benchmark (GRESB).

In 2012 we were awarded two prestigious environmental awards, a Business in the Community Award for reducing our carbon footprint and European Sector Leader in GRESB.

We also employed an Energy and Environment Manager to investigate and implement new technical solutions and promote energy efficiency and awareness across our estate. As a result we have piloted LED lighting in several of our buildings and are planning roll out across all of our properties in 2013/14.

We have updated our reporting of our carbon footprint to be in line with the CDP measurement system – a widely recognised international, not-for-profit organisation providing the only global system for companies to measure, disclose, manage and share environmental performance information. This is a more accurate measurement and allows us to track our performance against other companies.

In 2012 our overall gas and electricity usage increased, we believe this can partly be attributed to lower temperatures during the year. We also had a particular peak in our consumption in the summer months as a result of development activity.

With the investment we are making in LED lighting, energy management systems and our sustainability strategy we would expect to see a decrease in our carbon footprint in the future.

| | 2012 | 2011 |
|---|---|---|
| Beds | 41,443 | 40,869 |
| Company car (km) | 633,223 | 884,031 |

## Absolute consumption

| | 2012 | 2011 |
|---|---|---|
| Residential gas (kWh) | 34,141,371 | 31,760,874 |
| Residential electricity (kWh) | 116,609,386 | 114,482,019 |
| Company cars (km) | 633,223 | 884,031 |

## Absolute $CO_2$e emissions

| | 2012 | 2011 | Change 2011-2012 |
|---|---|---|---|
| Residential gas (tonnes) | 6,323 | 5,831 | 8.4% |
| Residential electricity (tonnes) | 56,245 | 55,689 | 1.0% |
| Total residential (tonnes) | 62,569 | 61,520 | 1.7% |
| Company cars (tonnes) | 123 | 181 | (-31.8% ) |

## $CO_2$e emissions per bed or km

| | 2012 | 2011 | Change 2011-2012 |
|---|---|---|---|
| Residential gas (tonnes) | 0.153 | 0.143 | 6.99% |
| Residential electricity (tonnes) | 1.357 | 1.363 | (-0.43%) |
| Total residential (tonnes) | 1.509 | 1.505 | 0.27% |
| Company cars (kg) | 0.195 | 0.205 | (-4.84% ) |

## Olympic donation to London ReUse

As part of our contract with LOCOG to provide 3,600 rooms for the Olympic games we had to equip the flats for guests to use. At the end of the project we donated more than 7,000 items of re-usable bedding, crockery and kitchen utensils to families in need and the homeless. The 80 tonnes of nearly-new goods were collected by the London Re-Use Network (LRN) and distributed to a variety of local charities, for example City YMCA London who used the donated items at its Islington hostel which houses 116 young people at risk of homelessness.

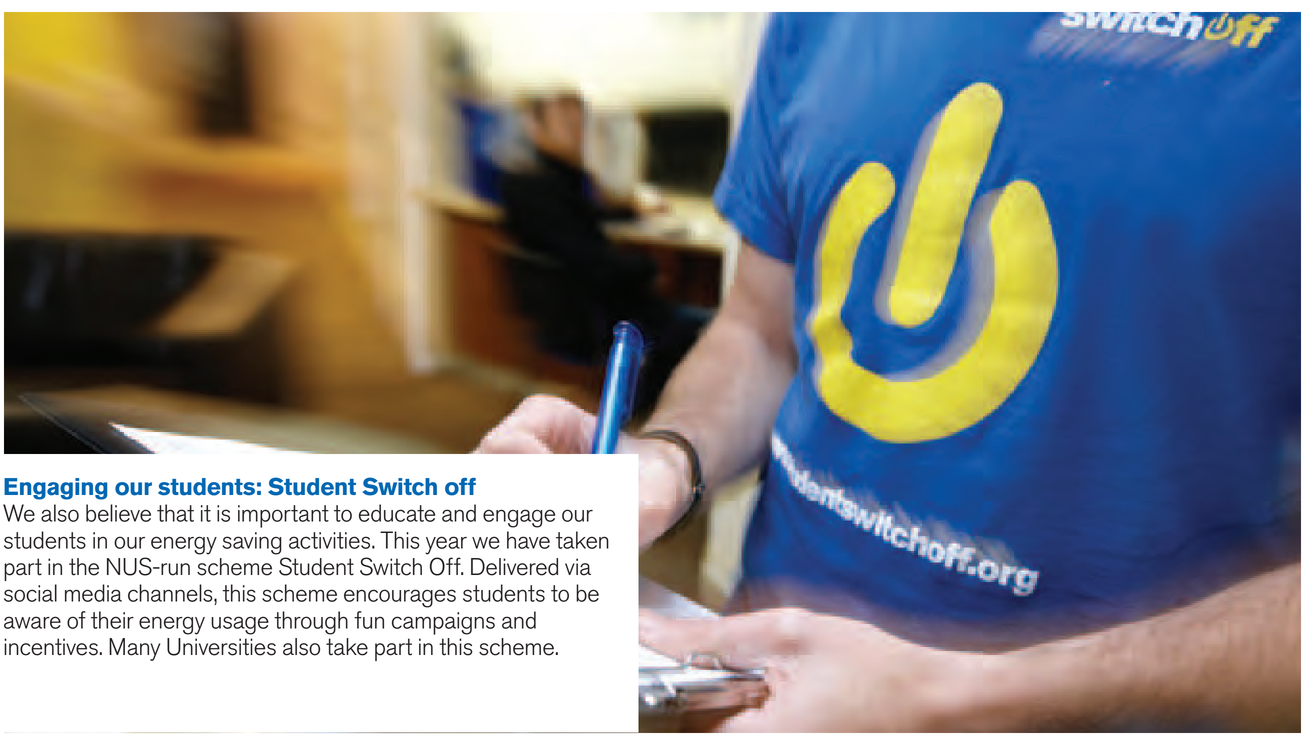
In our other properties across the UK we donated more than £65,000 worth of unwanted student items to British Heart Foundation and Cancer Research generating much needed funds for the charity as well as preventing these items being sent to landfill.

## LED lighting

We have piloted LED lighting in five of our properties, and are now planning to roll out across our estate.

LED lighting is one of the best and most straightforward ways of driving sustainability and reducing carbon emissions:

- LED lighting can be up to 80% more efficient than other forms of lighting
- LED lighting will also increase our productivity as lighting issues account for 30% of all our maintenance requests
- Unlike fluorescent lighting LEDs don't contain hazardous materials.



## Engaging our students: Student Switch off

We also believe that it is important to educate and engage our students in our energy saving activities. This year we have taken part in the NUS-run scheme Student Switch Off. Delivered via social media channels, this scheme encourages students to be aware of their energy usage through fun campaigns and incentives. Many Universities also take part in this scheme.

# Committed to our people

"Our people are the heart of our business, delivering the great service that our business depends on."

**Nicola Yates,** Group Director of HR

### Students

This year we have increased our focus on student welfare. We are developing a standard level of welfare that will be part of our operating manual of core processes, providing a consistent service for our students. We have also recruited a new Head of Health & Safety to help embed our procedures across the business.

In many of our cities we have strengthened relationships with the local student unions and University welfare teams, as well as working with organisations such as Talk to Frank and the Samaritans to signpost our students to the appropriate support and guidance.

### Emergency services

Safety is a top priority at UNITE; we work closely with the local emergency services to promote strong relationships and help raise awareness among students, for example:

- In **Bath** we have a good relationship with the local constable who has provided advice on drugs and vandalism and helps with traffic on check-in days. The team is also in the process of arranging for Avon & Somerset fire service to run fire drills.
- **Sheffield, Liverpool, Exeter** and **Bournemouth** all are using their local fire service to provide briefings or talks for their students on fire safety.
- The security team in **Leeds** works very closely with the local police to target crime against students and even provides training for Community Support Officers.

### Employees

Our people are the heart of our business, delivering the great service that our business depends on. A top priority is therefore the engagement and development of our employees. This year in response to employee feedback we introduced a new framework to align our city structures and provide clearer routes for development and career progression.

Our commitment to our employees is reflected in our Silver Investors in People and Britain's Top Employer accreditations, as well as our employee satisfaction score – which puts us in the top ten percent of companies in the European service sector.

### Working in partnership with Higher Education

Our aim is to be a genuine partner to Higher Education institutions, adding value to their distinctive student experience through high quality and innovatively managed accommodation.

In 2012 we recruited a Head of Higher Education Engagement to help us better understand the sector's needs and build lasting relationships. She has also worked with our teams to create local engagement plans. We have also just formed a University Partnerships Team who are responsible for developing our long term strategic partnerships with Universities.

We draw on the best available research on accommodation and the student experience, as well as commissioning our own, in order to understand the impact that accommodation can have on the student experience and how to optimise this. Using this research, we have piloted and evaluated a number of accommodation management initiatives, including improving our product specification and promoting employability skills among our students.

### Student Experience Research

To help us understand and meet the expectations of students in light of increased tuition fees we surveyed over 1,200 prospective students on their expectations of their ideal student experience. We were able to share this research with our partners. We will repeat this research in 2013.

# Supporting our communities

Our ambition is to have a positive impact on the communities in which we operate. We have strong relationships with a number of community partners including:

- Residents committees – Our **Bournemouth** and **Edinburgh** teams have both set up regular forums attended by emergency services, local businesses, residents and staff, to discuss how to integrate our students with the local community.
- Local charities – We offer our employees a charity match scheme in which up to £250 is paid to the individual's charity of choice to match the amount they raise. In 2012 we contributed £8,578 (2011: £5,848) in matched donations to charities across the UK.
- Schools – In **Reading** our team invited a neighbouring primary school to tour one of our properties to understand more about going to University and what it means to be a student.
- Local businesses – In all our cities we encourage our students to use local businesses. In **Glasgow** we are holding an event at our Kelvin Court property for businesses in the West End, an area where we have recently established a presence, to promote their services directly to students.
- Local authorities – In **Exeter** the team improved the relationship with the local council by asking their residents to 'opt-in' to a recycling scheme, encouraging 100% compliance from our residents.

### Trenchard Street development contribution to local community

As part of all our development schemes we try to contribute to improving and regenerating the local area. In 2012 we secured planning consent for a 442 bedroom student home on Trenchard Street in Bristol.

The new scheme will contribute to the regeneration of the area, by providing over £300,000 of enhancements including improvements to the O2 entrance, a café in the front of the facade and bicycle parking facilities. As part of the scheme UNITE will also contribute £570,000 to the council to be spent in the local area.

In addition to our donation we are looking to provide some public artwork to be located in the area between the site and Trenchard Street car park further enhancing the area not just for our students but for local residents too.

## London research

**70%** of London residents think our students can make a positive impact on their local area

**53%** of students are looking for opportunities to volunteer

**31%** have done so already


Local choir perform to guests at North Lodge.

### North Lodge – Bringing people together

Our Emily Bowes Court and North Lodge properties have played a significant role in the regeneration of Tottenham Hale. This is not only through bringing 1,220 students to the area with their associated spending power but they are also increasing their positive impact on the local community by partnering with charities to provide volunteering opportunities.

In July 2012 we celebrated the opening of North Lodge, one year after the London riots which began in Tottenham. The event was themed around the regeneration of Tottenham Hale and the benefits students bring to communities. This event brought together members of the local community including the metropolitan police, the nearby IntoUniversity centre, the leaders of a volunteering network that represents over 200 local community groups, the local Councillor for social inclusion and economic development, and a community choir.

As a result of the event we forged strong relationships with the local community partners. Subsequently the Councillor and the property team held another event for our students raising awareness of local businesses and charities. The community groups in attendance had not met previously and found the event to be a great opportunity for forming new connections and for accessing a group of potential volunteers – our students.


MP Siobhain McDonagh and Matthew Baird, a former Scheme intern, officially open Moonraker Point.

### Speaker's Parliamentary Placement Scheme

As part of our ambition to promote employability we signed up to the Social Mobility Business Compact. This year in partnership with King's College London we supported ten political interns with reduced cost accommodation at our Moonraker property to support with bringing individuals from diverse backgrounds into politics.

# The UNITE Foundation

"We believe that University should be an attainable goal for every young person regardless of their background, social class or wealth, and that the private sector has an important role to play in enabling this."

**Paul Harris,** Chair of The UNITE Foundation

## The UNITE Foundation

In 2012 we launched our own charitable trust – the UNITE Foundation – to support widening access to University for students from disadvantaged backgrounds, integrating students and communities and promoting employability.

In 2012 we donated £200,000 to The UNITE Foundation. The majority of this cost is our bursary scheme, with the rest accounted by the donations below.

Through the Foundation we support three organisations with sizeable donations and partnership work:

- IntoUniversity: This charity provides local learning centres where young people from Britain's poorest backgrounds are inspired to gain the skills which will help them to attain either a University place or another chosen aspiration. We donated £50,000 to this charity
- Enactus: A global non-profit organisation that works with business and Higher Education leaders to mobilise students around the world to make a sustainable difference to their communities while developing the skills they need to become socially responsible business leaders. We donated £18,000 to this organisation (2011: £15,000)
- Land Aid: This property charity uses the collective resources, expertise and influence of the property industry to help the young and disadvantaged in the UK access the buildings, skills and opportunities they need to achieve their potential. We donated £10,000 to Land Aid.

As well as our financial donations we also make donations in-kind of time and resource, for example many of our Area Managers act as business mentors for local Enactus teams, our HR Director is on the Board of Trustees for Enactus, and our students and staff have volunteered at IntoUniversity learning centres.

The major activity of the Foundation is our bursary scheme. The bursaries consist of up to £4,000 towards living expenses and free accommodation for every year of study. In 2012 working in partnership with four Universities we awarded 21 bursary places; this year we have formed two new partnerships and extended the number of bursaries to 50. Many of these students are care leavers – the most under-represented group in UK Higher Education.

The Foundation is run by elected Trustees – including four members of UNITE staff and an external trustee – Professor Stuart Billingham, a former Pro-Vice Chancellor at York St John University. Stuart has worked in the Higher Education sector for more than 30 years, focusing particularly on widening access. He is currently Co-Director of the European Access Network (EAN) World Congress on Access to Post-Secondary Education: Connecting the Unconnected.

In 2013 we will increase our donation to £500,000, and we plan to grow this to £1 million a year within five years, as well as seeking to further the reach of our activities through donations from third parties.

Students support primary school children at IntoUniversity learning centres.

"Without UNITE I would not have been able to afford University."

**Lucy,** University of Edinburgh

## Our Bursary recipients

**Lucy**

Lucy comes from a traditional coal and steel community in Yorkshire, where she was educated at the local Community School, a school not renowned for academic achievement. The opportunity of a University education inspired her to work hard and achieve her goal of getting the required grades (A*AAB) and gaining a place through the College of Science & Engineering at the University of Edinburgh.

"Coming from a family without a tradition in academic study I understand the importance and potential life changing opportunities on offer at Edinburgh. I have younger siblings and hope my academic effort inspires them to achieve their full potential.

"The UNITE Accommodation & Access Bursary offers me the opportunity of achieving my full potential and I appreciate the extra support it offers to students in financial need."

Many of our students have come from diverse and troubled backgrounds. One of our students, a former asylum seeker said:

"In the future I also hope to legally become my sister's guardian and believe this bursary would help me in achieving this sooner by financially sustaining me throughout my studies."

## Partnership with IntoUniversity

Dr Hugh Rayment-Pickard, Director of Development and External Affairs at IntoUniversity said:

"We live by our funding and those who fund our work over the longer term are particularly valuable to us. There is a natural fit between IntoUniversity and UNITE – we are both working for the benefit of students – and through their investment they are expressing in a tangible way a commitment to supporting more young people from poor backgrounds in their aspiration to reach University. Our research shows that young people who do go to University are more likely to have a professional career, less likely to be unemployed, and are more likely to have children that go to University. We are really appreciative of the funding."

"Our vision is to have a positive impact on the communities in which we operate."

## CR overview

**Caring for the environment**

- ✓ Recognised as the European sector leader for residential real estate in the 2012 Global Real Estate Sustainability Benchmark (GRESB)
- ✓ Awarded a carbon reduction award by Business in the Community for encouraging behavioural change in our customers through initiatives such as Student Switch Off
- ✓ Piloted LED lighting in five of our properties – plan to roll out to whole estate
- ✓ Donated more than 7,000 items of bedding to London charities and £65,000 worth of unwanted goods to British Heart Foundation and Cancer Research preventing it ending up as landfill.

**Committed to our people**

- ✓ Piloted welfare initiatives and developed standard to be rolled out to all properties
- ✓ Improved our learning and development programmes to provide more opportunities for career progression
- ✓ Awarded Investors in People Silver status and listed as one of Britain's Top Employers
- ✓ Recruited a new Head of Higher Engagement and created a University Partnerships Team
- ✓ Published Student Experience research and shared with our partners.

**Supporting our communities**

- ✓ Launched The UNITE Foundation and invested £200,000 in supporting widening participation to University and integrating students and communities
- ✓ Awarded 21 students from disadvantaged backgrounds bursaries and free accommodation making University a feasible option
- ✓ Provided reduced price rooms for five political interns bringing individuals from diverse backgrounds into politics
- ✓ Worked with local organisations and partners to integrate our students with their communities including encouraging them to volunteer
- ✓ Match funded over £8,500 of donations to employees' favourite charities
- ✓ Committed to supporting the regeneration of our communities through contributing to local schemes as part of our new developments.


# Retail bond launch

In December we issued £90 million Sterling Bonds due in 2020. The proceeds will be used to repay secured borrowings and reduce the Group's overall cost of debt. The extremely positive response from investors demonstrates the appeal of UNITE and its consistent income streams which provide stable returns, as well as providing access to a new source of finance.

# Going wireless

Our research has shown that Wi-Fi is now the most important factor for students in choosing accommodation. We are rolling out Wi-Fi across all UNITE properties providing our students with internet not only in their rooms but also in communal and social areas.

# Property review

## NAV growth

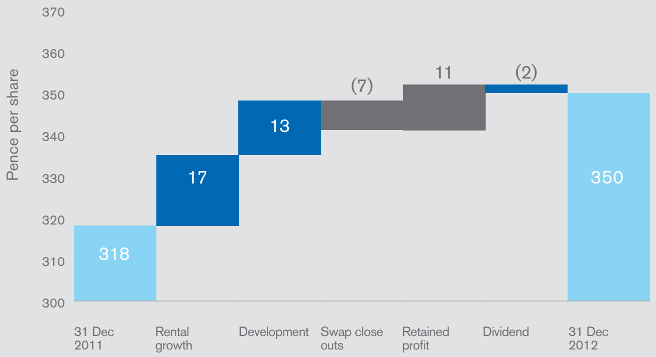
Adjusted NAV increased by 10% to £567 million or 350 pence per share (on a fully diluted basis) at 31 December 2012, up from £514 million or 318 pence per share at 31 December 2011. Reported NAV, which includes the impact of mark to market adjustments on interest rate swaps and some properties at cost was £516 million (321 pence per share) at 31 December 2012 (2011: £388 million, 242 pence per share).

The main factors behind the 32 pence per share growth in adjusted net asset value per share were:

- The growth in the value of the Group's share of assets as a result of 3% rental growth (17 pps)
- The value added to the development portfolio after pre-contract costs (13 pps)
- The positive impact of retained profits (11 pps)
- Swap close-outs (-7 pps)
- Dividends paid (-2 pps).

Looking forward, our portfolio is well placed to deliver further growth. Our focus on the strongest University locations underpins rental growth prospects and we will continue to deliver meaningful upside from our development activity. We have three committed development projects that are expected to deliver a further 19 pence per share of NAV uplift by 2015 and have made good progress securing further developments through our LSAV joint venture.

**Adjusted NAV bridge**




## Property portfolio

The valuation of our property portfolio at 31 December 2012, including our share of gross assets held in USAF and joint ventures was £1,245 million (31 December 2011: £1,206 million). The £39 million increase in portfolio value was attributable to £111 million of capital expenditure (£82 million on developments and £29 million on the acquisition of USV) less disposals (£129 million on a see-through basis) and £58 million of valuation increases (£32 million on the investment portfolio and £26 million on the development portfolio). The valuation of the investment portfolio has increased by 3% on a like-for-like basis, reflecting rental growth. Average yields were stable at 6.6%.

The proportion of our property portfolio that is income generating increased to 93% during 2012, with 7% under development (2011: 84% and 16% respectively). This shift reflects the completion of our 2012 development programme during the year and our decision to defer the commencement of our next phase of development activity by a year. The development proportion of our portfolio will increase to approximately 15% during 2013 as we progress activity on our 2014 and 2015 development programmes.

Our operational portfolio remains well diversified geographically, particularly our USAF portfolio, although London remains our primary target market. 45% of our capital was invested in London assets at December 2012 and this should exceed 50% as our committed development pipeline is built out.

| Summary balance sheet | | | 2012 | | | 2011 |
|---|---|---|---|---|---|---|
| | UNITE £m | Share of JVs £m | Total £m | UNITE £m | Share of JVs £m | Total £m |
| Rental properties | 763 | 399 | **1,162** | 617 | 400 | 1,017 |
| Development properties | 83 | – | **83** | 189 | – | 189 |
| | **846** | **399** | **1,245** | **806** | **400** | **1,206** |
| Net debt | (453) | (195) | **(648)** | (434) | (212) | (646) |
| Other assets/liabilities | (23) | (7) | **(30)** | (40) | (6) | (46) |
| **Adjusted net assets** | **370** | **197** | **567** | **332** | **182** | **514** |
| **LTV** | 53% | 49% | **52%** | 54% | 53% | 54% |

A split of rental properties by ownership can be seen in the table below:

**UNITE portfolio analysis at 31 December 2012**

| | | USAF | UCC | LSAV | OCB | Wholly owned | Lease | Total | UNITE |
|---|---|---|---|---|---|---|---|---|---|
| London | Value (£m) | 188 | 347 | 50 | 175 | 274 | – | **1,034** | **477** |
| | Beds | 1,425 | 2,268 | 528 | 1,128 | 2,010 | 324 | **7,683** | **41%** |
| | | | | | | | | | |
| Major provincial | Value (£m) | 917 | 34 | – | – | 329 | – | **1,280** | **490** |
| | Beds | 16,525 | 333 | – | – | 5,817 | 2,147 | **24,822** | **42%** |
| | | | | | | | | | |
| Provincial | Value (£m) | 215 | – | – | – | 160 | – | **375** | **195** |
| | Beds | 3,885 | – | – | – | 3,268 | 1,785 | **8,938** | **17%** |
| | | | | | | | | | |
| **Total** | **Value (£m)** | **1,320** | **381** | **50** | **175** | **763** | **–** | **2,689** | **1,162** |
| | Beds | 21,835 | 2,601 | 528 | 1,128 | 11,095 | 4,256 | **41,443** | **100%** |
| | | | | | | | | | |
| UNITE ownership share | | 16% | 30% | 50% | 25% | 100% | 100% | – | **–** |
| UNITE ownership (£m) | | 216 | 114 | 25 | 44 | 763 | – | **1,162** | **–** |

Our holdings in USAF and our UCC and LSAV joint ventures with GIC remain core investments as they provide us with our desired portfolio balance as well as attractive returns on capital and recurring fee revenues. We will review our holding in the OCB joint venture during 2013 in tandem with OCB's planned exit from the vehicle but intend to retain our stake and management role provided that an appropriate alternative vehicle can be established. Approximately 90% of our wholly owned portfolio is considered core (2011: 82%) and we will continue our non-core asset disposal programme during 2013.

### Student accommodation yields

Investment activity in the student accommodation sector increased significantly in 2012. According to CBRE, a record £2.7 billion was transacted, representing a 125% increase on 2011 and demonstrating the growing attraction of the student accommodation market to UK and overseas investors. The sector continues to generate strong returns relative to other asset classes with yields generally ranging between 6% and 7% and rental growth of approximately 3% per annum.

## Property review continued

The average net yield across The UNITE portfolio was 6.6% at 31 December 2012 and has remained stable for the past three years. The following graph below compares the yields on UNITE's completed portfolio and the Investment Property Databank (IPD) All Property Yield over the past eight years and demonstrates the relative stability of UNITE's yields during a period of considerable volatility in the wider real estate sector.

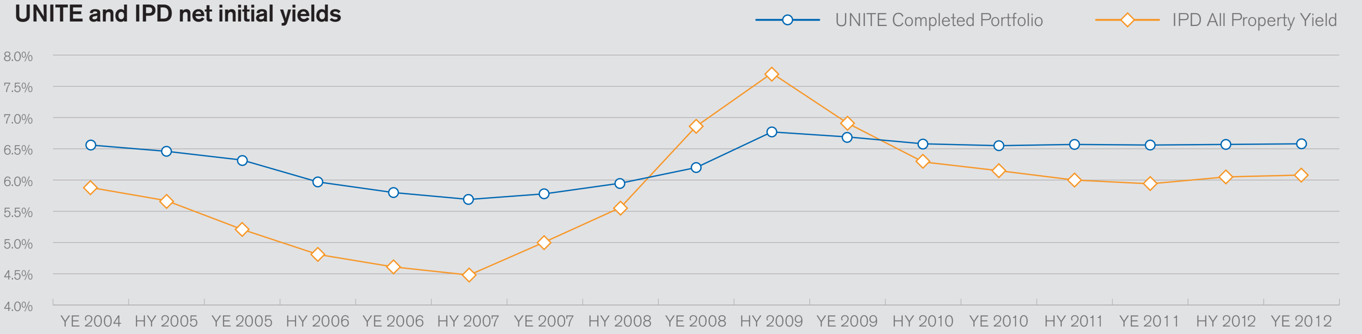
While average yields have remained broadly flat, this masks continued changes at a city level. The range of yields within our portfolio widened during 2012 to 200 basis points (2011: 175 basis points) from 5.35% for good quality leased assets to 7.35% for direct let assets in locations perceived as secondary. As liquidity in the student accommodation market continues to improve and the relative merits of different Universities become better understood by the market, we expect yield differentiation to continue. However, in overall terms we expect our average portfolio yield to remain stable in the year ahead.

### Rental growth

Rental growth for 2012 was 3% on a like-for-like basis and this has flowed through into asset values. A clear feature of the market has been increasing differentiation between different parts of the market in terms of rental growth performance and prospects.

Outside London, actual and prospective growth has been strong in Scotland, where the fee regime is more favourable, and in a number of English cities where the combination of stronger Universities and a robust local economy has provided support. For example, performance in Bristol, Liverpool, Plymouth, Huddersfield, Newcastle and Coventry has been encouraging, while rental performance in Leeds, Manchester, Sheffield and Birmingham was weaker, although we expect much of this weakness to be temporary as a result of Government policy changes.

**UNITE and IPD net initial yields**




In London the market is clearly segregated into three categories, largely defined by price point and location. Performance in our central London portfolio, where new supply is very limited and demand remains high and relatively price inelastic, has been strong. Similarly we believe rental growth prospects in more affordable locations, where the supply shortage is most acute and our development is focused, are also very good. In Zone 2 locations we have seen a lot of new supply enter the market and some rents in this part of the market have come under pressure as a result.

| Indicative yields | 2012 | | 2011 | |
|---|---|---|---|---|
| | Direct let | University guaranteed | Direct let | University guaranteed |
| London | 6.0-6.25% | 5.35-5.6% | 6.0-6.25% | 5.5-5.75% |
| Major provincial | 6.5-7.0% | 5.85-6.1% | 6.5-7.0% | 6.0-6.25% |
| Provincial | 7.1-7.35% | 6.35-6.6% | 7.0-7.25% | 6.5-6.75% |

As a result of our proactive portfolio management in recent years we believe our portfolio is well positioned from a rental growth perspective.

For 2013, based on 62% reservations as at 5 March, we expect rental growth to be in line with recent years.

### Development activity

#### Balance sheet development

We completed our £209 million 2012 development pipeline of four high-quality properties, all achieved on time and within budget. Positive market conditions meant that a number of cost savings were made through the supply chain, which enhanced development profits. These properties have generated attractive returns with average occupancy at 98%, an average NOI yield on cost of 9.3% and an average profit on cost of 42%. Two of these properties were sold

## Built out portfolio breakdown (see through basis)

| | Investment £m | Development £m | Total £m | Dev pipeline £m | Built out £m | Total % | Built out % |
|---|---|---|---|---|---|---|---|
| Central London | 270 | 38 | 308 | 44 | 352 | 25% | 24% |
| Zone 2 London | 81 | – | 81 | – | 81 | 7% | 6% |
| Affordable London | 126 | 39 | 165 | 125 | 290 | 13% | 20% |
| **London** | **477** | **77** | **554** | **169** | **723** | **45%** | **50%** |
| Regions | 685 | 6 | 691 | 26 | 717 | 55% | 50% |
| | **1,162** | **83** | **1,245** | **195** | **1,440** | **100%** | **100%** |

to co-investment vehicles for a combined £77 million, North Lodge in Tottenham Hale to LSAV and Kelvin Court in Glasgow to USAF, thereby realising approximately one third of 2012 development profit.

We have no completions planned for 2013 but good progress is being made on our three committed development projects, all of which are being funded on the balance sheet:

- **Stratford 1 –** A 951 bed development adjacent to the Olympic Park providing budget accommodation in a high quality location is scheduled to open in summer 2014. This property is intended to cater for students seeking more affordable accommodation and has been sold to LSAV on a forward commitment basis
- **St Pancras Way –** A 563 bed project located to the north of King's Cross regeneration zone, close to the Royal Veterinary College and is scheduled for 2014 completion. This project, which will provide Zone 1 accommodation at very competitive rents, will be retained on balance sheet upon completion
- **Trenchard Street, Bristol –** The redevelopment of a commercial property, which we have owned for the past ten years, into a 442 bedroom student residence. Bristol represents a strong market for UNITE with 98% occupancy and nominations agreements with both Universities. Construction will begin in summer 2013, with delivery planned for the 2015 academic year.

Together with UNITE's share of the LSAV development pipeline, these projects are expected to generate 19 pence per share of future NAV uplift by 2015, equivalent to 5% of adjusted NAV as at December 2012.

### LSAV development

Our London development pipeline for the next three years will all be delivered through LSAV, our 50:50 joint venture with GIC RE which was established in September 2012. The Joint Venture will seek to commit £330 million to new developments over that period, allowing us to accelerate our development in the capital, and take advantage of the current positive market conditions.

Since establishing the joint venture we have made good progress, securing one attractive development opportunity and establishing an exclusive position on a second.

## 2012 developments

| | Beds | Occupancy % | GAV £m | TDC £m | NAV uplift £m | Profit on cost % | Yield % | Weekly cluster rent £ |
|---|---|---|---|---|---|---|---|---|
| **London** | | | | | | | | |
| Wellington Lodge | 146 | 100% | 22 | 15 | 7 | 47% | 9.5% | 225 |
| Moonraker Point | 674 | 100% | 110 | 76 | 34 | 45% | 9.0% | 205 |
| North Lodge | 528 | 97% | 46 | 30 | 16 | 53% | 11.2% | 158 |
| | **1,348** | **99%** | **178** | **121** | **57** | **47%** | **9.9%** | |
| **Regions** | | | | | | | | |
| Kelvin Court, Glasgow | 477 | 98% | 31 | 26 | 5 | 19% | 8.0% | 108 |
| **Total** | **1,825** | **98%** | **209** | **147** | **62** | **42%** | **9.3%** | **–** |

## Development pipeline

| | | 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 % |
|---|---|---|---|---|---|---|---|---|
| **Wholly owned** | | | | | | | | |
| **2014** | | | | | | | | |
| Stratford | London | 951 | 83 | 62 | 6 | 43 | 6 | 9.1 |
| Camden | London | 563 | 82 | 59 | 30 | 27 | 12 | 9.5 |
| **2015** | | | | | | | | |
| Trenchard Street | Bristol | 442 | 32 | 22 | – | 22 | 4 | 10.4 |
| **Total wholly owned** | | **1,956** | **197** | **143** | **36** | **92** | **22** | **9.4** |
| **LSAV** | | | | | | | | |
| **2015** | | | | | | | | |
| Stratford | London | 759 | 81 | 62 | – | 62 | 19 | 9.1 |
| **Total LSAV** | | **759** | **81** | **62** | **–** | **62** | **19** | **9.1** |
| LSAV – UNITE share | | 380 | 40 | 31 | – | 31 | 9 | 9.1 |
| **Total Pipeline (UNITE Share)** | | | **237** | **174** | **36** | **123** | **31** | **9.3** |

Our secured scheme is Angel Lane, Stratford. This 759 bed property will be the first LSAV development project. Stratford represents an excellent location for UNITE due to its strong University presence, including the new £1 billion UCL campus that has recently been announced, and strong transport links. The Borough has an aspiration to be an education hub and UNITE will be the first accommodation to market with its two major schemes. This accommodation will be at a lower price point, catering to considerable unmet demand from students.

Our exclusive position relates to a large affordable development in a strong Zone 2 location. If secured, it will provide 950 beds at a very competitive rent level.

Taken together, these projects would account for approximately 40% of LSAV's target development pipeline and both projects are expected to achieve our target return hurdle of 9% yield on cost.

### Future development activity

There are continuing signs that the London planning environment is becoming more restrictive and with the debt markets for development finance remaining constrained by a lack of capacity, we are continuing to see opportunities to secure off market sites in London at or above our target of 9% yield on cost for the time being. We expect to have fully secured the planned LSAV development pipeline, subject to planning, by mid-2014 and will review the prospects for further London development activity at that time. However, our current view is that London development returns will begin to decline marginally from 2014 onwards as economic conditions improve.

Outside of London and LSAV, we are beginning to explore a number of interesting development opportunities in strong University locations. The outlook and return prospects for these particular markets is encouraging and it is likely that we will commit to non-London developments on a small scale over the next couple of years. These developments will be undertaken on balance sheet and capital expenditure on such projects is unlikely to exceed £30 million per annum. Taken together with UNITE's share of likely LSAV development (approximately £65 million per year) we plan to commit £90 million to £100 million to development activity each year provided that conditions remain favourable and returns compelling.

| Asset disposals | 2012 | | 2011 | |
|---|---|---|---|---|
| **Open market transactions** | **Proceeds £m** | **Book value* £m** | **Proceeds £m** | **Book value* £m** |
| **Completed / exchanged** | | | | |
| Wholly owned | 71 | 73 | 7 | 6 |
| USAF | 21 | 21 | – | – |
| UCC | 21 | 19 | 8 | 7 |
| **Total** | **113** | **113** | **15** | **13** |
| **Asset sales to JV Partners** | | | | |
| Completed / exchanged | | | | |
| Wholly owned | 77 | 77 | – | – |
| **Total** | **190** | **190** | **15** | **13** |
| **Average yield** | **6.4%** | **6.4%** | **6.4%** | **6.4%** |

* As reflected in adjusted NAV.

## Asset disposals

We successfully achieved our non-core asset disposal target in 2012. £71 million of wholly owned assets were sold into the open market during the year together with £42 million owned by co-investment vehicles. In addition £77 million core assets were sold by UNITE to co-investment vehicles. The disposal proceeds generated, which were in line with book value, were used to repay borrowing and fund some new development.

In 2013 we plan some further non-core asset sales, both from our balance sheet and co-investment vehicles, as part of our on-going portfolio quality objectives. We are targeting disposals of approximately £100 million by December 2013, of which £50 to £75 million are likely to be from our wholly-owned portfolio. A particular focus will be our legacy NHS accommodation in East London, valued at approximately £25 million.

## Asset management

During 2012 we completed three significant refurbishments at properties in Manchester, Plymouth and Sheffield, with our share of capital expenditure amounting to £1 million. We also invested a further £5 million (UNITE share) in more minor improvements across the rest of the estate. The Manchester refurbishment was of particular note, as we successfully received change of use permission for our vacant commercial space, thereby adding 58 rooms to the property.

By upgrading some of our older assets, we were able to enhance our customer experience along with delivering valuation growth as a result of increased rent levels following refurbishment. In 2012 our share of valuation uplift was £5 million, net of capital expenditure. This type of activity will be a continuing feature of our approach to asset management in the coming years.

## Property summary and outlook

Our disciplined approach to portfolio management in recent years underpinned strong results for 2012. Our disposal programme helped us improve portfolio quality and reduce leverage and our selective development programme delivered very attractive returns while also enhancing portfolio quality.

Our focus for 2013 and beyond will be developing new properties in London through LSAV, as well as exploring a small number of potential opportunities that are highly accretive elsewhere. Our disposal activity will improve our portfolio quality further, while also providing us with the means to pursue development and modestly reduce leverage.

# Financial review

## Income statement

NPC and Adjusted Earnings are the key measures for the underlying performance of the Group. The details of this performance are set out in the Operations Review section of this report. The following table shows the further elements that are included within the International Financial Reporting Standards profit before tax measure.

**Income statement**

| | 2012 £m | 2011 £m |
|---|---|---|
| Net portfolio contribution | 19.1 | 11.0 |
| Adjusted profit (pre-UMS for 2011) | 15.9 | 4.1 |
| UMS trading and closure costs (in 2011) | – | (21.0) |
| Valuation gains and profit/loss on disposal | 58.0 | 19.7 |
| Impact of reclassifying stock properties to investment assets | 49.7 | – |
| Changes in valuation of interest rate swaps | 0.8 | – |
| Minority interest and tax adjustments | 1.8 | 1.9 |
| **Profit before tax** | **126.2** | **4.7** |
| NPC per share | 11.9p | 6.9p |
| Adjusted earnings per share | 9.9p | 2.6p |

During the year, £313 million of assets were transferred from current assets to investment assets reflecting the Group's shift in strategy to hold and retain a greater proportion of its assets on balance sheet, supported by the longer term funding arrangements that were put in place in the year. This has resulted in a one-off profit before tax and reported net assets gain of £50 million. Adjusted profit and Adjusted NAV are not affected by this change.

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

The Group has built up a significant amount of brought forward tax losses and capital allowances, primarily as a result of the high volume of development activity it has undertaken over the last ten years. This deferred tax asset of £22 million is not recognised in the Group's balance sheet due to uncertainty of future profits. Brought forward losses and allowances may be used against future taxable profits as they arise depending on meeting certain conditions.

## Cash flow and net debt

The Operations business has generated £17.2 million of net cash in 2012 (2011: £13.8 million). Cash flow generation is a key objective for the Group and Operations cash is expected to grow in line with NPC in 2013 after a favourable working capital benefit in 2011. At the Group level, our overall cash position increased by £59 million primarily as a result of the proceeds from our retail bond issue (after de-gearing £30 million of other facilities) and see through net debt remained stable at £648 million (31 December 2011: £646 million). The key components of the movement in net debt were the disposal programme (generating proceeds of £129 million on a see through basis) offset by total capital expenditure of £121 million.

## Dividend

We are recommending a final dividend payment of 3.0 pence per share, making 4.0 pence for the full year, a 2.25 pence per share increase on 2011 (2011: 1.75 pence). The increased dividend is a result of strong earnings growth and an increased pay-out ratio, now equivalent to one third of NPC. At this level the dividend is cash covered 2.7 times. Looking forward we intend to retain dividend cover at this level such that the dividend will grow in line with profits but the pay-out ratio will not increase. This will remain the case while we consider there to be attractive opportunities to invest in the business, for example through accretive development activity.

Subject to approval at UNITE's Annual General Meeting on 16 May 2013, the recommended final dividend will be paid on 20 May 2013 to shareholders on the register at close of business on 19 April 2013.

## Debt financing

Throughout 2012 we maintained our focus on controlling gearing levels, extending debt maturities and reducing financing costs and had some important successes. These objectives will remain a priority in 2013.

**Key debt statistics**

| | 31 Dec 2012 | 31 Dec 2011 |
|---|---|---|
| See through net debt | £648m | £646m |
| Adjusted gearing | 80% | 84% |
| See through LTV | 52% | 54% |
| Weighted average debt maturity | 4.9 years | 2.6 years |
| Weighted average cost of debt | 5.5% | 5.7% |
| Proportion of investment debt hedged | 88% | 69% |

The Group's see through LTV reduced to 52% at 31 December 2012 from 54% at the end of 2011 and adjusted gearing decreased to 80% from 84% over the same period. We will continue to manage our gearing proactively and are targeting a see through LTV of 50% by the end of 2013.

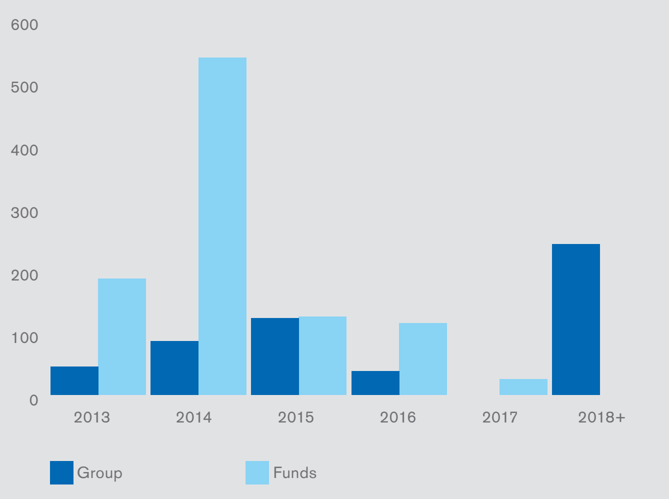
We also had some significant successes with arranging new debt facilities, particularly from non-bank sources. In May we announced a new ten-year £120 million senior debt facility with Legal and General, their first real estate financing facility. We also successfully issued our first unsecured retail bond which was over-subscribed and generated £90 million of proceeds. Including these two new sources of funding, the Group has raised a total of £272 million of new debt finance for the wholly owned balance sheet and a further £55 million for joint ventures.

### New debt facilities
The arrangement of non-bank debt facilities has been an important strategic development. The Legal & General facility and the retail bond allowed us to secure longer term finance than is available in banking markets and use the proceeds to fund assets we consider to be core long term investments.

Our main priority in 2013 relates to the refinancing of debt facilities in USAF, UCC and OCB that mature within the next 12 to 24 months and we are continuing to work closely with banks, insurers and arrangers in the capital markets to ensure that the facilities are in place as required.

As a result of the new facilities our weighted average loan maturity has been extended to 4.9 years (2011: 2.6 years) and the proportion of non-bank debt facilities has increased to 43% on a see through basis (2011: 26%).

**Debt maturity**




At 31 December, we had £30 million of cash being used to pay down revolving facilities that can be redrawn. Taken together with other cash balances, this provides an effective cash balance of £105 million.

### Covenant headroom
We are in full compliance with all of our borrowing covenants at 31 December 2012. Our debt facilities include loan-to-value (LTV) and interest cover covenants that are measured at the portfolio level and we have maintained significant headroom against both measures. The weighted LTV across facilities of 35% against a weighted covenant of 70%, provides headroom for property against values to fall by over 45% before a breach would occur (using surplus cash to pay down facilities). The interest cover ratio is 2.6 times against the covenant level of 1.4 times, again providing significant headroom.

### Interest rate hedging arrangements and cost of debt
The Group has increased the proportion of debt that has a fixed interest rate to 88% (2011: 69%) following the completion of the L&G re-financing and the retail bond. The Group has cancelled certain interest rate swaps in the year as part of its refinancing activity, resulting in a charge of £10.4 million (2011: £0.5 million). It is anticipated that further break costs will be incurred in 2013 as the Group completes its re-financing programme, although these should be at a slightly lower level.

Our see-through cost of debt has reduced to 5.5% (2011: 5.7%) as a result of the refinancing activity. Further reductions in the cost of debt are anticipated as a result of the planned refinancing activity, and as expensive interest rate swaps expire. The recently arranged unsecured retail bond will assist in this objective, as it will enable us to reduce the amount of senior secured debt in the business. We expect this to translate into lower borrowing costs on such facilities and consequently reduce our average cost of debt over time.

### Funds and joint ventures
UNITE acts as co-investing manager of four specialist student accommodation vehicles that we have established, as outlined in the table overleaf.

### UNITE UK Student Accommodation Fund (USAF)
USAF has delivered a very strong performance in 2012 with a total return for the year, including the payment of income distributions, of 14.2%. Consequently USAF was placed as the top performing fund on the IPD PPFI specialist fund index over the last five years. In the 12 months to 31 December 2012, the value of the property portfolio held by the Fund increased by 3%, on a like-for-like basis, driven principally by rental growth.

Progress has been made on the recovery of the Landsbanki deposit placed with the bank in 2008. During 2012 the Fund received a total of £14.2 million of cash from Landsbanki, representing 47.5% of the original deposit and adding 2.3% to the annual total return of the Fund. The Resolution Committee continues to advise that depositors, including USAF, should receive 100% of their deposit monies over time. Notwithstanding this, the remaining £15.8 million remains fully provided for in USAF's accounts due to uncertainties. UNITE's share of this remaining outstanding deposit is £3.2 million and is also fully provided for.

We are making good progress with plans to extend or replace a £105 million bank facility in USAF that expires in December 2013 as well as the £280 million CMBS that matures in April 2014. We expect to conclude a successful refinancing later in 2013.

UNITE's 16% stake in USAF provides an important part of the overall earnings of the Group, contributing £6.4 million to adjusted earnings (excluding fees). Whilst USAF stays around its current size, the Group intends to maintain its stake at around this level for the foreseeable future.

### Joint ventures with GIC RE
UNITE has developed and maintained a positive working relationship with GIC RE over the last eight years. With the UCC joint venture now fully invested, the Group has made important progress with GIC, extending UCC by ten years and creating a new partnership through which UNITE will undertake its next phase of London development activity (LSAV).

### UCC
UCC, which was established in March 2005 and had an original maturity date of March 2013, has now been extended to a new maturity date of September 2022. In conjunction with the extension, UNITE will be undertaking a portfolio repositioning and refinancing exercise for UCC in the coming years as follows:

- Approximately £100 million of UCC's existing assets, equivalent to around 25% of its total portfolio at 31 December 2012, will be sold over the next four years. The disposals will be targeted so as to focus UCC's remaining holdings on its highest quality London locations and the majority of proceeds will then be applied to de-leveraging in the JV

- UCC's existing senior debt facility of £227 million, provided by a syndicate of lenders headed by HSH Nordbank, matures in September 2014 and will need to be replaced with a new facility. We intend to have the replacement facility arranged and in place during 2013.

UNITE's UCC performance fee will become payable on the later of 31 March 2013 and the successful refinancing of the HSH debt facility. This performance fee is expected to be worth between £5 million and £8 million, although no value is currently reflected in the Group's accounts.

### London Student Accommodation Vehicle (LSAV)

LSAV is a new 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 will undertake development activity in London and has a right of first refusal over UNITE's London development projects until such time as its capital investment targets are met.

LSAV acquired North Lodge from UNITE in November 2012 for £46 million and has committed to acquire Stratford 1 (when completed) on a forward commitment basis for £83 million. The consideration payable for each asset is subject to a +/- 10% adjustment after two years of operation depending on asset performance.

LSAV also plans to invest approximately £330 million in London development activity over the coming years, equivalent to between 3,500 and 4,000 new bed spaces. UNITE's share of LSAV planned development capital expenditure will be £165 million, which is expected to be invested over the period 2013 to 2017 (by which time all projects are expected to be operational) at anticipated leverage of 65% loan-to-cost. The first LSAV development project, Angel Lane Stratford, was secured in late 2012.

UNITE and GIC can agree to extend the development programme by a further £200 million once the existing capital has been committed.

### Potential merger of UCC and LSAV

UNITE has an opportunity to increase its stake in UCC from 30% to 50% by the end of 2016 and UNITE and GIC have agreed that this can be achieved by one or more of the following options: applying UNITE's share of proceeds from UCC's disposal programme; using its performance fee to acquire units; and selling a recently completed property at open market value to LSAV.

If UNITE's stake in UCC reaches 50% before 31 December 2016, then UCC will merge with LSAV by way of a unit for unit exchange at NAV. In the event that UNITE's stake does not reach 50% before that date then UCC will continue as a separate vehicle.

The establishment of LSAV and extension of UCC was an important step for UNITE and is consistent with our objectives of growing recurring earnings, undertaking accretive development activity without stretching the Group's balance sheet and reducing leverage over time. It is expected to be accretive to both UNITE's earnings and NAV whilst also delivering a modest reduction in the Group's leverage.

### OCB

The Oasis Capital Bank joint venture matures in August 2014 and we are continuing to work with our joint venture partner to determine the most appropriate strategy for the JV, now that the assets are completed and income producing.

OCB's total return in 2012 was -14.4%, reflecting a reduction in asset values. The three assets in the joint venture are in Zone 2 locations that have seen new supply enter the market and rents, as a result, have come under pressure. The returns since the inception of the joint venture remain positive at an average 11.6% per annum.

We expect OCB to sell their stake in the joint venture during the 2013/14 academic year. We intend to retain our stake and management role going forward although this is subject to the arrangement of an alternative vehicle that meets our strategic objectives. In the event that this does not occur then we would be likely to sell our stake alongside OCB and reinvest the proceeds elsewhere in our London portfolio, most probably by increasing our stake in UCC.

### UNITE Student Village (USV)

In January 2012 we completed the acquisition of the remaining 49% interest in USV, owned by a subsidiary of Lehman Brothers on favourable terms adding £2.5 million of NAV and £1 million of annualised NPC.

### Funds and joint ventures

| Vehicle | Property Assets | Net debt | Other assets | Adjusted LTV | Adjusted NAV | UNITE share of adjusted NAV | Total return | Maturity | UNITE share |
|---|---|---|---|---|---|---|---|---|---|
| USAF | 1,320 | (572) | (23) | 43% | 725 | 119 | 14.2% | Infinite | 16% |
| UCC | 381 | (214) | (9) | 56% | 158 | 47 | 14.8% | 2022 | 30% |
| LSAV | 50 | (22) | (2) | 44% | 26 | 13 | n/a | 2022 | 50% |
| OCB | 175 | (105) | (4) | 60% | 66 | 16 | (14.4)% | 2014 | 25% |


# Efficient, paperless procedures

In 2012 we equipped all of our city teams with mobile working devices enabling room inspections to be completed at a touch of a button. This means less paperwork for our employees, more efficient management of the process, as well as improving the customer service we provide through greater transparency.

# Student accommodation market review

Student intake for 2012/13 fell by 54,000, largely as a result of various Government policy changes, representing a 12% drop in admissions from 2011/12. However, as a result of increased intake in earlier years the overall student population was broadly static as the larger number of returning students offset the decline in first year admissions.

The factors contributing to the drop in intake were as follows:

- A permanent reduction in the number of Government-funded places (15,000)
- An increase in the number of deferred acceptances back to normal levels from a very low base in 2011 (16,000)
- A number of policy-related implications that resulted in a mismatch between the demand for and supply of particular University places for the year (23,000).

From an accommodation perspective these factors led to higher than expected voids across the sector in those cities where Universities experienced a decline in numbers and existing supply levels are relatively high. In the main, this was the big northern cities – Leeds, Sheffield and Manchester – and also Wales (where UNITE does not have a presence). Conversely some towns and cities saw very strong levels of occupancy – all of Scotland, Bristol and Plymouth for example. Against this backdrop it is encouraging that we achieved 96% occupancy and 3% rental growth, reflecting the quality of our portfolio.

The outlook for 2013/14 student intake is considerably more positive, following supportive policy announcements and solid growth in the number of applications.

On 30 January UCAS released the applications data for 2013/14 confirming a 3.5% increase on 2012/13. Taking into account the increased applications and likely number of available University places we anticipate that there will be at least 180,000 unplaced applicants for the next academic year (2012: 188,000). Given this heavily over-subscribed position it is clear that the process for allocating student places will be a far more important determinant of final student intake than initial applications. Recently announced changes to the funding and admissions process are encouraging in this regard.

The main new measures announced were as follows:

- There will be no restriction on the number of students achieving ABB grades or better at A-level (or equivalent) that Universities can recruit. In 2012/13, this unrestricted pool was limited only to those achieving AAB or above. We estimate that this change will increase the size of this uncapped pool from 79,000 to approximately 120,000. Stronger Universities should be well positioned to benefit from this change
- Penalties for over-recruitment of students subject to number controls (ie excluding the uncapped pool) have been relaxed. Universities will now be permitted to over-recruit by 3% of their allocation without financial penalty whereas in 2012/13 Universities were at risk of being fined for exceeding student number controls. We expect this to remove some of the caution Universities have previously exercised when deciding upon the number of offers to make to prospective students and it should therefore translate into improved recruitment levels. A 3% increase in the controlled student numbers pool is equivalent to approximately 10,000 students
- Up to 5,000 additional University places will be made available, to be allocated flexibly.

In addition to the above measures, the number of deferred acceptances should return to normal levels and this should contribute a further 15,000 increase.

The only remaining area of uncertainty in Government policy relates to non-EU student visa regulation, where increased restrictions have been introduced in recent years. However, recent developments suggest that the political rhetoric is moving in favour of the sector with a much clearer appreciation amongst ministers that student immigration should be considered separately from general immigration and could be a significant driver of economic growth. This segment of the market still has the potential to grow very strongly although in the near term we expect this to be slightly tempered as the political debate continues.

## Market outlook

We believe that the above changes should translate into an increase in intake for 2013/14 of between 25,000 and 30,000.

New supply has been focused in London for 2013/14 from a small number of new entrants to the sector, although there is some regional activity as well. The pipeline of new beds is estimated to be 9,500, of which 4,000 are in London. Taking into account these new beds and the anticipated increase in number of students in 2013, the net positive demand/supply movement is expected to be approximately 18,000. These movements underpin our expectation that rental growth for 2013/14 will be in line with recent years.

# Innovative transaction

UNITE sold its leasehold interest in New Carnegie Court to PRUPIM for £33 million, representing a net initial yield of 5.5%. The sale was achieved following extensive work to restructure the underlying ownership and new 25 year lease granted to the University of Aberdeen. The transaction was win-win-win for all parties.

## Risk management

Our approach to identifying, evaluating and avoiding or mitigating the impact of risks to UNITE is at the core of our business model. Risks are reviewed regularly at business unit and Group Board meetings, and are central to our strategic planning and day to day operations. Our principal risks are highlighted in white.

| Risk and Impact | Mitigation | Change | Commentary |
|---|---|---|---|
| **Operations risks** | | | |
| Major Health and Safety (H&S) incident in property, development site or office.<br><br>**Reputational damage and impact to students living with us.** | Group H&S committee set up to oversee policies and frameworks. Reviewed monthly by Board. External audit undertaken on all our properties bi-annually. New Head of H&S appointed in 2012. | ↓ | H&S is a primary focus and good progress made enhancing and embedding across the business. Head of H&S auditing existing processes and procedures and aims to further embed these approaches. |
| **Property development risks** | | | |
| Failure to secure sites, construction contracts and/or development debt at attractive prices.<br><br>**Unable to generate returns in line with plans.** | Skilled development team and strong reputation. Focus on off-market transactions. Strong relationships with financially robust lenders. | → | Development pipeline of over 2,500 beds secured; good progress with planning and funding. |
| Failure or delays in obtaining planning consents.<br><br>**Cost of aborted schemes. Delayed schemes impacting financial returns.** | Established planning expertise and careful site selection. Financial investment in schemes carefully managed prior to grant of planning.<br><br>Pursuing new opportunities on a conditional basis to ensure we retain adequate flexibility. | → | Skilled Development team with strong track record. Strong relationships with planning authorities, particularly in London. Focus on pre-application discussions with authorities. |
| Delays in completion of construction in time for the start of academic year or cost over-runs.<br><br>**Reduced financial returns and cash tied up. Impact on reputation with customers.** | Strong track record and focus on project delivery and strong relationships with construction partners with appropriate risk sharing. | ↓ | All 2012/13 schemes delivered to time and cost. No schemes in 2013/14 and 2014/15 projects all on track. |
| **Fund management** | | | |
| Ability to deliver strategy of both the Funds/JVs and the Group.<br><br>**Loss of investor confidence and/or potential deadlock.** | Dedicated Fund Directors responsible for managing the performance of each Fund/JV. Any potential conflicts are managed through Group Risk Committee. Quarterly meetings with investors. | → | Strong performance by USAF and co-investment vehicles.<br><br>Open, straightforward communications with USAF Advisory Committee and JV partners. |
| Joint ventures mature without agreement for a satisfactory exit.<br><br>**Forced sales of properties potentially impacting price. Loss of management fees.**<br><br>**Loss of market position in affected cities.** | Work closely with joint venture partners to agree mutually beneficial extension/exit strategies. | → | Extension of UCC and establishment of LSAV shows alignment with GIC.<br><br>USV joint venture brought back on to balance sheet.<br><br>OCB strategy now in place. |

| Risk and Impact | Mitigation | Change | Commentary |
|---|---|---|---|
| **Financing** | | | |
| Adverse interest rate movements.<br>**Reduced profitability.** | Hedge exposure with interest rate swaps. | → | 88% of debt now at fixed rate/swapped.<br>Average cost of debt reduced during 2012 from 5.7% to 5.5%. |
| Expiring debt facilities cannot be replaced or only at high cost.<br>**Possible forced sale of assets potentially leading to sales below valuation. Slowdown of development activity. Reduced level of profitability.** | Management of debt maturity. Control of future cash commitments in line with progress of disposals and refinancing.<br>Refinance 6-12 months before maturity. | ↓ | Completion of new facility with Legal & General and the retail bond issue provide evidence of availability of funds and create funding headroom. |
| Breach of borrowing covenants.<br>**Debt becomes immediately repayable.** | Regular monitoring of covenant position.<br>Proactive management of any potential issues and ability to use cash to manage covenants. | → | Significant level of headroom in both LTV and ICR covenants. |
| **Market Risks** | | | |
| Changes in Government policy may affect student numbers and behaviour.<br>Significant volume of new entrants leads to over-supply in certain markets.<br>**May reduce demand and hence profitability and asset values.** | UNITE focus and strategy:<br>▪ supply/demand imbalance<br>▪ exposure to best Universities<br>▪ more affluent customer base including overseas students<br>▪ strong sales and marketing expertise<br>▪ development of affordable product<br>▪ flexible approach to tenancies. | → | Applications to study in 2013/14 applications show 3.5% rise on 2012/13 numbers and a number of policy mechanisms have been announced which suggest 25,000-30,000 more students will be studying next year.<br>Underlying demand for HE in the UK remains extremely strong.<br>Occupancy of 96% achieved in year of market disruption. |
| Property markets are cyclical and performance depends on general economic conditions.<br>**Reduction in asset values reducing financial returns.** | Forecast rental growth and recurring profit offsets any yield movement.<br>Clear and active asset management strategy. | → | Maximising portfolio value through programme of refurbishments and extensions. |
| Risk of further recession or Eurozone break-up causing possible failure of construction contractor, University or bank.<br>**Cost to the business of dealing with failure, damage to market.** | Select financially robust construction partners.<br>Focus on major University cities with at least two high quality institutions.<br>Build strong relationships with banks with good credit ratings. | → | Development pipeline still on track; no issues with construction partners.<br>Continue to diversify sources of debt finance. |
| Change in patterns of study through the enhanced use of technology.<br>**Reduced demand for student accommodation resulting in lower profitability.** | UK Universities retain a global appeal (second most popular). Continued growth of international student mobility.<br>UNITE focus on strongest Universities.<br>Market knowledge and University relationships. | → | Increased number of overseas students living with UNITE.<br>Operational platform supports more flexible tenancies. |

# Board of Directors


Phil White CBE


Mark Allan


Joe Lister


Richard Simpson


Richard Smith


Manjit Wolstenholme


Stuart Beevor


Richard Walker


Sir Tim Wilson


Andrew Jones

**The Board**

- Executive
- Non-Executive

## Phil White
**Chairman**
Age 63

**Committees**
Remuneration Committee
Nomination Committee

**Experience**
Phil became Chairman in May 2009. The majority of his executive career was spent in the public transport sector, during a period of deregulation and privatisation. He was Chief Executive of National Express Group plc from 1997 to 2006, leading the business through considerable growth both in the UK and overseas. Phil is currently Non-Executive Chairman of Kier Group plc, Non-Executive Chairman of Lookers plc and a Non-Executive Director of Stagecoach Group plc.

## Mark Allan
**Chief Executive**
Age 40

**Experience**
Mark was appointed as Chief Executive in September 2006, following three years as Chief Financial Officer. Mark held a variety of other roles in the business prior to that, having joined the Group in 1999. Mark has overall responsibility for the Group's performance against its business plan targets, whilst continuing to develop UNITE's growth strategy.

## Joe Lister
**Chief Financial Officer**
Age 41

**Experience**
Joe joined UNITE in 2002. He was appointed as Chief Financial Officer in January 2008 having previously held a variety of roles within UNITE, including investment director. Joe is responsible for the Group's finances and investment strategy and is responsible for the Company Secretarial function and chairs the Group's Major Investment Approval meetings. Prior to joining UNITE; Joe qualified as a chartered accountant with PricewaterhouseCoopers.

## Richard Simpson
**Managing Director of Property**
Age 37

**Experience**
Richard is Managing Director of property for UNITE. Richard sets the strategic direction for all aspects of the property portfolio and oversees the fund management of UNITE's co-investment vehicles. Richard defines the approach for optimising portfolio performance and develops the UK wide property development plan. Richard joined UNITE in 2005 and in 2007 was appointed to the role of property director for the London Business. He took over responsibility for UK-wide property development in 2009, creating and implementing a growth strategy within London and other key UK cities. Prior to his roles in property development, Richard had a six year career in the British Army.

## Richard Smith
**Managing Director of Operations**
Age 38

**Experience**
Richard was appointed as Managing Director of Operations for UNITE in 2011. His role involves leading on the customer service provided to our 40,000 customers, and managing the maintenance and facilities management across the Group's nationwide property portfolio. Richard joined UNITE as deputy Chief Financial Officer in 2010. Prior to joining UNITE Richard spent a total of 18 years in the transport industry; 13 of which were at National Express Group, where he held a range of senior finance, strategy and operations roles in the UK and overseas, including group development director and chief financial officer North America.

## Manjit Wolstenholme
**Non-Executive Director**
Age 48

**Committees**
Chair of the Audit Committee
Remuneration Committee
Nomination Committee

**Experience**
Manjit qualified as a chartered accountant with Coopers & Lybrand and has a strong financial and executive background, including roles as chief operating officer of Kleinwort Benson and partner in corporate finance boutique Gleacher Shacklock, before embarking on a career as a non-executive. She is chairman for Albany Investment Trust plc and senior independent director and chair of the remuneration committee of Future plc. She is also a non-executive director and chair of audit committee for Provident Financial plc. Manjit's skills and experience will support the business as UNITE focuses on growth and extending its market-leading position.

## Stuart Beevor
**Non-Executive Director and Senior Independent Director**
Age 56

**Committees**
Chairman of the Remuneration Committee
Audit Committee
Nomination Committee

**Experience**
Stuart is an independent consultant with various roles advising clients in real estate fund management, investment and asset management. From 2002 to 2011 he was Managing Director of Grosvenor Fund Management Limited and a member of the board of Grosvenor Group Limited, the international property group. Prior to joining Grosvenor, Stuart was managing director at Legal & General Property Limited, having previously held a number of roles dealing with development, investment, property management and unitised funds at Norwich Union. Stuart brings a knowledge of property investment, property funds and investor demand that uniquely supports the board and the business in its role as a co-investing asset manager.

## Richard Walker
**Non-Executive Director**
Age 47

**Committees**
Audit Committee
Remuneration Committee
Nomination Committee

**Experience**
Richard brings strong operational expertise to the board, with 18 years of experience of having the customer at the heart of every decision made. He was formerly customer experience director then chief operating officer at Talk Talk (Telco Arm of Carphone Warehouse Group) and was responsible for the customer experience change programme. Prior to this role, Richard was Chief Operating Officer of Carphone Warehouse UK, with responsibility for the Group's 750 UK stores, websites, direct sales and insurance services. Richard was previously European Managing Director of Carphone Warehouse's European retail business, operating in 14 countries, and UK Sales Director. He holds a law degree from Nottingham University and trained as an accountant with Coopers and Lybrand.

## Sir Tim Wilson
**Non-Executive Director**
Age 63

**Committees**
Chairman of the Nomination Committee
Audit Committee
Remuneration Committee

**Experience**
Sir Tim was appointed Knight Bachelor for services to Higher Education and to business in the 2011 New Year's Honours List. He is a strong advocate of the role of Universities in economic development and acknowledged as one of the leading thinkers in University-business collaboration. He is the author of the government-commissioned Wilson Review of University-Industry collaboration, published in March 2012. Formerly vice-chancellor of the University of Hertfordshire, he also served on the board of the Higher Education Funding Council for England (HEFCE), was deputy chair of the CBI Innovation, Science and Technology Committee and a trustee of the Council for Industry and Higher Education (CIHE). He has extensive experience in both UK and international Higher Education.

## Andrew Jones
**Non-Executive Director**
Age 44

**Committees**
Audit Committee
Remuneration Committee
Nomination Committee

**Experience**
Andrew Jones is Chief Executive Officer of LondonMetric Property, following the recent merger of London & Stamford and Metric. Andrew was a co-founder of Metric and was Chief Executive Officer since its inception in March 2010. Andrew's previous roles include Executive Director and Head of Retail at British Land. Andrew joined British Land in 2005 following the acquisition of Pillar Property where he was on the main board with responsibilities for their retail portfolio and the Hercules Unit Trust.

**Dear Shareholder**

On the following pages we set out UNITE's Corporate Governance Report, which describes how the principles relating to the role and effectiveness of the Board have been applied. The report comprises the following sections:

- **Leadership**
- **How the Board operates**
- **Effectiveness**
- **Investor relations**
- **Audit Committee report**
- **Directors' remuneration report**
- **Nomination Committee report**

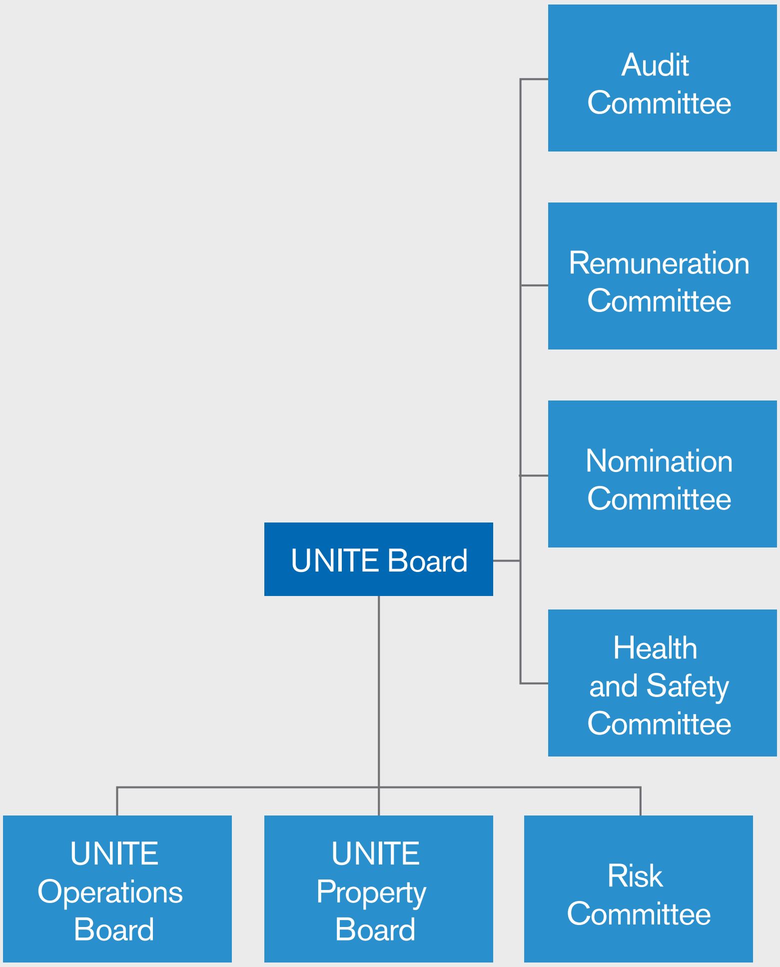
Throughout 2012, the Board complied with the principles of best practice set out in the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 (the Code). During 2013, we will continue to comply with the Code, as amended in October 2012.

**Phil White**
**Chairman of the Board**
**6 March 2013**

## LEADERSHIP

### Board structure

Set out below is an outline of the governance structure of UNITE.




### Composition and appointments

The composition of the Board during 2012 is set out in the table on p.45.

The Board currently consists of the Chairman, four Executive Directors and five Non-Executive Directors.

With effect from the beginning of 2012, Richard Simpson and Richard Smith were appointed as Executive Directors with the roles of Managing Director (Property) and Managing Director (Operations) respectively.

On 17 May 2012, Nigel Hall, previously Chairman of the Audit Committee, stood down from the Board, having by then served for nine years as a Non-Executive Director of the Company.

Andrew Jones was appointed to the Board as an additional Non-Executive Director with effect from 1 February 2013.

At the annual general meeting of the Company, which has been convened for 16 May 2013 (the annual general meeting), Stuart Beevor (currently chair of the Remuneration Committee and Senior Independent Director), will retire from the Board having, by then, served nine years in office. Stuart will be replaced by Richard Walker as Chairman of the Remuneration Committee and by Manjit Wolstenholme as Senior Independent Director.

In accordance with the requirements of the Code, each of the current Directors, other than Stuart Beevor, offers himself/herself for re-election at the annual general meeting. Brief biographies of all the Directors are set out on p.41.

Following the individual performance evaluations of each of the Non-Executive Directors seeking re-election (other than Andrew Jones who, as stated above, was only appointed on 1 February 2013), it is confirmed that the performance of each of the relevant individuals continues to be effective and demonstrates commitment to the role.

## Roles

The Group's terms of reference for the Chairman and the Chief Executive are such as to clearly establish the division of responsibility between the two roles. Summaries of those roles, and that of the Senior Independent Director, are set out in the table below.

| Role | Description |
|---|---|
| Chairman | Phil White's principal responsibilities are:<br>▪ to establish, in conjunction with the Chief Executive, the strategic objectives of the Group, for approval by the Board<br>▪ to organise the business of the Board<br>▪ to enhance the standing of the Company by communicating with shareholders, the financial community and the Group's stakeholders generally |
| Chief Executive | Mark Allan has responsibility for:<br>▪ establishing, in conjunction with the Chairman, the strategic objectives of the Group, for approval by the Board<br>▪ implementing the Group's business plan and annual budget<br>▪ the overall operational and financial performance of the Group |
| Senior Independent Director | As Senior Independent Director, Stuart Beevor's principal responsibilities are to:<br>▪ act as Chairman of the Board if the Chairman is conflicted<br>▪ act as a conduit to the Board for the communication of shareholder concerns if other channels of communication are inappropriate<br>▪ ensure that the Chairman is provided with effective feedback on his performance<br>These responsibilities will be taken-on by Manjit Wolstenholme when she becomes Senior Independent Director following the annual general meeting. |

## HOW THE BOARD OPERATES

### Meetings

Details of the number of meetings of the Board and its Committees held during the year and attendance of Directors at those meetings are set out in the table on p.47.

The Board approves annually a schedule of matters to be considered at each meeting and at each meeting of its Committees. Meetings are normally held in Bristol or London and, when appropriate, at different regional locations.

Board meetings are structured around the following areas:

- Operational, property and functional updates
- Financial updates
- Strategy and risk
- Other reporting

Senior Executives are regularly invited to attend meetings for specific items.

### Responsibility and delegation

A schedule of specific matters is reserved for the Board. Those include:

- Approving the strategic objectives of the Group and the business plan to achieve those objectives
- Approving major investments, acquisitions, mergers and divestments
- Approving appointments to and dismissals from the Board
- Reviewing systems of internal control and risk management
- Approving policies relating to Directors' remuneration

## Board Committees

The Board has delegated certain responsibilities to its Committees, as detailed on the following pages. The terms of reference for each Committee are reviewed annually and the current versions are available on the Company's website at www.unite-group.co.uk. The current membership of each Committee of the Board is set out below and full details of attendance at Committee meetings can be found in the table on p.47.

| | Audit | Remuneration | Nomination | Health & Safety |
|---|---|---|---|---|
| Phil White | | ✓ | ✓ | |
| Stuart Beevor | ✓ | ✓* | ✓ | |
| Sir Tim Wilson | ✓ | ✓ | ✓* | ✓ |
| Richard Walker | ✓ | ✓** | ✓ | ✓* |
| Manjit Wolstenholme | ✓* | ✓ | ✓ | |
| Andrew Jones | ✓ | ✓ | ✓ | |
| Mark Allan | | | | ✓ |

* Denotes Chairman.

** Will become Chair of the Remuneration Committee following the annual general meeting.

Set out below are sections describing the work of the Committees in discharging their respective functions:

**Audit Committee:** see the Audit Committee Report on p.48

**Nomination Committee:** see the Nomination Committee report on p.64

**Remuneration Committee:** see the Remuneration Committee Report on p.52

## Health & Safety Committee

The Health & Safety Committee was established in June 2012 and is chaired by Richard Walker. Its other members are Sir Tim Wilson and Mark Allan. Richard Simpson (Managing Director (Property)), and Richard Smith (Managing Director (Operations)), together with the Group Head of Health & Safety, are also invited to attend meetings of the Committee.

The role of the Health & Safety Committee is to:

- Ensure that the Group's policies, procedures and working practices regarding health and safety meet or exceed legal obligations
- Annually review the Group's Health & Safety Policy
- Ensure that the Board is kept abreast of any regulatory changes in relation to health and safety and environmental issues and the impact such changes may have on the business of the Group
- To receive reports as to Business Unit health and safety and environmental performance, policies and arrangements and any major health and safety incidents so as to ensure that management identifies and implements any corrective action considered appropriate.

## Internal control

The Board has overall responsibility for the Group's system of internal control. However, such a system is designed to achieve business objectives and can only provide reasonable and not absolute assurance against material mis-statement.

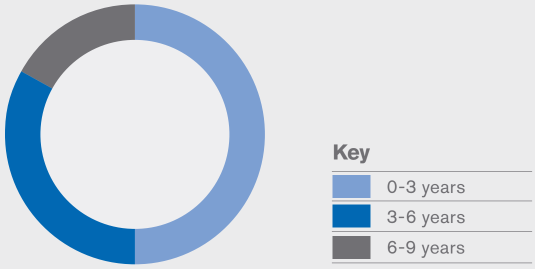
The provisions of the Code in respect of internal controls require that Directors review all controls including operational, compliance and risk management, as well as financial control. Through reports from the Group's Risk and Health & Safety Committees and from the Group's Business Units, the Board has reviewed the effectiveness of the Group's system of internal controls for the period covered by the annual report and accounts and has concluded that such controls were effective throughout such period.

Further information on the Company's internal control framework is set out in the Audit Committee Report.

### Board tenure

Each of the Executive Directors has a rolling contract, of employment with 12 month notice periods, whilst Non-Executive Directors are, subject to re-election by shareholders, appointed to the Board for a term of approximately three years. In accordance with the recommendations of the Code, the Directors will all retire at the annual general meeting and (other than Stuart Beevor who, after serving for nine years, will retire from Board at the annual general meeting), will submit themselves for re-election by shareholders.

The graph below shows the current balance of tenure of the Non-Executive Directors, including the Chairman.




### Chairman and Non-Executive Directors

The Board considers each of its five Non-Executive Directors to be independent. Accordingly, the Company meets the requirement of the Code in relation to members of the FTSE 350 that at least half of the Board (excluding the Chairman), is made-up of independent Non-Executive Directors. In addition, Phil White (Chairman of the Board) was considered independent on his appointment to that role.

The Chairman and the Non-Executive Directors constructively challenge and help develop proposals on strategy and bring strong, independent judgement, knowledge and experience to the Board's deliberations. Non-Executive Directors are expected to commit approximately 20 days per annum to the business of the Group.

### Professional advice and board support

Directors are given access to independent professional advice at the Company's expense when the Directors deem it necessary in order for them to carry out their responsibilities. The Directors also have access to the advice and services of the Company Secretary who acts as secretary to the Board and who ensures that Board processes and corporate governance practices are followed.

### Insurance

The Company maintains Directors and Officers liability insurance, which is renewed on an annual basis.

## EFFECTIVENESS

### Induction

On appointment each Director takes part in a comprehensive induction programme during which they:

- Receive information concerning all aspects of the Group
- Meet representatives of the Company's key advisors
- Receive information about the role of the Board and matters reserved for its decisions; the terms of reference and membership of Board Committees; and powers delegated to those Committees
- Receive information about the Company's corporate governance practices and procedures and the latest financial information about the Group
- Are advised of their legal and other duties and obligations as a Director of a listed company.

This is supplemented by visits to key locations and meetings with key senior executives.

### Performance evaluation

A formal independent evaluation exercise in relation to the Board and its Committees was undertaken in 2011 by Ffion Hague Independent Board Evaluation (which has no other connection with the Company). The results of that evaluation indicated that the Board (and its Committees), generally, operated effectively, although certain recommendations were made and subsequently implemented. During 2012, Non-Executive Directors and the Board as a whole considered the effectiveness of the Board and its Committees. The evaluation of the effectiveness of the Executive Directors was carried out as part of the annual appraisal procedure by the Chief Executive in the case of the other executive Directors and by the Chairman in the case of the Chief Executive. A formal internal review of the effectiveness of the Board and its Committees will be carried out in 2013.

## Board and Committee and attendance at meetings in 2012

| Current Directors | Status | Date of Appointment to the Board | Board | Audit Committee | Remuneration Committee | Nomination Committee | Health & Safety Committee |
|---|---|---|---|---|---|---|---|
| **Phil White** | Chairman | 21.01.09 | 11 | N/A | 5 | 2 | N/A |
| **Stuart Beevor** | Independent | 01.03.04 | 11 | 4 | 5 | 2 | N/A |
| **Sir Tim Wilson** | Independent | 01.12.10 | 11 | 4 | 5 | 2 | 2 |
| **Richard Walker** | Independent | 03.11.05 | 11 | 4 | 5 | 2 | 2 |
| **Manjit Wolstenholme** | Independent | 01.12.11 | 11 | 4 | 5 | 2 | N/A |
| **Mark Allan** | Executive | 17.11.03 | 10 | N/A | N/A | N/A | 2 |
| **Joe Lister** | Executive | 02.01.08 | 11 | N/A | N/A | N/A | N/A |
| **Richard Simpson** | Executive | 01.01.12 | 11 | N/A | N/A | N/A | N/A |
| **Richard Smith** | Executive | 01.01.12 | 11 | N/A | N/A | N/A | N/A |
| **Director who stepped down in the year** | | | | | | | |
| **Nigel Hall** | Independent | 06.03.06 (resigned 17.05.12) | 2 | 2 | 2 | – | N/A |

## INVESTOR RELATIONS

The Board attaches a high priority to effective communication with shareholders and with other providers of capital to the business and welcomes their views insofar as they are relevant to the Group's approach to corporate governance. In addition to the final and interim presentations, a series of meetings between institutional shareholders/other providers of capital and senior management was held throughout 2012. The Board and, in particular, the Non-Executive Directors, are made aware of the views of major shareholders concerning the Company through, amongst other means, regular analysts' and broker briefings and surveys of shareholder opinion. That process will continue throughout 2013.

The Company maintains a corporate website containing a wide range of information of interest to institutional and private investors. The Company has frequent discussions with shareholders on a range of issues affecting its performance, both following the Company's announcements and in response to specific requests. The Company regularly seeks feedback on perception of the Company amongst its shareholders, the investor community more broadly and its stakeholders.

Save in exceptional circumstances, all members of the Board attend the Company's annual general meetings and shareholders are invited to ask questions during the meeting and to meet with Directors prior to and after the formal proceedings. At the meeting, the Chairman reviews the Group's current trading.

The results of the votes at the annual general meetings, together with details of the level of proxy votes lodged for each resolution is made available on a regulatory information service and on the Company's website at www.unite-group.co.uk.

Notice of the annual general meeting is set out on p.108.

# Audit Committee report

## AUDIT COMMITTEE REPORT

### Dear shareholder

On the following pages are set out the Audit Committee's Report for 2012. The Report comprises four sections:

- **Committee overview**
- **Activities in 2012**
- **Auditors**
- **Internal control**

Throughout 2012, the Audit Committee continued to monitor the integrity of the Group's financial statements; to assist the Board in reviewing the effectiveness of the Company's internal control and risk management systems; and to review arrangements for its employees to raise concerns in confidence.

The Committee works to a structured programme of activities, with agenda items focused to coincide with key events in the annual financial reporting cycle.

The Committee reports regularly to the Board on its work and has made recommendations to the Board concerning the re-appointment and remuneration of the external auditor.

**Manjit Wolstenholme**
**Chair of Audit Committee**
**6 March 2013**

## COMMITTEE OVERVIEW

### Composition

The Committee is comprised entirely of Non-Executive Directors. The current members are:

- Manjit Wolstenholme (Chair)
- Stuart Beevor
- Richard Walker
- Sir Tim Wilson
- Andrew Jones (appointed 1 February 2013)

Manjit Wolstenholme is a Chartered Accountant, having qualified with Coopers & Lybrand (now PricewaterhouseCoopers). She was formally a Director and Co-Head of Investment Banking at Dresdner Kleinwort Wasserstein.

Biographical details of the members of the Committee, including their qualifications, are set out on p.41. Full details of attendance at meetings of the Committee can be found in the table on p.47.

At the invitation of the Chairman of the Committee, the Chairman, the Group CFO, the external auditors (KPMG) and representatives of senior management regularly attend Committee meetings. Committee members have the opportunity to meet privately with the external auditors as required.

### Role

The role of the Committee is to:

- Review the actions and judgements of management in relation to the Group's financial statements, operating and financial reviews, preliminary announcements, interim reports and related formal statements
- Review the effectiveness of the Group's systems for internal financial control, financial reporting and risk management
- Review the Company's procedures for 'whistle blowing', ensuring that arrangements are in place by which staff may, in confidence, raise concerns about, amongst other things, improprieties in matters of financial reporting and financial control
- Consider annually whether there is a need for an internal audit function
- Consider and make recommendations on the appointment, removal and remuneration of the external auditor.

## ACTIVITIES IN 2012

In 2012, the activities of the Committee included:

- Reviewing the Group's financial statements (including the format and layout of the detailed disclosures)
- Reviewing the appropriateness of the Group's accounting policies
- Reviewing the Group's cash flow forecasts and facilities to support the going concern statement in the annual report
- Reviewing and approving the annual external audit process, the external auditor's strategy and plan for the audit, considering the findings of that work and confirming that all significant matters had been satisfactorily resolved
- Reviewing the management letter arising from the 2011 year-end external audit and monitoring implementation of recommended improvements
- Monitoring the non-audit services provided to the Group by the external auditor
- Reviewing the results of the review undertaken of the Group's risk management processes
- Considering the need for an internal audit function within the Group
- Reviewing the effectiveness of the Group's systems of internal control and its whistle blowing process
- Reviewing processes for the prevention of bribery and fraud
- Considering the performance and effectiveness of the external auditor
- Considering the performance and effectiveness of the Committee itself

Having reviewed the Group's existing internal control systems (including an operational compliance audit regime), and the size and activities of the Group, it was not considered necessary to establish a full internal audit function. However, a 'co-sourced' internal audit model was introduced during the year, involving the hiring of internal resource, working in conjunction with external providers. The effectiveness and appropriateness of that model will be kept under review by the Committee.

## AUDITORS

### Independence and Objectivity

The Committee regularly monitors the other services provided to the Group by its external auditor and has developed a formal policy to ensure this does not impair their independence or objectivity.

Pursuant to that policy, differentiation is made between (i) work that would be inappropriate for the external auditors to perform; (ii) work that is clearly audit-related or required to be performed by the Company's external auditors; (iii) work that is often cost effectively performed by the external auditor as a result of its unique position and knowledge of the Company; and (iv) other work.

In relation to category (i), the Committee will not support the use of the external auditor for any services deemed to be incompatible with auditor independence by professional or government regulations. For category (ii) work, management has discretion to use the external auditor without prior consultation with the Committee, although the nature of the work and the associated fees are regularly reported to the Committee. For category (iii) work, management has discretion to use the audit firm without prior consultation with the Committee for any piece of work for which the individual fee does not exceed £50,000. Where the cumulative fees for this category of work are expected to exceed the budgeted annual audit fee in any year, or an individual fee exceeds £50,000, the Chairman of the Committee will be consulted. For category (iv) work, management would normally review a range of possible suppliers of such services and select the most appropriate supplier. If management identifies the external auditor as the best supplier in a specific field and also believes that such assignment would not prejudice the independence of the external auditor, then an evaluated request is made to the Committee to confirm the appointment on any matter involving fees in excess of £10,000.

The Committee also reviews any potential threat to the objectivity and independence of the external auditor, including, in particular, those potential threats identified by the Auditing Practices Board in its independence guidelines. The Committee determines and then reports to the Board, whether or not it is satisfied that the independence of the external auditor is not jeopardised, taking into account the external auditor's own submissions to the Committee and/or the Board.

Details of the remuneration paid to the external auditor are set out in the table below:

| **Auditor's remuneration** | **2012 £m** | 2011 £m |
|---|---|---|
| Fees payable to the Company's auditor for the audit of the Company's financial statements | 0.2 | 0.1 |
| Fees payable to the Company's auditors for other services | | |
| – the audit of the Company's subsidiaries | 0.1 | 0.1 |
| – taxation compliance services | 0.2 | 0.2 |
| – taxation advisory services | 0.2 | 0.2 |
| – corporate finance services | 0.1 | – |

It is anticipated that the level of fees paid to the audit firm in relation to taxation will reduce in future years following the completion of a one-off tax project within the Group. The fees paid to the audit firm in relation to corporate finance services related to the issue by the Company of a retail bond during the course of the year.

The senior audit partner and the independent reviewing partner serve no more than five years continuously in either role and other key partners serve no longer than seven consecutive years. The Committee monitors the tenure of partners and senior staff.

### Performance

The Committee performs a specific evaluation of the performance of the external auditor annually, through assessment of the results of questionnaires completed by relevant senior management, in addition to Committee members' own views of auditor performance.

### Re-appointment

During the year, the Committee reviewed the tenure of the external auditor (KPMG Audit Plc has been UNITE's auditor since 1999), its performance, the level of audit fees paid to the external auditor and the level of non-audit work undertaken by the external auditor. Following that review, the Committee recommended to the Board that a resolution for the re-appointment of KPMG Audit Plc for a further year as the Company's auditor be proposed to shareholders at the 2012 annual general meeting. The resolution was passed and KPMG Audit Plc was re-appointed for a further year. A resolution for the re-appointment of KPMG Audit Plc for a further year is to be proposed at this year's annual general meeting.

## INTERNAL CONTROL

The Board has overall responsibility for the Group's systems of internal control and for regularly reviewing the effectiveness of those systems. The Committee assists the Board in reviewing such systems which include, amongst other things, the following:

### Financial reporting

The Group has a comprehensive budgeting system with an annual business plan approved by the Board. Operating results and cash flows are reported on monthly and compared against budget. Forecasts are reviewed throughout the year and revised as necessary. The Company reports to shareholders on a half-yearly basis.

### Investment appraisal

The Company has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where investment or development properties are being acquired. Post-investment appraisals are performed for major investments.

### Risk management

The Executive Team of UNITE has established a Risk Committee, which is chaired by Joe Lister, the Group CFO. During 2012, the other members of the Risk Committee were Richard Simpson (Managing Director (Property)), Richard Smith (Managing Director (Operations)), Paul Harris (Strategy and Corporate Relations Director), Mark Creedy (Managing Director (Fund Management)), Andrew Reid (Company Secretary and Group Legal Officer) and Stephen Taylor (external consultant). The Risk Committee is responsible for the delivery of the Group's Risk Management Framework, which includes:

- Managing the governance structure for risk management and reporting on risk management matters to the Board and the Audit Committee
- Reviewing and challenging management plans for key Group and functional risks
- Managing procedures for monitoring and escalation of key risks
- Embedding a culture of risk ownership throughout the Group.

Through the work of the Risk Committee, the Board, having during the year reviewed the effectiveness of the Company's risk management and internal control systems, is satisfied with the high level risk management controls in place, although all areas of the business are kept under review and new controls introduced as appropriate. An analysis of the more important risks and uncertainties faced by the Group is set out on p.38 and p.39. The Group's objectives and policies with regard to the management of financial risks are set out in note 4.5 to the Financial Statements.

## APPROVAL

The Audit Committee Report was approved by the Board on 6 March 2013 and signed on its behalf by Manjit Wolstenholme.

## DIRECTORS' REMUNERATION REPORT

**Dear Shareholder,**

The Directors' Remuneration Report for the year ended 31 December 2012 is set out on the following pages.
The Report comprises five sections:

- **Committee overview**
- **Remuneration Policy**
- **Delivering Remuneration Policy**
- **Non-Executive Directors**
- **Detailed audited disclosures**

In preparing this Report, the Remuneration Committee has complied with the Companies Act 2006 and Schedule 8 to the Large and Medium-Sized Companies and Group's (Accounts & Reports) Regulations 2008. The Report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance in relation to Directors' remuneration.

While we have not made any significant changes to remuneration arrangements this year, we have amended the performance metrics within the annual bonus scheme for Executive Directors to further improve alignment with investors (details of which are set out below). In this Report, we have also incorporated a number of the proposals on disclosure that have been tabled by the Department for Business Innovation & Skills (BIS).

2012 was another excellent year for the Group, evidenced by strong financial and operating performance. As a result, Executive Directors will receive bonuses ranging between 83% and 91.3% of their respective base salaries (out of a maximum of 144% of salary). The Committee is satisfied that these bonuses reflect the Executives' contribution to the underlying performance of the Company over the last year.

After slightly more than nine years as a Non-Executive Director with UNITE, I shall be retiring from the Board at the annual general meeting. At that stage, Richard Walker will become Chairman of the Remuneration Committee and I wish him well in that role.

A resolution to approve this Remuneration Report will be put to shareholders at the annual general meeting.

**Stuart Beevor**
**Chairman Remuneration Committee**
**6 March 2013**

## COMMITTEE OVERVIEW

### Composition

The current members of the Committee are:

- Stuart Beevor (Chairman)
- Phil White
- Richard Walker
- Sir Tim Wilson
- Manjit Wolstenholme
- Andrew Jones (as from 1 February 2013)

All of the above are independent Non-Executive Directors (other than Phil White, who is Chairman of the Board). Stuart Beevor will, by the time of the annual general meeting, have served nine years in office and will then step down from the Board. At that time, Richard Walker will become Chairman of the Remuneration Committee.

Full details of attendance at Committee meetings can be found in the table on p.47.

### Advisors

The Committee obtains advice from various sources in order to ensure it makes informed decisions. The Committee's main external advisors are set out below:

| Advisor | Area of advice |
|---|---|
| **Kepler Associates** | Independent advisors on remuneration policy and the external remuneration environment; salary benchmarking data; and performance testing for long term incentive plans. Kepler reports directly to the Committee Chairman and is a signatory to the Code of Conduct for Remuneration Consultants (a copy of which can be found at www.remunerationconsultantsgroup.com). Kepler provides no other services to the Company. |
| **Osborne Clark** | Legal advisors in relation to share scheme rules, service contracts and employment matters. Osborne Clarke also provides more general legal advice to the Group. |

In addition, certain Executives, including Mark Allan (Chief Executive) and Nicola Yates (Group HR Director), are, from time to time, invited to attend meetings of the Committee. No individuals are involved in decisions relating to their own remuneration.

### Role

The primary role of the Committee is to:

- Review, recommend and monitor the level and structure of remuneration for the Executive Directors and other senior executives
- Approve the remuneration packages for the Executive Directors
- Determine the balance between base pay and performance related elements of the package so as to align Directors' interests to those of shareholders.

The Committee's terms of reference are set out on the Company's website.

### Activities in the year

The Committee's activities during the year included:

- Finalising bonus payments in respect of 2011 as disclosed in the 2011 Remuneration Report)
- Reviewing the base salaries of the Executive Directors and those of senior management for 2012
- Setting LTIP performance targets in line with the Company's strategic plan
- Setting performance targets in line with the Company's strategic plan for the 2012 bonus plan and determining the amounts payable
- Agreeing termination arrangements for those individuals within the senior executive group whose employment ceased.

## REMUNERATION POLICY

The Group aims to balance the need to attract, retain and motivate Executive Directors and other senior executives of an appropriate calibre with the need to be cost effective, whilst at the same time rewarding exceptional performance. The Committee has designed a remuneration policy that balances those factors, taking account of prevailing best practice, investor expectations and the level of remuneration and pay awards made generally to employees of the Group.

In addition to the above, the remuneration policy for the Executive Directors and other senior executives is based on the following key principles:

- A significant proportion of remuneration should be tied to the achievement of specific and stretching performance conditions that align remuneration with the creation of shareholder value and the delivery of the Group's strategic plan
- There should be a focus on sustained long term performance, with performance measured over clearly specified timescales, encouraging executives to take action in line with the Group's strategic plan, using good business management principles and taking well considered risks
- Individuals should be rewarded for success, but steps should be taken, within contractual obligations, to prevent rewards for failure.

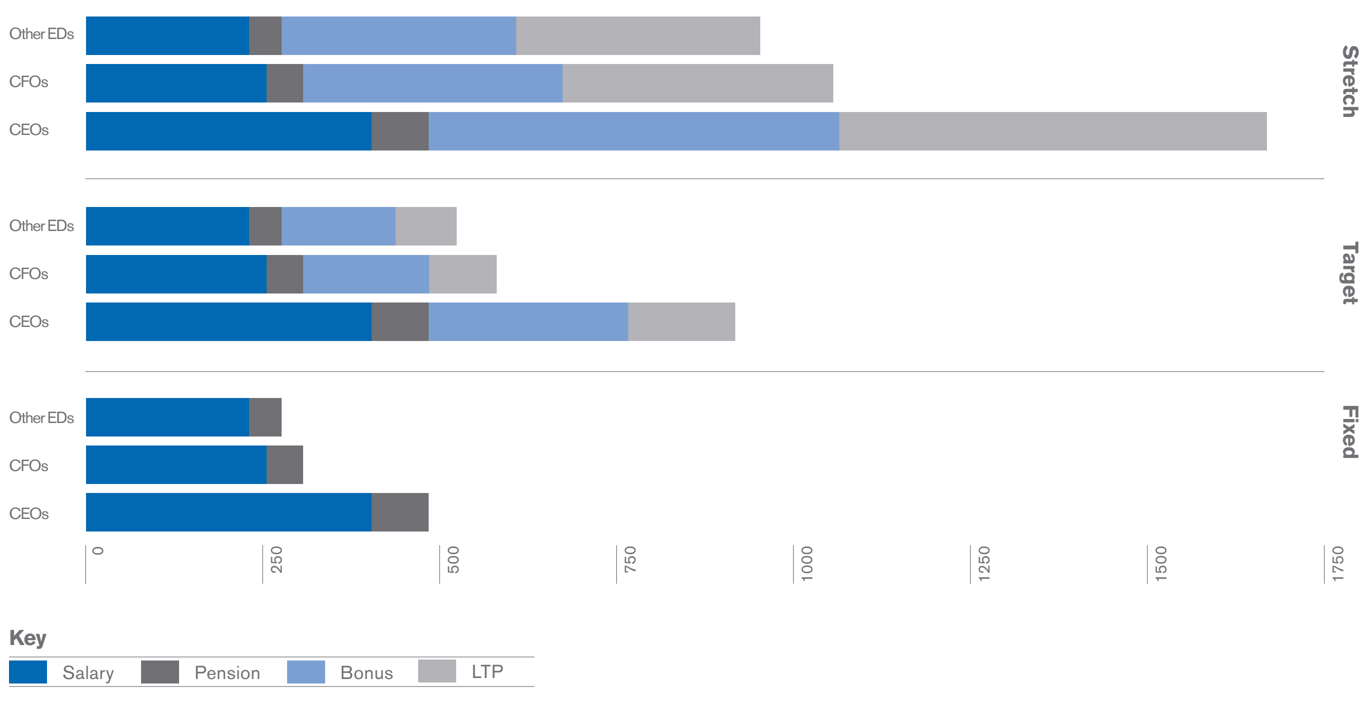
## Components of reward

The reward package for Executive Directors and other senior executives consists of a combination of fixed and variable elements intended to provide motivation and reward for short, medium and long term performance and to retain key executives over the longer term. Each component is intended to fulfil a different function within the remuneration framework as set out in the table below:

| Function | Operation | Opportunity | Performance metrics | Changes for 2013 |
|---|---|---|---|---|
| **Fixed pay** | | | | |
| **Base salary**<br>To recognise the individual's skills and experience and to provide a competitive base reward | Base salaries are reviewed from time to time, with reference to salary levels for similar roles at comparable companies, to individual contribution to performance; and to the experience of each Executive | Any base salary increases are applied in line with the outcome of the annual review as part of which the Committee also considers average increases across the Group | None | No changes to the policy for 2013<br>Latest salary increases were effective from 1 March 2013 and are set out in the relevant section on p.56 |
| **Pension**<br>To provide an opportunity for executives to build up income on retirement | All Executives are either members of The UNITE Group Personal Pension scheme or receive a cash pension allowance | Executive Directors receive a pension contribution of 20% of salary or an equivalent cash allowance | None | No change |
| **Variable pay** | | | | |
| **Performance Related Annual Bonus**<br>To incentivise and reward strong performance against financial and non-financial annual targets, thus delivering value to shareholders and being consistent with the delivery of the strategic plan | Performance measures, targets and weightings are set at the start of the year. The scheme has two elements: a 'corporate' element and an 'individual' multiplier element<br>At the end of the year, the Remuneration Committee determines the extent to which targets have been achieved | For Executive Directors, the maximum annual bonus opportunity is 144% of base salary, comprising:<br>▪ A maximum bonus under the corporate element of 120% of salary; achieving on-target performance warrants a bonus equivalent to 70% of salary<br>▪ A maximum multiplier under the individual element of 1.2, with a range of zero to 1.2 | Performance measures used for the 2012 Performance Related Annual Bonus and proposed for 2013 are set out on p.56 and p.57 | Maximum opportunities under the corporate and individual elements will remain unchanged. Some changes have been made to the measures under the corporate element (see p.57 for details), but the weighting between financial and non-financial measures remains the same. |
| **LTIP** | | | | |
| To drive sustained long term performance that supports the creation of shareholder value | The LTIP comprises a Performance Share Plan (PSP) and an Approved Employee Share Option Scheme (ESOS)<br>The ESOS is used to deliver a proportion of the LTIP in a tax-efficient manner, and is subject to the same performance conditions as awards made under the PSP<br>Award levels and performance conditions are reviewed before each award cycle to ensure they remain appropriate and no less stretching than the first cycle | The LTIP provides for an award up to a normal aggregate limit of 150% of salary for Executive Directors, with an overall limit of 200% of salary in exceptional circumstances<br>For LTIP participants below Board level, the maximum annual LTIP opportunity is capped at 100% of base salary | Awards are subject to a minimum vesting period of three years. Awards made to Executive Directors in 2012 and 2013 will vest as to two-thirds after three years and one-third after four years<br>Performance measures used for the 2011 and 2012 LTIP award are set out on p.58 | No change |

Further details of how these components are delivered are set out below in the section headed Delivering Remuneration Policy.

The charts below show the remuneration that Executive Directors could be expected to obtain based on three different performance scenarios.




'Minimum' performance assumes nil payout under all incentives. 'Target' performance assumes bonus payout of 70% of salary and LTIP threshold vesting at 25% of maximum award. 'Stretch' performance assumes full payout of all incentives. Share price appreciation has not been included in the calculation.

Broadly there is a 52%:48% split between fixed and variable pay at 'target' performance and a 29%:71% split at 'stretch' performance, showing the high proportion of performance related pay that is 'at risk' in the total remuneration package.

## Remuneration policy for other employees

Our approach to annual salary reviews is consistent across the Group, with consideration given to the level of experience, responsibility, individual performance and salary levels in comparable companies.

All employees are eligible to participate in an annual bonus scheme with similar metrics to those used for the Executive Directors. Opportunities and specific performance conditions vary by organisational level with business area-specific metrics incorporated where appropriate.

Senior managers (c.25 individuals) are eligible to participate in the LTIP. Performance conditions are consistent for all participants, while award sizes vary by organisational level.

All employees are eligible to participate in the Company's SAYE scheme on the same terms.

## Exit payment policy

The Company's policy is to limit severance payments on termination to pre-established contractual arrangements. Such contracts contain no specific provision for compensation for loss of office, other than an obligation to pay for any notice period waived by the Company, where pay is defined as salary plus benefits only.

In the event an executive leaves for reasons of death, ill-health, redundancy, retirement, or any other reason the awards will be pro-rated for time. For all other leavers, outstanding LTIP awards will lapse.

The Committee retains discretion to alter these provisions on a case-by-case basis following a review of circumstances and to ensure fairness for both shareholders and participants.

## Shareholder alignment

The Committee continues to recognise the importance of Executive Directors aligning their interests with shareholders through building up a significant shareholding in the Company. Shareholding guidelines are in place that require Executive Directors to acquire a holding (excluding shares held conditionally pursuant to LTIP awards), equivalent to 200% of base salary for the Chief Executive and 150% of base salary for each of the other Executive Directors. Until the relevant shareholding levels are acquired, 50% of the annual bonus payable to the relevant Director is satisfied by an allocation of shares in the Company, which are held in its Employee Share Ownership Trust (the ESOT). Subject to the Directors' continued employment within the Group, such shares are transferred to the Director on the third anniversary of the original allocation. Details of the Executive Directors' current personal shareholdings are shown in the table on p.63.

## DELIVERING REMUNERATION POLICY

### Base salary

Market positioning of base salary is approached on an individual basis, taking account of advice received from the Committee's independent advisors on the rates of salary for similar roles in selected groups of comparable companies and the individual performance and experience of each Executive. The aim is for base salary to be set with reference to the market median, dependent on the Committee's view of individual and Group performance.

The Committee approved the following base salary increases with effect from 1 March 2013:

| | Base salary from 1 March 2012 to 28 February 2013 | Base salary from 1 March 2013 to 28 February 2014 | Percentage increase |
|---|---|---|---|
| Mark Allan | £403,000 | £413,075 | 2.5 |
| Joe Lister | £255,000 | £261,375 | 2.5 |
| Richard Simpson | £230,000 | £235,750 | 2.5 |
| Richard Smith | £230,000 | £235,750 | 2.5 |

A salary increase averaging 2.5% across the Group was awarded at the annual pay review, effective 1 March 2013.

### Pension benefits

The Executive Directors are either members of The UNITE Group Personal Pension scheme or receive a cash pension allowance. Executive Directors receive a pension contribution of 20% of salary or an equivalent cash allowance. The Executive Directors' pension arrangements are set out on p.61.

### Performance related annual bonus

The Group operates an annual performance related bonus scheme that is designed to encourage the achievement of targeted levels of performance over the short term and reward outstanding results. The scheme has two elements: a 'corporate' element and an 'individual' element.

### Annual bonus in 2012

Under the corporate element of the scheme, Executive Directors' bonuses for 2012 have been calculated by reference to a number of performance criteria reflecting the Group's main KPIs for the year:

| Corporate element performance measures | Weighting (% of bonus) |
|---|---|
| **Financial measures** | |
| Net Portfolio Contribution (NPC) | 25.0 |
| Adjusted diluted net asset value growth (NAV) | 25.0 |
| Operating cashflow | 12.5 |
| NAV gearing (net debt over equity) | 12.5 |
| **Non-financial measures** | |
| Customer satisfaction | 12.5 |
| Employee satisfaction | 12.5 |

The corporate element of the bonus has been calculated on a sliding scale up to a maximum of 120% of base salary, in accordance with which 'on target' performance by the Group would have resulted in a corporate bonus of an amount equivalent to 70% of base salary. Prior to 2012, 'on target' performance by the Group would have resulted in a corporate bonus of an amount equivalent to 75% of base salary.

To determine the actual bonus payment to an Executive Director, a multiplier (being the 'individual' element of the scheme), ranging between zero and 1.2 is applied against the corporate bonus. That multiplier is determined following the Performance Development Programme review of each Executive Director (which is carried out at the start and end of the year), and reflects the strength of that Director's individual performance over the course of the bonus plan year.

Applying the maximum individual multiplier (of 1.2), against the maximum corporate bonus (of 120% of base salary), results in a maximum annual performance related bonus opportunity of 144% of base salary. However, bonus payments at that level would only be made subject to the achievement of extremely stretching corporate performance targets and exceptional individual performance by the relevant Director.

The performance related bonuses awarded in respect of 2012 reflect corporate bonuses (calculated in accordance with the sliding scale referred to above), of 83% of base salary. That percentage was arrived at as a result of the Group having achieved its stretch targets in relation to customer satisfaction and operating cashflow; having modestly outperformed its NAV gearing target; having achieved its targets for employee satisfaction and NAV; and having marginally missed its target for NPC .

After applying their individual multipliers, actual performance related bonus payments awarded to the Executive Directors range between 83% and 91.3% of their respective base salaries.

Mark Allan and Joe Lister, having already reached their share ownership guidelines will receive 100% of their bonus awards in cash. Richard Simpson and Richard Smith will each receive 50% of their bonus awards by way of a deferred allocation of shares through the Company's ESOT.

### Annual bonus for 2013

Some minor changes have been made to the 2013 bonus scheme to improve alignment of the annual bonus with the business strategy:

- The NPC measure has been replaced by an Adjusted earnings measure. Adjusted earnings is a recognised profit measure for real estate companies and is more closely aligned than NPC to the profit attributable to shareholders
- The NAV gearing measure has been replaced with a see through LTV gearing measure, on the basis that LTV gearing is now the Group's primary measure of gearing
- The Employee Satisfaction measure has been removed and the weighting for Customer Satisfaction increased to 25%, maintaining the same balance between financial and non-financial measures and reflecting the Committee's view of the importance of improving customer satisfaction and advocacy.

### Long Term Incentives

The current LTIP was approved by shareholders at the AGM on 19 May 2011 (the 2011 LTIP), and replaced the LTIP adopted in 2005 (the 2005 LTIP). Key aspects of the 2011 LTIP, which is designed to support the delivery of the strategic plan, are as follows:

- The LTIP is delivered through two new share plans – The UNITE Group plc 2011 Performance Share Plan (the PSP) and The UNITE Group plc 2011 Approved Employee Share Option Scheme (the ESOS)
- The individual limit is 150% of annual base salary although, in exceptional circumstance (for example for new hires), awards of up to 200% of annual base salary may be made. Awards for participants below Board level will not normally exceed 100% of annual base salary
- Awards made under the PSP will have a performance period of at least three years and a minimum vesting period of three years. Vesting of awards may, at the discretion of the Committee, be deferred in whole or in part for a period of up to two years following the end of a three year vesting period. The awards made to the Executive Directors in 2012 will vest as to two thirds after three years and one third after four years (to the extent the performance conditions have been achieved over the three year performance period). Awards made to participants other than the Executive Directors will vest as to 100% after three years to the extent the performance conditions have been achieved
- The performance measures applied for awards made in 2011 and 2012 are NPC, NAV and Total Shareholder Return (TSR). NPC is an important measure of the long term success and profitability of the Group, whilst NAV per share remains a relevant performance measure for the Group as the key balance sheet metric. Relative TSR is also considered to remain the best measure to capture creation of shareholder value and reward management performance in comparison with the Company's peers
- The ESOS, which operates as a HMRC approved Company Share Option Plan, is used in conjunction with the PSP to deliver a proportion of an award under the New LTIP in a tax efficient manner (on a fair value exchange basis). Awards made under the ESOS are subject to the same performance conditions as those of the PSP
- Clawback will apply on unvested LTIP shares in the events of gross misconduct, material misstatement, if a mistake has been made in calculating vesting for a previous award or in any other circumstance that the Remuneration Committee considers appropriate.

The LTIP awards made to the Executive Directors in 2011 will vest as follows:

| Measure | Weighting | Targets |
|---|---|---|
| Net Portfolio Contribution (NPC) in 2013 | 1/3 | 0% vesting below £9m;<br>25% vesting for £9m;<br>100% vesting for £20m or more;<br>Straight line vesting between these points |
| NAV per share growth | 1/3 | 0% vesting below 7% p.a.;<br>25% vesting for 7% p.a.;<br>100% vesting for 13% p.a. or more;<br>Straight line vesting between these points |
| Relative TSR outperformance of the FTSE350 Real Estate (Super Sector) Index | 1/3 | 0% vesting if Group underperforms Index;<br>25% vesting for matching Index;<br>100% vesting for outperforming Index by 9% p.a.;<br>Straight line vesting between these points |

The LTIP awards made to the Executive Directors in 2012 will vest as follows:

| Measure | Weighting | Targets |
|---|---|---|
| Net Portfolio Contribution (NPC) in 2014 | 1/3 | 0% vesting below £23.5m;<br>25% vesting for £23.5m;<br>100% vesting for £31.5m or more;<br>Straight line vesting between these points |
| NAV per share growth | 1/3 | 0% vesting below 6% p.a.;<br>25% vesting for 6% p.a.;<br>100% vesting for 12% p.a. or more;<br>Straight line vesting between these points |
| Relative TSR outperformance of the FTSE350 Real Estate (Super Sector) Index | 1/3 | 0% vesting if Group underperforms Index;<br>25% vesting for matching Index;<br>100% vesting for outperforming Index by 9% p.a.;<br>Straight line vesting between these points |

NPC, NAV and TSR will continue to be the performance measures adopted in relation to the LTIP awards to be made in 2013. Targets will be set at the time awards are granted and the Committee will ensure that they are no less stretching than those for previous LTIP cycles.

The Committee intends to review the performance measure, particularly the possibility of replacing NPC with Adjusted earnings, in future years.

The incentive plans under which awards were made prior to 2011 are the 2005 LTIP and The UNITE Group plc Unapproved Share Option Scheme (the Unapproved Scheme). None of the awards made under the 2005 LTIP prior to the 2009 awards vested and no options have been granted to Directors under the Unapproved Scheme since 2004.

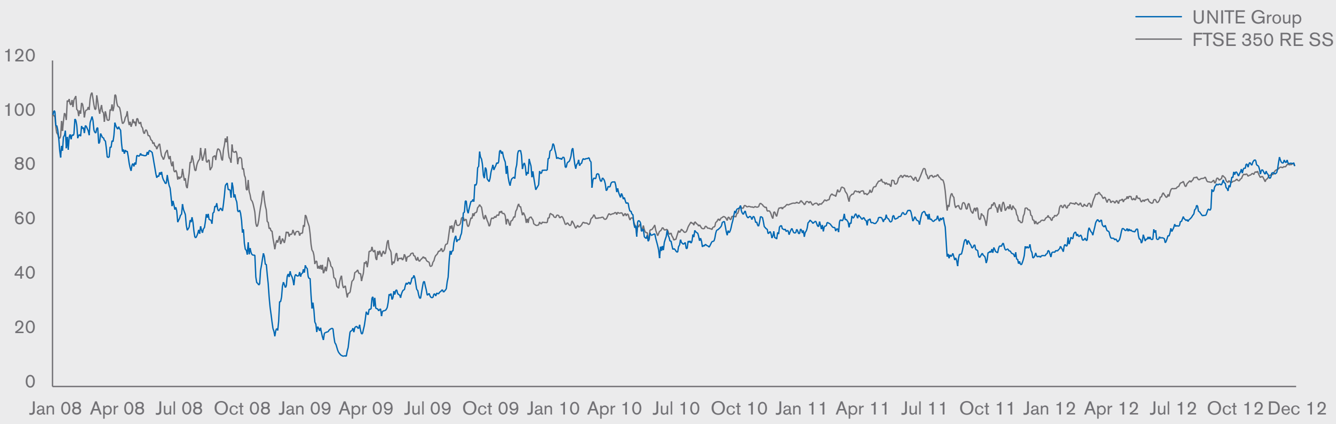
In relation to the awards made under in 2009 under the 2005 LTIP, vesting occurred in April 2012. The level of vesting for the awards was subject, in equal measures, to the NAV and TSR performance of the Company over the three year measurement period. With NAV of 318p per share having been achieved as at 31 December 2011, that resulted in 64.1% of that element of the award vesting whilst, with the Company having been placed fourth in its peer group in terms of TSR performance over the measurement period, 100% of that element of the award vested. Taking account the liability of award holders for employer's national insurance, net vesting prior to deductions to cover income tax and employee's national insurance was at 74.5%.

Awards made in 2010 under the 2005 LTIP are due to vest in April 2013. For Mark Allan and Joe Lister, the level of vesting is again subject in equal measures to the NAV and TSR performance of the Company over the three year measurement period. For award holders who were not Executive Directors at the time of grant (including Richard Simpson), the level of vesting is subject to the NAV, TSR and NPC performance of the Company in equal measures. With the Company having achieved NAV of 350p per share as at 31 December 2012, that will result in 52.6% of that element of the awards vesting and, with NPC of £19.1 million having been achieved in 2012, that will result in 100% of that element of the awards vesting. The extent to which the TSR element of the awards will vest will not be known until April 2013. However, based on performance to 31 December 2012, it is not anticipated that any of this element will vest.

The tables on p.62 and p.63 set out the awards granted to Executive Directors under the 2011 LTIP, the 2005 LTIP and the Unapproved Scheme.

### Performance graph

The following graph charts the TSR of the Company and the FTSE 350 Real Estate 'Super Sector' Index over the five year period from 1 January 2008 to 31 December 2012.




Source: Datastream

Whilst there is no comparator index or group of companies that truly reflects the activities of the Group, the FTSE 350 Real Estate 'Super Sector' Index (the constituent members of which are all property holding and/or development companies or real estate investment trusts within the UK), was chosen as it reflects trends within the UK property market generally and tends to be the index against which analysts judge the performance of the Company.

### Service contracts

In accordance with general market practice, each of the Executive Directors has a rolling service contract requiring 12 months' notice of termination on either side. Such contracts contain no specific provision for compensation for loss of office, other than an obligation to pay for any notice period waived by the Company, where pay is defined as salary plus benefits only.

The dates of the current Executive Directors' service contracts are as follows:

| | |
|---|---|
| M C Allan | 31 October 1999 |
| J J Lister | 28 March 2002 |
| R C Simpson | 28 September 2011 |
| R S Smith | 28 September 2011 |

## NON-EXECUTIVE DIRECTORS

Each of the Chairman and Non-Executive Directors has a specific letter of engagement, the dates of which are set out below:

| | |
|---|---|
| P M White | 10 January 2009 |
| S R H Beevor | 20 February 2004 |
| R S Walker | 3 November 2005 |
| R J T Wilson | 1 December 2010 |
| M J Wolstenholme | 1 December 2011 |
| A Jones | 18 October 2012 |

Subject to annual re-election by shareholders, Non-Executive Directors are appointed for an initial term of approximately three years. Subsequent terms of three years may be awarded. Current appointments will expire at the annual general meeting in 2013 in the case of Stuart Beevor; at the annual general meeting in 2014 in the cases of Richard Walker and Sir Tim Wilson; at the annual general meeting in 2015 in the cases of Phil White and Manjit Wolstenholme; and at the annual general meeting in 2016 in the case of Andrew Jones. The appointment and re-appointment and the remuneration of Non-Executive Directors are matters reserved for the full Board.

With effect from 1 January 2012, the fee payable to the Chairman of the Board is £118,000 per annum and the basic fee payable to each Non-Executive is £41,000 per annum. The fees payable for chairing the Audit, Remuneration and Nomination Committees are £8,500, £6,850 and £6,000 per annum respectively. The fee paid for being Senior Independent Director is £4,750 per annum.

The Non-Executive Directors are not eligible to participate in the Company's performance related bonus plan, long-term incentive plans or pension arrangements.

## DETAILED AUDITED DISCLOSURES

The following tables provide details of emoluments, pension entitlements, rights to share options and long term incentive awards made to Directors who served in 2012. These tables have been audited by KPMG Audit Plc.

### Remuneration summary

| | Fees £'s | Base salaries £'s | Performance bonus £'s | Other benefits* £'s | Total remuneration 2012 £'s | Total remuneration 2011 £'s |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| M C Allan | – | 401,333 | 367,939 | 31,855 | **801,127** | 813,619 |
| J J Lister | – | 250,833 | 232,815 | 14,929 | **498,577** | 494,030 |
| R C Simpson | – | 230,000 | 190,900 | 13,696 | **434,596** | – |
| R S Smith | – | 230,000 | 209,990 | 13,000 | **452,990** | – |
| **Non-Executive Directors (Fees)** | | | | | | |
| P M White | 118,000 | – | – | – | **118,000** | 112,500 |
| N P Hall** | 18,832 | – | – | – | **18,832** | 48,875 |
| S R H Beevor | 52,600 | – | – | – | **52,600** | 48,061 |
| R S Walker | 41,000 | – | – | – | **41,000** | 39,000 |
| R J T Wilson | 47,000 | – | – | – | **47,000** | 39,000 |
| M K Wolstenholme*** | 49,500 | – | – | – | **49,500** | 3,250 |

* Benefits receivable consist primarily of company car or car allowance and private health care insurance.
** The fees paid to Nigel Hall relate to the period 1 January 2012 to 17 May 2012 when he stepped down from the Board.
*** The fees paid to Manjit Wolstenholme in 2011 relate to the period 1 December 2011 (when she joined the Board), to 31 December 2011.

## Pensions

During the year Joe Lister, Richard Simpson and Richard Smith each participated in The UNITE Group Personal Pension Scheme, which is a money purchase scheme, in relation to whom the Company contributed respectively the sums of £50,167, £46,000 and £46,000 in the year (2011: £28,542, £nil and £19,049 respectively). The Company also paid Mark Allan a cash pension allowance of £70,533 (2011: £43,116).

## Share options

| Director | As at 31.12.11 | Granted during the year | Exercised during the year* | Lapsed during the year | As at 31.12.12 | Exercise price | Normal exercise dates |
|---|---|---|---|---|---|---|---|
| M C Allan | 11,823 | – | – | 11,283 | – | 323.5p | 21.03.2005 – 20.03.2012 |
| J J Lister | 8,255 | – | 8,255 | – | – | 129p | 11.10.2005 – 10.10.2012 |
| | 3,154 | – | – | – | 3,154 | 158.5p | 25.09.2006 – 24.09.2013 |
| | 5,235 | – | – | – | 5,235 | 191p | 04.05.2007 – 03.05.2014 |
| | 58,662 | – | – | – | 58,662 | 232.5p | 16.09.2007 – 15.09.2014 |

* On the date of exercise (9 October 2012), the closing mid-market share price was 264.7p.

The highest, lowest and closing share prices for 2012 are shown on p.63.

All options referred to in the table above were granted pursuant to Unapproved Scheme. All options were granted for nil consideration.

Vesting of half the options granted prior to 2004 under the Unapproved Scheme is based on the TSR of the Company against companies included in the FTSE Small Companies Index (excluding investment trusts) over the three year period from the date of grant. Vesting of the other half is based on the Company's NAV growth exceeding the average NAV growth of companies included in the FTSE Small Companies Index (excluding investment trusts) over the three-year period from the date of grant. Options granted under the Unapproved Scheme after 1 January 2004 are subject to performance criteria based solely on TSR against companies included in the FTSE Small Companies Index (excluding investments trusts).

### LTIP awards

| Director | Interests held at 01.01.12 | Interests awarded during year (ordinary shares of 25p each in the Company) | Market price per share when awarded | Interests vested during the year | Interests lapsed in the year | Interests held at 31.12.12 (ordinary shares of 25p each in the Company) | Period of qualifying conditions |
|---|---|---|---|---|---|---|---|
| M C Allan | 415,094 | | 92.75p | 148,498* | 266,596 | – | 09.04.09 – 09.04.12 |
| | 158,436 | | 243p | – | – | 158,436 | 14.04.10 – 14.04.13 |
| | 275,725 | | 213.8p | – | – | 275,725 | 22.06.11 – 22.06.14 |
| | | 329,947 | 185.5p | – | – | 329,947 | 10.04.12 – 10.04.15 |
| J J Lister | 215,633 | | 92.75p | 77,141* | 138,492 | – | 09.04.09 – 09.04.12 |
| | 90,534 | | 243p | – | – | 90,534 | 14.04.10 – 14.04.13 |
| | 161,366 | | 213.8p | – | – | 161,366 | 22.06.11 – 22.06.14 |
| | | 210,270 | 185.5p | – | – | 210,270 | 10.04.12 – 10.04.15 |
| R C Simpson | 90,296 | | 92.75p | 32,303* | 57,993 | – | 09.04.09 – 09.04.12 |
| | 69,222 | | 156.8p | – | – | 69,222 | 05.10.11 – 05.10.14 |
| | | 158,057 | 185.5p | – | – | 158,057 | 10.04.12 – 10.04.15 |
| R S Smith | 74,313 | | 156.8p | – | – | 74,313 | 05.10.11 – 05.10.14 |
| | | 158,057 | 185.5p | – | – | 158,057 | 10.04.12 – 10.04,15 |

* After deductions to satisfy income tax and national insurance liabilities. Details of the qualifying performance conditions in relation to the above referred to awards made in 2009 (under the 2005 LTIP), and in 2011 and in 2012 (under the 2011 LTIP) are set out above under the heading Long Term Incentives. Those details should also be taken as forming part of the 'auditable part' of this Report.

The awards made under the 2005 LTIP took the form of restricted share awards; the awards made in 2011 to Mark Allan and Joe Lister took the form of nil cost options under the PSP, whilst the awards made in 2011 to Richard Simpson and Richard Smith and each of the awards made in 2012 took the form of a combination of nil cost options under the PSP and HMRC approved options under the ESOS. No variations have been made to the terms or conditions of any awards.

The fair value in respect of Directors' share options and LTIP awards recognised in the Income Statement is as follows:

| | 2012 £ | 2011 £ |
|---|---|---|
| M C Allan | **371,789** | 278,133 |
| J J Lister | **197,504** | 133,929 |
| R C Simpson | **131,312** | 79,710 |
| R S Smith | **73,715** | 6,562 |
| | **774,320** | 498,334 |

## Directors' interests

A table setting out the beneficial interests of the Directors and their families in the share capital of the Company as at 31 December 2012 is set out below.

| Directors | Ordinary Shares of 25p each 31 December 2012 | Ordinary Shares of 25p each 31 December 2011 |
|---|---|---|
| M C Allan* | 538,723 | 966,483 |
| J J Lister** | 335,916 | 474,408 |
| R C Simpson*** | 99,273 | 157,266 |
| R S Smith | – | – |
| P M White | 10,000 | 10,000 |
| S R H Beevor | 9,986 | 9,986 |
| R Walker | 10,000 | 10,000 |
| R J T Wilson | 5,730 | 5,730 |
| M K Wolstenholme | 7,300 | – |

* Mr Allan's interests include 158,436 ordinary shares conditionally awarded to him pursuant to the terms of the 2005 LTIP. The number of such shares that will unconditionally vest in Mr Allan pursuant to that award will be determined following the end of the three year measurement period.

** Mr Lister's interests include 90,534 ordinary shares conditionally awarded to him pursuant to the 2005 LTIP. The number of such shares that will unconditionally vest in Mr Lister pursuant to that award will be determined following the end of the three year measurement period.

*** Mr Simpson's interests include 55,555 ordinary shares conditionally awarded to him pursuant to the 2005 LTIP. The number of such shares that will unconditionally vest in Mr Simpson pursuant to that award will be determined following the end of the three year measurement period.

None of the Directors has a beneficial interest in the shares of any other Group company. Since 31 December 2012, there have been no changes in the Directors' interests in shares.

Details of Directors' share options (including nil cost options awarded pursuant to the 2011 LTIP) are set out above.

## Share price information

As at 31 December 2012 the middle market price for ordinary shares in the Company was 276.3p per share. During the course of the year, the market price of the Company's shares ranged from 164p to 287p per ordinary share.

## APPROVAL

The Remuneration Report was approved by the Board on 6 March 2013 and signed on its behalf by Stuart Beevor.

# Nomination Committee report

## NOMINATION COMMITTEE REPORT

**Dear Shareholder,**

On the following pages is set out the Nomination Committee Report for 2012. The report comprises the following sections:

- **Committee overview**
- **Activities during 2012**

**Sir Tim Wilson**
**6 March 2013**

## COMMITTEE OVERVIEW

### Composition

The Committee is comprised entirely of Non-Executive Directors. The current members are:

- Sir Tim Wilson (Chairman)
- Phil White
- Stuart Beevor
- Richard Walker
- Manjit Wolstenholme
- Andrew Jones

At the invitation of the Committee, any other Director or other person may be invited to attend meetings of the Committee if considered desirable in assisting the Committee in fulfilling its role.

### Role

The role of the Committee is to:

- Ensure that appropriate procedures are adopted and followed in the nomination, selection, training, evaluation and re-election of Directors and for succession planning, with due regard in all cases to the benefits of diversity on the Board, including gender
- Regularly review the structure, size, composition, skills and experience of the Board and to make recommendations with regard to any adjustments considered necessary
- When it is agreed that an appointment to the Board should be made, to lead a selection process that is formal, rigorous and transparent
- Be responsible for identifying, reviewing and recommending candidates for appointment to the Board.

## ACTIVITIES IN 2012

The major activity of the Committee in 2012 was the selection of a candidate to replace Stuart Beevor (who retires from the Board at the annual general meeting), as a Non-Executive Director. Stuart has extensive knowledge of the contemporary real estate sector and, in order to maintain the balance of experience on the Board, it was considered appropriate to seek to recruit a replacement with similar experience.

Ordinarily, the Committee would appoint an external search consultancy to identify suitable potential Non-Executive candidates. However, in this instance, given the extensive knowledge of the Board and its professional advisers in relation to the potential Non-Executive candidate base in the commercial real estate sector, it was agreed that efforts would, in the first instance, be made to identify a short list of potential candidates without recourse to an external search consultancy. Those efforts were successful in producing a strong list of candidates and, following a series of meetings with potential non-executive directors, Andrew Jones was invited to join the Board, which he did on 1 February 2013. Biographical details of Andrew Jones are set out on p.41.

## APPROVAL

The Nomination Committee Report was approved by the Board on 6 March 2013 and signed on its behalf by Sir Tim Wilson.

# Other governance and statutory disclosures

## Principal activities

The principal activities of the Group during the year were the development and management of student residential accommodation in the United Kingdom. Details of the Company and its principal subsidiaries are set out on p.94.

## Substantial shareholdings

As at 6 March 2013 the Company had received notifications from the following companies and institutions of the voting interests of themselves and their clients in 3% or more of the issued ordinary share capital of the Company.

| Shareholder | Percentage of Share Capital |
|---|---|
| FMR LLL | 9.7 |
| Old Mutual Asset Management Limited | 5.3 |
| JP Morgan Asset Management Holdings Inc | 4.9 |
| APG Algemene Pensioen Groep NV | 4.9 |
| Perennial Investment Partners (Australia) Limited | 4.8 |
| Royal London Asset Management Limited | 4.3 |
| FIL Limited | 3.7 |
| Orange European Property Fund NV | 3.6 |
| Allianz SE | 3.2 |

## Share Capital

At the date of this report, there are 160, 464, 449 ordinary shares of 25p each in issue, all of which are fully paid-up and quoted on the London Stock Exchange.

During the year, a total of 18,937 ordinary shares of 25p each were allotted and issued pursuant to the exercise of options under The UNITE Group plc Savings Related Share Option Scheme (5,976 at a price of 138.5p per share, 5,615 at a price of 162p per share, 1,013 at a price of 189.5p per share and 6,333 at a price of 221.5p per share). In addition, 8,255 ordinary shares of 25p each were allotted and issued pursuant to the exercise of options under the Approved Scheme at a price of 129p per share and 162,790 ordinary shares of 25p each were allotted and issued pursuant to the exercise of options under the Unapproved Scheme, again at price of 129p per share.

The rights attaching to the Company's ordinary shares, as well as the powers of the Company's Directors, are set out in the Company's articles of association.

There are no restrictions on the transfer or voting rights of ordinary shares in the capital of the Company (other than those which may be imposed by law from time to time or as set out in the Company's articles of association).

In accordance with the Disclosure and Transparency Rules, certain employees are required to seek approval to deal in the Company's shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfers of securities and/or voting rights. No person holds securities in the Company carrying special rights with regard to control of the Company. Unless expressly specified to the contrary, the Company's articles of association may be amended by special resolution of the shareholders.

## Change of control

All of the Company's share schemes contain provisions relating to a change of control. Outstanding rewards and options would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions. Other than certain of the Group's banking facilities, there are no other significant agreements to which the Company is a party that affect, alter or terminate upon a change of control of the Company following a takeover bid. Nor are there any agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

## Purchase of own shares

The Directors have no authority to buy-back the Company's shares.

Details of proposals to be put to the annual general meeting in relation to the power of Directors to issue shares in the Company are set out under the heading 'annual general meeting'.

## Creditor payment policy

During the year, the Company maintained its policy of agreeing and abiding by supplier payment terms. The Group has not followed any recognised code for payment practice. As at 31 December 2012, the Group's trade creditors were equivalent to 13 days purchases (2011: 31 days). The Company does not have any trade creditors (2011: Nil).

# Other governance and statutory disclosures continued

## Going concern

After making enquiries, the Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

## Disclosure of Information to Auditors

The Directors who held office at the date of approval of the Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

As recommended by the Audit Committee, a resolution for the re-appointment of KPMG Audit plc as auditor to the Company will be proposed at the annual general meeting.

## Annual general meeting

The annual general meeting of the Company will be held at The Core, 40 St Thomas Street, Bristol BS1 6JX at 9.30 a.m. on 16 May 2013. Formal notice of the meeting is given on p.108 to p.111.

In addition to the ordinary business of the meeting, Resolution 15 will be proposed as an ordinary resolution to grant the Directors authority to allot shares in the Company, and grant rights to subscribe for or to convert any security into shares of the Company, up to an aggregate of nominal value of £13,372,037 (representing approximately one third of the issued share capital of the Company as at 6 March 2013). In accordance with guidelines issued by the Association of British Insurers, this resolution also grants the Directors authority to allot further equity securities up to an aggregate nominal value of £13,372,037, again representing approximately one third of the nominal value of the issued ordinary share capital of the Company as at 6 March 2013. This additional authority may only be applied to fully pre-emptive rights issues.

Resolution 16 will be proposed as a Special Resolution to authorise the Directors to allot equity securities for cash other than in accordance with statutory pre-emption rights (which require a company to offer all allotments for cash first to existing shareholders in proportion to their holdings), in respect of the allotment of shares in connection with any rights issue or other issue by way of rights and otherwise up to an aggregate nominal amount of £2,005,805 (representing approximately five per cent of the issued share capital of the Company as at 6 March 2013).

The Board has no current intention of exercising either of the authorities conferred by the above resolutions. Unless revoked, varied or extended, those authorities will expire at the conclusion of the next annual general meeting of the Company or the date following 15 months from the passing of the resolutions, whichever is the earlier.

The Companies (Shareholders' Rights) Regulations 2009 (the Shareholders' Rights Regulations), increased the notice period for general meetings of the Company to 21 days unless shareholders approve a shorter notice period, which cannot be less than 14 clear days. At the annual general meeting of the Company held in 2012, shareholders authorised the calling of general meetings, other than an annual general meeting, on not less than 14 clear days' notice. Resolution 17 seeks the approval of shareholders to renew the authority to be able to call general meetings (other than an annual general meeting), on 14 clear days' notice. The flexibility offered by Resolution 17 will be used where, taking into account the circumstances, the Directors consider this appropriate in relation to the business of the meeting and in the interests of the Company and shareholders as a whole. The Company undertakes to meet the requirements for electronic voting under the Shareholders' Rights Regulations before calling a general meeting on 14 clear days' notice. If given, the approval will be effective until the Company's next annual general meeting, when it is intended that a similar resolution will be proposed.

By order of the Board

**A D Reid**
**Secretary**
**6 March 2013**

# Statement of Directors' responsibilities in respect of the Annual Report and the financial statements

The Directors are responsible for preparing the Annual Report and Accounts and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period.

In preparing each of the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgments and estimates that are reasonable and prudent
- State whether they have been prepared in accordance with IFRSs as adopted by the EU
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, the name of whom are set out on p.40 and p.41, confirms that to the best of his or her 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 and loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The Directors' 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.

**M C Allan**
Director
6 March 2013

**J J Lister**
Director

# Independent auditor's report to the members of the UNITE Group plc

We have audited the financial statements of The UNITE Group plc for the year ended 31 December 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statement of Changes in Shareholders' Equity, the Group and Company Statements of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 67, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/auditscopeukprivate.

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2012 and of the group's profit for the year then ended
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements
- information given in the Corporate Governance Statement set out on page 45 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns
- certain disclosures of directors' remuneration specified by law are not made
- we have not received all the information and explanations we require for our audit
- a Corporate Governance Statement has not been prepared by the Company

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 66, in relation to going concern
- the part of the Corporate Governance Statement on pages 42 to 51 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review
- certain elements of the report to shareholders by the Board on Directors' remuneration

**William Meredith (Senior Statutory Auditor)**
**for and on behalf of KPMG Audit Plc, Statutory Auditor**
**Chartered Accountants**
15 Canada Square
London
E14 5GL

6 March 2013

# Introduction and table of contents

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

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

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

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 2012

| | Note | 2012 Total £m | 2011 Excluding UMS £m | 2011 UMS £m | 2011 Total £m |
|---|---|---|---|---|---|
| **Revenue** | 2.4 | **214.6** | **83.5** | **11.4** | **94.9** |
| Cost of sales | | (145.2) | (42.2) | (20.5) | (62.7) |
| Operating expenses | | (28.0) | (27.2) | (11.9) | (39.1) |
| Results from operating activities | | 41.4 | 14.1 | (21.0) | (6.9) |
| Loss on disposal of property | | (2.4) | (0.2) | – | (0.2) |
| Net valuation gains on property | 3.1 | 29.8 | 7.7 | – | 7.7 |
| Valuation gains recognised on transfer | 3.1 | 49.7 | – | – | – |
| **Profit before net financing costs** | | **118.5** | **21.6** | **(21.0)** | **0.6** |
| Loan interest and similar charges | 4.3 | (16.0) | (8.7) | – | (8.7) |
| Mark to market changes in interest rate swaps | 4.3 | (7.6) | (10.6) | – | (10.6) |
| Finance costs | 4.3 | (23.6) | (19.3) | – | (19.3) |
| Finance income | 4.3 | 1.0 | 0.8 | – | 0.8 |
| **Net financing costs** | 4.3 | **(22.6)** | **(18.5)** | **–** | **(18.5)** |
| Share of joint venture profit | 3.4b | 30.3 | 22.6 | – | 22.6 |
| **Profit before tax** | 2.2a | **126.2** | **25.7** | **(21.0)** | **4.7** |
| Tax | 2.6 | 1.0 | (0.8) | – | (0.8) |
| **Profit for the year** | | **127.2** | **24.9** | **(21.0)** | **3.9** |
| **Profit for the period attributable to** | | | | | |
| Owners of the parent company | 2.2b | 125.6 | 23.1 | (21.0) | 2.1 |
| Minority interest | | 1.6 | 1.8 | – | 1.8 |
| | | 127.2 | 24.9 | (21.0) | 3.9 |
| **Earnings per share** | | | | | |
| Basic | 2.2b | 78.3p | 14.4p | (13.1p) | 1.3p |
| Diluted | 2.2b | 78.3p | 14.4p | (13.1p) | 1.3p |

Included above is £49.7 million (2011: £nil) of valuation gains not previously recognised on property transferred from current assets to non-current assets during the year.

# Consolidated statement of comprehensive income

For the year ended 31 December 2012

| | 2012 £m | 2011 £m |
|---|---|---|
| **Profit for the period** | **127.2** | **3.9** |
| Movements in effective hedges | 0.6 | (2.6) |
| Gains on hedging instruments transferred to income statement | 2.5 | – |
| Share of joint venture movements in effective hedges | 2.7 | 0.1 |
| Other comprehensive income for the period | 5.8 | (2.5) |
| **Total comprehensive income for the period** | **133.0** | **1.4** |
| **Attributable to** | | |
| Owners of the parent company | 131.4 | (0.2) |
| Minority interest | 1.6 | 1.6 |
| | 133.0 | 1.4 |

All movements above are shown net of deferred tax.

# Consolidated balance sheet

At 31 December 2012

| | Note | 2012 £m | 2011 £m |
|---|---|---|---|
| **Assets** | | | |
| Investment property | 3.1 | 762.8 | 396.2 |
| Investment property under development | 3.1 | 37.6 | – |
| Investment in joint ventures | 3.4b | 194.8 | 173.0 |
| Joint venture investment loans | 3.4b | 11.2 | 14.1 |
| Other non-current assets | 3.3 | 5.0 | 6.8 |
| **Total non-current assets** | | **1,011.4** | **590.1** |
| Completed property | 3.1 | – | 198.7 |
| Properties under development | 3.1 | 26.5 | 135.2 |
| Inventories | 3.2 | 1.7 | 8.4 |
| Trade and other receivables | 5.2 | 53.5 | 41.0 |
| Cash and cash equivalents | 5.1 | 75.4 | 16.8 |
| **Total current assets** | | **157.1** | **400.1** |
| **Total assets** | | **1,168.5** | **990.2** |
| **Liabilities** | | | |
| Borrowings | 4.1 | (100.2) | (29.2) |
| Interest rate swaps | 4.2 | (0.7) | – |
| Trade and other payables | 5.4 | (82.0) | (84.4) |
| Provisions | 2.5 | (0.5) | (6.3) |
| Current tax creditor | | (0.5) | (0.4) |
| **Total current liabilities** | | **(183.9)** | **(120.3)** |
| Borrowings | 4.1 | (427.7) | (421.5) |
| Interest rate swaps | 4.2 | (23.0) | (39.0) |
| Provisions | 2.5 | (0.2) | (4.7) |
| **Total non-current liabilities** | | **(450.9)** | **(465.2)** |
| **Total liabilities** | | **(634.8)** | **(585.5)** |
| **Net assets** | | **533.7** | **404.7** |
| **Equity** | | | |
| Issued share capital | | 40.1 | 40.1 |
| Share premium | | 249.2 | 249.0 |
| Merger reserve | | 40.2 | 40.2 |
| Retained earnings | | 195.0 | 72.8 |
| Hedging reserve | | (8.7) | (14.5) |
| **Equity attributable to the owners of the parent company** | | **515.8** | **387.6** |
| Minority interest | | 17.9 | 17.1 |
| **Total equity** | | **533.7** | **404.7** |

These financial statements were approved by the Board of Directors on 6 March 2013 and were signed on its behalf by:

**M C Allan**
**Director**

**J J Lister**
**Director**

# Company balance sheet

At 31 December 2012

| | Note | 2012 £m | 2011 £m |
|---|---|---|---|
| **Assets** | | | |
| Investments in subsidiaries | 3.5a | 228.4 | 112.0 |
| Investments in joint ventures | 3.5a | – | 2.5 |
| Total investments | | 228.4 | 114.5 |
| | | | |
| Loan to group undertaking | 3.5a | 90.0 | – |
| Joint venture investment loan | 3.5a | – | 3.9 |
| **Total non-current assets** | | **318.4** | **118.4** |
| | | | |
| Amounts due from group undertakings | 5.2 | 321.5 | 317.7 |
| Cash and cash equivalents | 5.1 | – | 0.1 |
| **Total current assets** | | **321.5** | **317.8** |
| **Total assets** | | **639.9** | **436.2** |
| | | | |
| **Current liabilities** | | | |
| Borrowings | 4.1 | (1.2) | – |
| Amounts due to group undertakings | 5.4 | (29.7) | (29.7) |
| Other payables | 5.4 | (3.2) | (3.0) |
| **Total current liabilities** | | **(34.1)** | **(32.7)** |
| | | | |
| Borrowings | 4.1 | (90.0) | – |
| **Total non-current liabilities** | | **(90.0)** | **–** |
| **Total liabilities** | | **(124.1)** | **(32.7)** |
| | | | |
| **Net assets** | | **515.8** | **403.5** |
| | | | |
| **Equity** | | | |
| Issued share capital | | 40.1 | 40.1 |
| Share premium | | 249.2 | 249.0 |
| Merger reserve | | 40.2 | 40.2 |
| Retained earnings | | 23.6 | 25.4 |
| Revaluation reserve | | 162.7 | 48.8 |
| **Total equity** | | **515.8** | **403.5** |

Total equity is wholly attributable to equity holders of The UNITE Group plc.

These financial statements were approved by the Board of Directors on 6 March 2013 and were signed on its behalf by:

**M C Allan**
**Director**

**J J Lister**
**Director**

# Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2012

| | Issued share capital £m | Share premium £m | Merger reserve £m | Retained earnings £m | Hedging reserve £m | Attributable to owners of the parent £m | Minority interest £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2012** | **40.1** | **249.0** | **40.2** | **72.8** | **(14.5)** | **387.6** | **17.1** | **404.7** |
| Profit for the period | – | – | – | 125.6 | – | 125.6 | 1.6 | 127.2 |
| Other comprehensive income for the period | – | – | – | – | 5.8 | 5.8 | – | 5.8 |
| Total comprehensive income for the period | – | – | – | 125.6 | 5.8 | 131.4 | 1.6 | 133.0 |
| Shares issued | – | 0.2 | – | – | – | 0.2 | – | 0.2 |
| Fair value of share based payments | – | – | – | 1.5 | – | 1.5 | – | 1.5 |
| Own shares acquired | – | – | – | (1.3) | – | (1.3) | – | (1.3) |
| Dividends paid to owners of the parent company | – | – | – | (3.6) | – | (3.6) | – | (3.6) |
| Dividends to minority interest | – | – | – | – | – | – | (0.8) | (0.8) |
| **At 31 December 2012** | **40.1** | **249.2** | **40.2** | **195.0** | **(8.7)** | **515.8** | **17.9** | **533.7** |

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

# Company statement of changes in shareholders' equity

For the year ended 31 December 2012

| | Issued share capital £m | Share premium £m | Merger reserve £m | Retained earnings £m | Revaluation reserve £m | Total £m |
|---|---|---|---|---|---|---|
| **At 1 January 2012** | **40.1** | **249.0** | **40.2** | **25.4** | **48.8** | **403.5** |
| Loss for the period | – | – | – | (0.7) | – | (0.7) |
| Transfer on sale of joint venture | – | – | – | 2.5 | (2.5) | – |
| Revaluation of investments in subsidiaries and joint ventures | – | – | – | – | 116.4 | 116.4 |
| Shares issued | – | 0.2 | – | – | – | 0.2 |
| Dividends to shareholders | – | – | – | (3.6) | – | (3.6) |
| **At 31 December 2012** | **40.1** | **249.2** | **40.2** | **23.6** | **162.7** | **515.8** |

| | Issued share capital £m | Share premium £m | Merger reserve £m | Retained earnings £m | Revaluation reserve £m | Total £m |
|---|---|---|---|---|---|---|
| **At 1 January 2011** | **40.1** | **249.0** | **40.2** | **27.1** | **44.8** | **401.2** |
| Loss for the period | – | – | – | (0.9) | – | (0.9) |
| Revaluation of investments in subsidiaries and joint ventures | – | – | – | – | 4.0 | 4.0 |
| Dividends to shareholders | – | – | – | (0.8) | – | (0.8) |
| **At 31 December 2011** | **40.1** | **249.0** | **40.2** | **25.4** | **48.8** | **403.5** |

# Statements of cash flows

For the year ended 31 December 2012

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2012 £m | 2011 £m | 2012 £m | 2011 £m |
| **Cash flows from operating activities** | 5.1 | **58.4** | **(74.0)** | **(2.4)** | **(2.4)** |
| **Cash flows from taxation** | | **(0.9)** | **(0.6)** | **–** | **–** |
| **Investing activities** | | | | | |
| Proceeds from sale of investment property | | 27.5 | 8.3 | – | – |
| Payments to/on behalf of subsidiaries | | – | – | (13.2) | (42.0) |
| Payments from subsidiaries | | – | – | 14.1 | 42.6 |
| Repayment received of joint venture investment loan | | – | – | 3.9 | – |
| Loan to subsidiaries | | – | – | (90.0) | – |
| Dividends received | | 9.6 | 8.9 | – | 2.3 |
| Interest received | | 0.2 | 0.1 | – | – |
| Acquisition of intangible assets | | (1.6) | (1.5) | – | – |
| Acquisition of property | | (49.5) | (18.3) | – | – |
| Acquisition of plant and equipment | | (0.2) | (0.6) | – | – |
| **Cash flows from investing activities** | | **(14.0)** | **(3.1)** | **(85.2)** | **2.9** |
| **Financing activities** | | | | | |
| Total interest paid | | (21.1) | (15.0) | (0.3) | (0.1) |
| Interest capitalised into inventory and property under development included in cash flows from operating activities | | 5.1 | 7.1 | – | – |
| Interest paid in respect of financing activities | | (16.0) | (7.9) | (0.3) | (0.1) |
| Ineffective swap payments | | (18.8) | (11.7) | – | – |
| Proceeds from the issue of share capital | | 0.2 | – | 0.2 | – |
| Payments to acquire own shares | | (1.3) | (0.1) | – | – |
| Proceeds from non-current borrowings | | 291.3 | 113.6 | 90.0 | – |
| Repayment of borrowings | | (235.9) | (21.7) | – | – |
| Dividends paid to the owners of the parent company | | (3.6) | (0.8) | (3.6) | (0.8) |
| Dividends paid to minority interest | | (0.8) | (0.7) | – | – |
| **Cash flows from financing activities** | | **15.1** | **70.7** | **86.3** | **(0.9)** |
| **Net increase / (decrease) in cash and cash equivalents** | | **58.6** | **(7.0)** | **(1.3)** | **(0.4)** |
| Cash and cash equivalents at start of year | | 16.8 | 23.8 | 0.1 | 0.5 |
| **Cash and cash equivalents at end of year** | 5.1 | **75.4** | **16.8** | **(1.2)** | **0.1** |

# Notes to the financial statements

## Section 1: Basis of preparation

**This section lays out the Group's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to a particular note to the financial statements, the policy is described in the note to which it relates and has been clearly identified in a box.**

The financial statements consolidate those of The UNITE Group plc, (the Company) and its subsidiaries (together referred to as the Group) and include the Group's interests in jointly controlled entities. The parent company financial statements present information about the Company as a separate entity and not as a group.

Both the parent company financial statements and the group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRS). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes.

The accounting policies have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

The Company is domiciled in the United Kingdom.

### Going concern

The Group's business activities, together with the factors likely to affect its future development and position are set out in the Business Review on pages 22 to 37. 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 5.3 its exposure to credit risk.

The Group has prepared cash flow projections until the end of 2014. The Group has borrowing facilities expiring in 2013 and 2014, but has capacity in place within existing committed facilities to refinance all of the 2013 expiries. Plans are also in place to refinance remaining debt facilities that mature in 2013 and 2014 over the course of the next 12 months. Historically the Group has maintained positive relationships with lenders and has arranged a significant level of new debt every year to manage its debt position and remain within its borrowing covenants. The Group is in full compliance with its borrowing covenants at 31 December 2012 as set out in note 4.5c.

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

### Measurement convention

The financial statements are prepared on the historical cost basis except for investment property, investment property under development, investments in subsidiaries, interest rate swaps and land and buildings included in property, plant and equipment all of which are stated at their fair value.

### Basis of consolidation

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised gains and losses arising from intra-group transactions, such as property disposals and management fees are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with joint ventures are eliminated to the extent of the Group's retained interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains except where the loss provides evidence of a reduction in the net realisable value of current assets or an impairment in value of fixed assets.

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

There are no new standards, amendments or interpretations which are effective for the first time in 2012.

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income' (mandatory for year commencing on or after 1 July 2012). The amendments require an entity to present the items of other comprehensive that may be recycled to profit or loss in the future if certain conditions are met, separately from those that would never be recycled to profit or loss. Consequently, as the Group presents items of other comprehensive income before related income tax effects the aggregated income tax amount would need to be allocated between those sections.
- IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements, IFRS 11 Joint Arrangements and Amendments to IAS 28 (2008) Investments in Associates and Joint Ventures and IFRS 12 Disclosure of Interests in Other Entities are all mandatory for years commencing on or after 1 January 2014. These are part of a new suite of standards on consolidation and related standards, replacing the existing accounting for subsidiaries and joint ventures (now joint arrangements), and making limited amendments in relation to associates.
- IFRS 13 Fair Value Measurement (mandatory for year commencing on or after 1 January 2013).
- Amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities' (mandatory for years commencing on or after 1 January 2013).

## Section 1: Basis of preparation continued

### Accounting estimates and judgements

The preparation of financial statements requires management to exercise judgement in applying the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis with revisions recognised in the period in which the estimates are revised and in any future periods affected.

#### Transfer of properties held as current assets

In December 2012, the Board decided to transfer most of the properties held as current assets to investment property based on a change of use. All of these properties are being leased to customers and the Board has now concluded that these assets are no longer likely to be sold in the near term but will be held for rental income and capital growth.

Since the establishment of the UNITE UK Student Accommodation Fund (USAF) in 2006, the Group has been required to offer all newly completed properties which meet certain performance criteria for sale to USAF, and USAF may be required to purchase assets which meet certain conditions. Hence these assets have been accounted for as current assets since that time. More recently USAF has had limited equity available to purchase property and the Group strategy has also shifted to holding property longer term. The Group will continue to make strategic disposals to manage the quality of the portfolio and the gearing levels in the business.

During the second half of 2012 the Group entered into a new joint venture intending to develop and hold investment property in London and designed to be its primary development vehicle. The Group has also secured further long term funding with Legal and General and with the issue of its retail bond, this supports the Group strategy to hold property for the longer term.

It is the combination of these factors that has led the Group to conclude that transfer is now appropriate. As shown in note 3.1, this has resulted in the recognition in the income statement of £49.7 million of revaluation gains not previously recognised in the IFRS statements.

There remain a few properties under development which have not been transferred as there is a clear current intention to sell these in the near future.

The other areas involving a higher degree of judgement of complexity are set out below and are explained in more detail in the related notes to the financial statements.

The accounting policy descriptions set out the areas where judgement needs exercising, the most significant of which are as follows:

- Classification of joint venture vehicles (note 3.4)

The areas involving the most sensitive estimates and assumptions that are significant to the financial statements are set out below and in more detail in the related notes:

- Valuation of investment property, investment property under development, completed property and properties under development (note 3.1)
- Onerous contract provisions (note 2.5)
- Taxation (note 2.6)
- Valuation of interest rate swaps (note 4.2)
- Impairment of trade receivables (note 5.2)

# Notes to the financial statements continued

## Section 2: Results for the year

**This section focuses on the results and performance of the Group. On the following pages you will find disclosures explaining the Group's results for the year, segmental information, taxation, earnings and adjusted net asset value (NAV) per share.**

**Net portfolio contribution (NPC) and NAV movement are the Group's main key performance indicators. This reflects the way the business is managed and how the directors assess the performance of the Group.**

### 2.1 Segmental information

The Board of Directors monitor the business along two activity lines. The reportable segments for the years ended 31 December 2012 and 31 December 2011 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 Board therefore does not consider that the Group has meaningful geographical segments.

#### a) Operations

The Operations business 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. NPC is the key indicator which is used by the Board to manage the Operations business. The segmental result is outlined below.

2012

| | UNITE | Share of joint ventures | | | | | | Group on see through basis |
|---|---|---|---|---|---|---|---|---|
| | Total £m | USAF £m | UCC £m | LSAV £m | OCB £m | USV £m | Total £m | Total £m |
| Rental income | 79.4 | 18.8 | 9.4 | 0.3 | 3.3 | 0.2 | 32.0 | 111.4 |
| Property operating expenses | (24.6) | (5.6) | (1.5) | – | (0.6) | – | (7.7) | (32.3) |
| **Net operating income** | **54.8** | **13.2** | **7.9** | **0.3** | **2.7** | **0.2** | **24.3** | **79.1** |
| Management fees | 13.2 | (1.4) | (1.2) | – | (0.3) | – | (2.9) | 10.3 |
| Operating expenses | (21.5) | (0.1) | – | (0.1) | (0.1) | – | (0.3) | (21.8) |
| | 46.5 | 11.7 | 6.7 | 0.2 | 2.3 | 0.2 | 21.1 | 67.6 |
| Operating lease rentals* | (12.8) | – | – | – | – | – | – | (12.8) |
| Net financing costs | (24.7) | (5.3) | (3.8) | (0.1) | (1.7) | (0.1) | (11.0) | (35.7) |
| **Net portfolio contribution** | **9.0** | **6.4** | **2.9** | **0.1** | **0.6** | **0.1** | **10.1** | **19.1** |

Included in the UNITE total above is rental income of £18.5 million and property operating expenses of £5.5 million relating to sale and leaseback properties.

2011

| | UNITE | Share of joint ventures | | | | | | Group on see through basis |
|---|---|---|---|---|---|---|---|---|
| | Total £m | USAF £m | UCC £m | LSAV £m | OCB £m | USV £m | Total £m | Total £m |
| Rental income | 63.6 | 17.8 | 8.1 | – | 3.1 | 3.0 | 32.0 | 95.6 |
| Property operating expenses | (21.7) | (5.0) | (1.2) | – | (0.5) | (1.0) | (7.7) | (29.4) |
| **Net operating income** | **41.9** | **12.8** | **6.9** | **–** | **2.6** | **2.0** | **24.3** | **66.2** |
| Management fees | 12.8 | (1.3) | (1.1) | – | (0.3) | – | (2.7) | 10.1 |
| Operating expenses | (21.2) | (0.2) | (0.1) | – | (0.1) | – | (0.4) | (21.6) |
| | 33.5 | 11.3 | 5.7 | – | 2.2 | 2.0 | 21.2 | 54.7 |
| Operating lease rentals* | (12.6) | – | – | – | – | – | – | (12.6) |
| Net financing costs | (18.8) | (5.3) | (4.0) | – | (1.7) | (1.3) | (12.3) | (31.1) |
| **Net portfolio contribution** | **2.1** | **6.0** | **1.7** | **–** | **0.5** | **0.7** | **8.9** | **11.0** |

Included in the UNITE total above is rental income of £18.0 million and property operating expenses of £6.2 million relating to sale and leaseback properties.

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

## Section 2: Results for the year continued

### 2.1 Segmental information continued

#### b) Property

The Group's Property business undertakes the acquisition and development of properties. This included the manufacture and sale of modular building components in the first half of 2012 prior to the business closure, through UNITE Modular Solutions Limited, 'UMS'. The Property Segment's revenue comprises revenue from development management fees earned from joint ventures; and the sale of modules to third parties and joint ventures, as set out in note 2.4. The Property segmental result is set out below.

| | 2012 £m | 2011 £m |
|---|---|---|
| Pre-contract, abortive and other costs | (2.7) | (3.3) |
| UMS losses | (1.0) | (21.0) |
| **Property segment result*** | **(3.7)** | **(24.3)** |

* The Group has restated its Property Segment result in 2011 to exclude profits from the sale of properties and property impairments; so that it's adjusted profit is presented consistently with that recommended by EPRA, except for minority interest. All periods presented have been restated accordingly (see note 2.2 for more details).

The UMS loss in 2012 includes trading losses of £nil (2011: £5.5 million) together with a provision of £1.0 million (2011: £5.6 million) for completing loss making contracts; provisions for onerous leases of nil (2011: £5.4 million); and impairment of other fixed assets of £nil (2011: £3.7 million) and inventory of £nil (2011: £0.8 million).

#### c) Segmental contribution to NAV

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

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

| | Note | 2012 £m | 2011 £m |
|---|---|---|---|
| **Operations** | | | |
| Net portfolio contribution | 2.1a | **19.1** | **11.0** |
| **Property** | | | |
| Rental growth | | 33.8 | 22.9 |
| Yield movement | | (6.1) | – |
| Disposals and acquisition costs | | (1.4) | 0.6 |
| Capital expenditure and refurbishments | | 1.8 | – |
| Rental property gains | | 28.1 | 23.5 |
| Development property gains | | 23.7 | 33.3 |
| | | **51.8** | **56.8** |
| UMS | | (1.0) | (21.0) |
| Pre-contract and other development costs | | (2.7) | (3.4) |
| Total property | | **48.1** | **32.4** |
| **Unallocated** | | **(15.2)** | **(3.4)** |
| **Total adjusted NAV movement in the period** | | **52.0** | **40.0** |
| Total adjusted NAV brought forward | | 514.5 | 474.5 |
| **Total adjusted NAV carried forward** | 2.3a | **566.5** | **514.5** |

The unallocated amount includes cash received from Landsbanki of £2.9 million (2011: £nil), restructuring costs of £nil (2011: £1.6 million), dividends of £3.6 million (2011: £0.8 million), current tax charges of £0.4 million (2011: £0.4 million), costs relating to the set-up of LSAV £1.7 million (2011: £nil) and swap losses, associated with the early termination of swaps relating to refinancing activity of £10.4 million (2011: £0.5 million).

## Section 2: Results for the year continued

### 2.2 Adjusted profit and EPS

In addition to the IFRS reporting measures, the Group reports adjusted profit on the basis recommended for real estate companies by EPRA, the European Public Real Estate Association, except for minority interests. The calculation of adjusted profit/(loss) and adjusted earnings per share has been changed in the period to exclude the impact of property disposals and trading in order to align adjusted profit/(loss) with that recommended by EPRA and to remove the fluctuations these items cause to Group's underlying recurring profits. Prior period numbers have been restated to present the results on a consistent basis.

#### a) Adjusted profit and reconciliation to IFRS

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

| | Note | 2012 £m | 2011 £m |
|---|---|---|---|
| Operations segment result – Net portfolio contribution | 2.1a | 19.1 | 11.0 |
| Property segment result pre UMS losses | 2.1b | (2.7) | (3.3) |
| Unallocated to segments | | 0.5 | (3.6) |
| **Adjusted profit pre UMS losses** | | **16.9** | **4.1** |
| UMS losses | 2.1b | (1.0) | (21.0) |
| **Adjusted profit / (loss)** | | **15.9** | **(16.9)** |
| | | | |
| Net valuation gains on investment property | 3.1 | 29.8 | 7.7 |
| Valuation gains realised on transfer of completed property | 3.1 | 49.7 | – |
| Property disposals and write downs | | 14.7 | 1.3 |
| LSAV set up costs | | (1.3) | – |
| | | | |
| Share of joint venture gains on investment property | 3.4b | 14.9 | 10.7 |
| Share of joint venture property disposals and write downs | | 0.3 | – |
| Share of joint venture LSAV set up costs | | (0.4) | – |
| | | | |
| Mark to market changes in interest rate swaps* | 4.3 | (7.6) | (10.6) |
| Interest rate swap payments on ineffective hedges* | | 9.0 | 10.2 |
| Share of joint venture interest rate swaps charges | 3.4b | (0.6) | 0.4 |
| | | | |
| Current tax included in unallocated to segments | | 0.4 | 0.4 |
| Share of joint venture deferred tax credit/(charge) | 3.4b | 0.4 | 0.3 |
| | | | |
| Minority interest share of NPC** | 3.4b | 1.0 | 1.2 |
| **Profit before tax** | | **126.2** | **4.7** |

* Within IFRS reported profit, there is a £7.6 million loss (2011: £10.6 million loss) relating to movements in the mark to market of ineffective interest rate swaps, this full loss can be seen in note 4.3. Part of this movement, £9.0 million (2011: £10.2 million) relates to actual interest payments made on these swaps and is considered to be a true operating cost of the Operations Segment. It is therefore already included within Net Financing Costs in NPC (Operating Segment result) in note 2.1a.

** 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.

Unallocated to segments includes share of joint venture amounts received from Landsbanki of £2.9 million (2011: £nil), restructuring costs of £nil million (2011: £1.6 million), current tax charges of £0.4 million (2011: £0.4 million), contributions to the UNITE Foundation of £0.2 million (2011: £nil) and share option fair value charges of £1.5 million (2011: £1.2 million).

#### b) EPS and Adjusted EPS

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

## Section 2: Results for the year continued

### 2.2 Adjusted profit and EPS continued

The calculations of basic and adjusted EPS for the year ended 31 December 2012 is as follows:

| | Note | 2012 £m | 2011 £m |
|---|---|---|---|
| **Earnings** | | | |
| Basic (and diluted) | | 125.6 | 2.1 |
| Adjusted | 2.2a | 15.9 | (16.9) |
| Adjusted pre UMS losses | 2.2a | 16.9 | 4.1 |
| **Weighted average number of shares (thousands)** | | | |
| Basic | | 160,319 | 160,271 |
| Dilutive potential ordinary shares (share options) | | 136 | 39 |
| Diluted | | 160,455 | 160,310 |

| | | |
|---|---|---|
| **Earnings per share (pence)** | | |
| Basic | 78.3p | 1.3p |
| Diluted | 78.3p | 1.3p |
| **Adjusted** | **9.9p** | **(10.5p)** |
| **Adjusted (pre-UMS result)** | **10.5p** | **2.6p** |

Movements in the weighted average number of shares have resulted from the issue of shares arising from the employee share based payment schemes. In addition to the potential dilutive ordinary shares (share options) shown above, there were no further share options in existence at 31 December 2012 (2011: 29,000) which are excluded from this calculation because they would increase EPS (they are anti-dilutive). Also excluded from the potential dilutive shares (share options) are 3,176,000 options in existence at 31 December 2012 (2011: 1,460,000) which are subject to conditions that have not yet been met.

### 2.3 Adjusted Net Assets and NAV per share

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

a) Adjusted net assets

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Wholly owned £m | Share of JV's £m | Total £m | Wholly owned £m | Share of JV's £m | Total £m |
| Investment properties | 762.8 | 399.3 | 1,162.1 | 396.2 | 400.1 | 796.3 |
| Completed properties (at market value) | – | – | – | 220.9 | – | 220.9 |
| Rental properties | 762.8 | 399.3 | 1,162.1 | 617.1 | 400.1 | 1,017.2 |
| Investment properties under development | 37.6 | 0.2 | 37.8 | – | – | – |
| Properties under development (at market value) | 45.5 | – | 45.5 | 189.1 | 0.2 | 189.3 |
| Development properties | 83.1 | 0.2 | 83.3 | 189.1 | 0.2 | 189.3 |
| **Total property portfolio** | **845.9** | **399.5** | **1,245.4** | **806.2** | **400.3** | **1,206.5** |
| Debt on rental properties (net of cash) | (452.6) | (195.1) | (647.7) | (393.7) | (212.1) | (605.8) |
| Debt on properties under development | – | – | – | (40.3) | – | (40.3) |
| | (452.6) | (195.1) | (647.7) | (434.0) | (212.1) | (646.1) |
| Other liabilities | (23.1) | (8.1) | (31.2) | (39.9) | (6.0) | (45.9) |
| **Adjusted net assets** | **370.2** | **196.3** | **566.5** | **332.3** | **182.2** | **514.5** |
| **Loan to value (%)** | **53** | **49** | **52** | **54** | **53** | **54** |

# Notes to the financial statements continued

## Section 2: Results for the year continued

### 2.3 Adjusted Net Assets and NAV per share continued

**b) Reconciliation to IFRS**

Adjusted NAV reconciles to NAV reported under IFRS as follows:

| | Note | 2012 £m | 2011 £m |
|---|---|---|---|
| **Adjusted NAV** | 2.3a | **566.5** | **514.5** |
| Mark to market interest rate swaps | | (31.7) | (50.5) |
| Valuation gain not recognised on property held at cost | 3.1 | (19.0) | (76.1) |
| Deferred tax | | – | (0.3) |
| **Net asset value reported under IFRS** | | **515.8** | **387.6** |

**c) NAV per share and Adjusted NAV per share**

The Board continuously monitors the adjusted NAV attributable to its shareholders. NAV per share as at 31 December 2012 is calculated as follows:

| | Note | 2012 £m | 2011 £m |
|---|---|---|---|
| **Net assets** | | | |
| Basic (as reported under IFRS on the balance sheet) | 2.3b | 515.8 | 387.6 |
| Adjusted pre-dilution (as defined by EPRA) | 2.1c | 566.5 | 514.5 |
| Adjusted diluted (takes into account the dilutive effect of all share options being exercised) | | 568.4 | 516.4 |
| **Number of shares (thousands)** | | | |
| Basic | | 160,461 | 160,271 |
| Outstanding share options | | 2,111 | 2,344 |
| Diluted | | 162,572 | 162,615 |
| **Net asset value per share (pence)** | | | |
| Basic | | 321p | 242p |
| Adjusted pre dilution | | 353p | 321p |
| **Adjusted diluted** | | **350p** | **318p** |

## Section 2: Results for the year continued

### 2.4. Revenue

The Group earns revenue from the following activities:

| | | Note | 2012 £m | 2011 £m |
|---|---|---|---|---|
| Rental income | Operations segment | 2.1a | 79.4 | 63.6 |
| Management fees | Operations segment | | 10.9 | 10.6 |
| Management fees | Property segment | | – | 1.3 |
| Manufacturing revenue | Property segment | | 12.5 | 11.4 |
| Property sales | Unallocated | | 112.1 | 8.2 |
| | | | 214.9 | 95.1 |
| Impact of minority interest on management fees | | | (0.2) | (0.2) |
| Impact of minority interest on property sales | | | (0.1) | – |
| **Total revenue** | | | **214.6** | **94.9** |

The revenue above excludes the Group's share of revenue from joint ventures; this can be seen in note 2.1a.

Revenue has increased due to increased rental income and planned property sales to the UNITE UK Student Accommodation Fund (USAF), the London Student Accommodation Venture (LSAV) (note 3.4c) and other third parties.

**Accounting policies**

Revenue is recognised on the following bases:

**Rental income**

Rental income from property leased out under operating leases (comprising direct lets to students and leases to Universities and commercial tenants) is recognised in the income statement on a straight line basis over the term of the lease. Lease incentives are sometimes granted on commercial units; these are recognised as an integral part of the total rental income and spread over the term of the lease.

**Property sales**

Income relating to the sale of trading properties is recognised once contracts for sale have been unconditionally exchanged.

**Manufacturing revenue**

Revenue from the sale of modules and related services is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. For modules this is on receipt of customer acceptance following manufacture and for related services as the service is provided.

**Management and promote fees**

Management and promote fees are recognised, in line with the management contracts, in the period to which they relate as services are provided. The Group can earn promote fees relative to criteria specified in the joint venture agreements.

### 2.5 Provisions for onerous contracts

| | Current liability £m | Non-current liability £m | Total liability £m |
|---|---|---|---|
| At 1 January 2012 | 6.3 | 4.7 | 11.0 |
| Provisions utilised in the year | (5.8) | (4.5) | (10.3) |
| **At 31 December 2012** | **0.5** | **0.2** | **0.7** |

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

The provisions relate to onerous leases at the group's manufacturing facility (UMS). The decision to cease trading at UMS resulted in future lease payments and associated costs becoming onerous. Discounted future payments of £0.7 million (2011: £5.4 million) (relating to the lease of the factory site) have been provided in respect of these leases of which £0.2 million (2011: £4.7 million) is not expected to be realised until 2014 and is therefore disclosed as due after one year. There has been a reduction of £4.7 million in the lease provision following sub-let interest in the manufacturing premises, which has been offset by further costs incurred completing the onerous contracts. Contract losses exceeded the amount previously provided by £5.7million resulting in a net UMS related loss of £1.0 million as shown in note 2.1b. Future payments have been discounted using a market rate of 5%.

## Notes to the financial statements continued

### Section 2: Results for the year continued

**2.6 Tax**

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

**Accounting policies**

The tax charge for the period is recognised in the income statement and the statement of comprehensive income, according to the accounting treatment of the related transaction. The tax charge comprises both current and deferred tax.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable in respect of previous years. The current tax charge is based on tax rates that are enacted or substantively enacted at the year end.

Deferred tax arises due to certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for taxation purposes. Temporary differences relating to investments in subsidiaries and joint ventures are not provided for to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. The deferred tax provision in respect of property assets is calculated on the basis that assets will not be held indefinitely and therefore takes account of available indexation. A deferred tax asset is recognised only to the extent that it is probable that sufficient future taxable profits will be available against which the asset can be utilised.

**a) Tax – income statement**

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

| | 2012 £m | 2011 £m |
|---|---|---|
| Corporation tax in respect of income | – | – |
| Income tax on UK rental income arising in non-UK companies | 0.6 | 0.5 |
| Adjustments for prior years | – | – |
| **Current tax charge** | **0.6** | **0.5** |
| | | |
| Origination and reversal of temporary differences | (1.3) | 0.9 |
| Effect of change in tax rate | (0.3) | (0.3) |
| Adjustments for prior years | – | (0.3) |
| **Deferred tax (credit) / charge** | **(1.6)** | **0.3** |
| | | |
| **Total tax (credit) / charge in income statement** | **(1.0)** | **0.8** |

In order to understand how, in the income statement, a tax credit of £1.0 million arises on a profit before tax of £126.2 million, the taxation charge that would arise at the standard rate of UK corporation tax is reconciled to the actual tax charge as follows:

| | 2012 £m | 2011 £m |
|---|---|---|
| **Profit before tax** | **126.2** | **4.7** |
| | | |
| Income tax using the UK corporation tax rate of 24.5% (2011: 26.5%) | 30.9 | 1.2 |
| Effect of indexation on investment and development property | (3.3) | (2.4) |
| Non-deductible expenses | 0.8 | 0.9 |
| Effect of transferring property from current to non-current assets | (10.8) | – |
| Share of joint venture profit | (0.1) | 0.4 |
| Movement on unprovided deferred tax asset | (13.1) | 1.6 |
| Profit on disposal of assets not chargeable to tax | – | 0.1 |
| Effect of property disposals | (4.3) | (0.4) |
| Adjustments for prior years – deferred tax | – | (0.3) |
| Rate difference on deferred tax | (1.1) | (0.3) |
| **Total tax (credit) / charge in the income statement** | **(1.0)** | **0.8** |

**b) Tax – other comprehensive income**

Within other comprehensive income a tax charge totalling £0.8 million (2011: £0.4 million) has been recognised representing deferred tax. An analysis of this is included below in the deferred tax movement table.

## Section 2: Results for the year continued

### 2.6 Tax continued

**c) Tax – balance sheet**

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

2012

| | At 31 December 2011 £m | Transfers £m | (Credited) in income £m | Charged in equity £m | At 31 December 2012 £m |
|---|---|---|---|---|---|
| Investment property | 8.8 | – | 7.1 | – | 15.9 |
| Property held in current assets | (1.3) | – | 1.3 | – | – |
| Property, plant and machinery | (1.2) | – | 0.5 | – | (0.7) |
| Investments in joint ventures | 7.6 | – | (0.5) | – | 7.1 |
| Interest rate swaps | (8.0) | – | 3.0 | 0.8 | (4.2) |
| Interest rate swaps relating to joint ventures | (2.7) | – | – | 0.8 | (1.9) |
| Tax value of carried forward losses recognised | (3.2) | – | (13.0) | – | (16.2) |
| **Net tax liabilities** | **–** | **–** | **(1.6)** | **1.6** | **–** |

2011

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

A deferred tax asset of £20.0 million (2011: £31.9 million) in respect of losses of £86.9 million (2011: £127.6 million) has not been recognised due to uncertainty of future taxable profits and the ability to offset these losses against them.

Company

Deferred tax has not been recognised on temporary timing differences of £44.1 million (2011: £12.2 million) in respect of revaluation of subsidiaries and investment in joint ventures as it is probable that the temporary timing difference will not reverse in the foreseeable future.

### 2.7 Audit fees

Disclosures in respect of fees paid to the auditors can be found in the Audit Committee Report, page 50.

# Notes to the financial statements continued

## Section 3: Asset management

**The Group holds its property portfolio directly and through its joint ventures. The performance of the property portfolio whether wholly owned or in joint ventures is the key factor that drives adjusted net asset value (NAV), one of the Group's key performance indicators.**

**The following pages provide disclosures about the Group's investments in property assets and joint ventures and their performance over the year.**

### 3.1 Wholly owned property assets

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

#### iii) Completed properties (current assets)

These are assets acquired by the Group with the intention to hold the assets for a short period prior to disposal to a joint venture or third parties. The Group continues to earn rental income and capital appreciation on these assets which are held at cost in the balance sheet.

#### iv) Properties under development (current assets)

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

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

As disclosed in note 1 in greater detail, in 2012 the Group has transferred all of its completed property to investment property, based on a change of use and an intention to hold for the longer term. The effects of this change are shown in the following tables.

As at 31 December 2012 three properties remain classified as property under development as there is a clear intention to sell in the near term. These include one property with a carrying value of £19.2 million and a fair value of £38.2 million which is subject to a conditional contract to sell to LSAV after completion of construction.

The property portfolio is valued every six months by external, independent valuers, having an appropriate recognised professional qualification. The fair values are based on market values as defined in the RICS Appraisal and Valuation Manual, issued by the Royal Institution of Chartered Surveyors, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction where the parties had each acted knowledgeably, prudently and without compulsion. CB Richard Ellis Ltd, Jones Lang LaSalle Ltd and Messrs Knight Frank, Chartered Surveyors were the external valuers in the years ending 31 December 2012 and 2011.

#### Accounting policies

Properties held under operating leases are not included in assets, but the future payments due in respect of these properties are disclosed in note 4.6a.

Investment property and investment property under development are held at fair value.

Completed properties, properties under development and inventories are shown at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses. All costs directly associated with the purchase and construction of a property, and all subsequent qualifying expenditure is capitalised.

The recognition of acquisitions and disposals of investment and other property occurs on unconditional exchange of contracts.

Borrowing costs are capitalised if they are directly attributable to the acquisition and construction of a property asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalisation of borrowing costs continues until the assets are substantially ready for their intended use but stops if development activities are suspended. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised. The capitalisation rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development cost financed out of general borrowings, to the average rate. During the year the average capitalisation rate used was 5.9% (2011: 6.7%).

The valuations are based on assumptions made by considering the aggregate of the net annual rents receivable and associated costs. Valuations reflect, where appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit worthiness; the allocation of maintenance and insurance responsibilities between lessor and lessee; and the remaining economic life of the property.

## 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 2012 were as follows:

2012

| | Investment property £m | Investment property under development £m | Completed property £m | Property under development £m | Total £m |
|---|---|---|---|---|---|
| At 1 January 2012 | 396.2 | – | 198.7 | 135.2 | 730.1 |
| Acquisitions | 56.8 | – | – | – | 56.8 |
| Cost capitalised | 2.4 | 28.8 | 0.4 | 46.0 | 77.6 |
| Interest capitalised | – | 0.9 | – | 5.1 | 6.0 |
| Transfer of completed property | 263.6 | – | (263.6) | – | – |
| Transfer from property under development | – | – | 159.2 | (159.2) | – |
| Transfer from work in progress | – | 1.4 | – | – | 1.4 |
| Disposals | (29.2) | – | (95.1) | – | (124.3) |
| Reversal of impairment / (impairment) | – | – | 0.4 | (0.6) | (0.2) |
| Valuation gains recognised on transfer of completed property | 49.7 | – | – | – | 49.7 |
| Valuation gains | 30.5 | 6.5 | – | – | 37.0 |
| Valuation losses | (7.2) | – | – | – | (7.2) |
| Net valuation gains | 23.3 | 6.5 | – | – | 29.8 |
| **Carrying value at 31 December 2012** | **762.8** | **37.6** | **–** | **26.5** | **826.9** |

Whilst completed property and property under development are held at cost on the balance sheet, the Group manages the assets based on their market value (fair value). These properties are included in adjusted NAV at their fair value, valued on the same basis as for investment property and investment property under development, by external valuers. The fair value of the Group's wholly owned properties at the year ended 31 December 2012 is as follows:

| | Investment property £m | Investment property under development £m | Completed property £m | Property under development £m | Total £m |
|---|---|---|---|---|---|
| Carrying value at 31 December 2012 (above) | 762.8 | 37.6 | – | 26.5 | 826.9 |
| Valuation gains not recognised under IFRS but included in Adjusted NAV | | | | | |
| Brought forward | – | – | 22.2 | 53.9 | 76.1 |
| Transfer from property under development | – | – | 49.4 | (49.4) | – |
| Transfer of completed property | – | – | (49.7) | – | (49.7) |
| Disposals | – | – | (26.0) | – | (26.0) |
| Valuation gain in year | – | – | 4.1 | 14.5 | 18.6 |
| | – | – | – | 19.0 | 19.0 |
| **Market value at 31 December 2012** | **762.8** | **37.6** | **–** | **45.5** | **845.9** |

During the year properties with a carrying value of £263.6 million and a fair value of £313.3 million were transferred from completed property to investment property. This resulted in the recognition of £49.7 million of previously unrecognised valuation gains.

## 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 2011 were as follows:

2011

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

The fair value of the Group's wholly owned property portfolio at the year ended 31 December 2011 is as follows:

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

Included within investment properties are £29.7 million (2011: £43.1 million) of assets held under a long leasehold and £12.7 million (2011: £9.9 million) of assets held under short leasehold.

Total interest capitalised in investment and development properties at 31 December 2012 was £32.1 million (2011: £32.9 million) on an accumulative basis. Total internal costs relating to manufacturing, construction and development costs of group properties amount to £46.7 million at 31 December 2012 (2011: £53.6 million) on an accumulative basis.

### 3.2 Inventories

| | 2012 £m | 2011 £m |
|---|---|---|
| UMS modules for sale to third parties or joint ventures | – | 1.0 |
| Interests in land | 0.6 | 1.4 |
| Other stocks | 1.1 | 6.0 |
| **Inventories** | **1.7** | **8.4** |

The movement in other stock is caused by a decrease in manufacturing work in progress, raw materials and consumables relating to the cessation of manufacturing activity during the year.

## Section 3: Asset management continued

### 3.3 Other non-current assets

**Accounting policies**

Property, plant and equipment

Other than land and buildings; property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see below). Land and buildings are stated at fair value on the same basis as investment properties. Property, plant and equipment mainly comprise leasehold improvements at the Group's head office and London office as well as computer hardware and software at these sites.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Freehold land is not depreciated. The estimated useful lives are as follows:

- Leasehold improvements — Shorter life of lease and economic life
- Other assets — 4-20 years

Intangible assets

Intangible assets predominately comprise internally developed computer software which allows customers to book online and processes transactions within the sales cycle. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Expenditure on research activities is recognised in the income statement as an expense incurred. The assets are amortised on a straight-line basis over 4 to 5 years being the estimated useful lives of the intangible assets, from the date they are available for use. Amortisation is charged to the income statement.

The Group's other non-current assets can be analysed as follows:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Property, plant and equipment £m | Intangible assets £m | Total £m | Property, plant and equipment £m | Intangible assets £m | Total £m |
| **Cost or valuation** | | | | | | |
| At 1 January | 19.8 | 19.5 | 39.3 | 19.4 | 18.2 | 37.6 |
| Additions | 0.2 | 1.6 | 1.8 | 0.6 | 1.5 | 2.1 |
| Disposals | (12.3) | (3.6) | (15.9) | (0.2) | (0.2) | (0.4) |
| At 31 December | 7.7 | 17.5 | 25.2 | 19.8 | 19.5 | 39.3 |
| **Depreciation, amortisation and impairment losses** | | | | | | |
| At 1 January | 17.5 | 15.0 | 32.5 | 12.5 | 12.4 | 24.9 |
| Depreciation / amortisation charge for the year | 0.6 | 2.3 | 2.9 | 1.5 | 2.6 | 4.1 |
| Disposals | (11.6) | (3.6) | (15.2) | (0.1) | (0.1) | (0.2) |
| Impairment | – | – | – | 3.6 | 0.1 | 3.7 |
| At 31 December | 6.5 | 13.7 | 20.2 | 17.5 | 15.0 | 32.5 |
| Carrying value at 1 January | 2.3 | 4.5 | 6.8 | 6.9 | 5.8 | 12.7 |
| **Carrying amount at 31 December** | **1.2** | **3.8** | **5.0** | **2.3** | **4.5** | **6.8** |

## Section 3: Asset management continued

### 3.4 Investments in joint ventures (Group)

**Accounting policies**

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include joint ventures initially at cost subsequently increased or decreased by the Group's share of total gains and losses of joint ventures on an equity basis. Interest free joint venture investment loans are initially recorded at fair value – the difference between the nominal amount and fair value being treated as an investment in the joint venture. The implied discount is amortised over the contracted life of the investment loan.

The Directors consider that the agreements integral to its joint ventures result in the Group having joint control; a significant degree of judgement is exercised in this assessment due to the complexity of the contractual arrangements.

The Group has four joint ventures:

| Joint venture | Group's share of assets/results 2012 (2011) | Objective | Partner | Legal entity in which Group has interest |
|---|---|---|---|---|
| The UNITE UK Student Accommodation Fund (USAF) | 18.9%* (18.9%) | Invest and operate student accommodation throughout the UK | Consortium of investors | UNITE Student Accommodation Fund, a Jersey Unit Trust |
| UNITE Capital Cities (UCC) | 30% (30%) | Invest and operate student accommodation in the capital cities of London and Edinburgh | GIC Real Estate Pte, Ltd Real estate investment vehicle of the Government of Singapore | UNITE Capital Cities Unit Trust, incorporated in Jersey |
| London Student Accommodation Venture (LSAV) | 50% (nil) | 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 |
| OCB Property Holdings (OCB) | 25% (25%) | Develop and operate three investment properties located in London | Oasis Capital Bank | OCB Property Holdings (Jersey) 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 16.4% (2011: 16.3%) of USAF.

On 18 January 2012 the Group acquired the balance of the share capital in USV for £2.4 million and discharged shareholder loans amounting to £3.8 million.

## Section 3: Asset management continued

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

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

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

2012

| | USAF £m | | UCC £m | | LSAV £m | | OCB £m | | Total £m | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Gross | Share | Gross | Share | Gross | Share | Gross | Share | Gross | Share |
| Investment property | 1,320.1 | 250.0 | 381.2 | 114.4 | 49.8 | 24.9 | 174.7 | 43.7 | 1,925.8 | 433.0 |
| Cash | 50.1 | 9.5 | 12.6 | 3.8 | 2.5 | 1.3 | 7.8 | 1.9 | 73.0 | 16.5 |
| Debt | (621.7) | (117.7) | (226.7) | (68.0) | (24.2) | (12.1) | (112.5) | (28.1) | (985.1) | (225.9) |
| Swap liabilities | (17.5) | (2.9) | (16.9) | (5.1) | (0.2) | (0.1) | (0.5) | (0.1) | (35.1) | (8.2) |
| Other current assets | 1.6 | 0.3 | 0.3 | 0.1 | 0.1 | 0.1 | 0.2 | 0.1 | 2.2 | 0.6 |
| Other current liabilities | (24.9) | (4.8) | (9.4) | (2.9) | (2.1) | (1.1) | (4.5) | (1.2) | (40.9) | (10.0) |
| | 707.7 | 134.4 | 141.1 | 42.3 | 25.9 | 13.0 | 65.2 | 16.3 | 939.9 | 206.0 |
| Investment loans | (3.2) | (3.2) | – | – | – | – | (32.1) | (8.0) | (35.3) | (11.2) |
| **Net assets** | **704.5** | **131.2** | **141.1** | **42.3** | **25.9** | **13.0** | **33.1** | **8.3** | **904.6** | **194.8** |
| **Profit/(loss) for the period** | **81.5** | **17.7** | **21.7** | **6.5** | **17.1** | **8.6** | **(11.8)** | **(2.9)** | **108.5** | **29.9** |
| **USV profit for period** | | | | | | | | | **0.9** | **0.4** |
| **Profit for the period** | | | | | | | | | **109.4** | **30.3** |
| **Adjusted net assets** | **725.2** | **119.5** | **157.9** | **47.4** | **26.1** | **13.0** | **65.7** | **16.4** | **974.9** | **196.3** |

2011

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

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

## Notes to the financial statements continued

### Section 3: Asset management continued

#### 3.4 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 £21.8 million during the year ended 31 December 2012 (2011: £11.4 million), resulting in an overall carrying value of £194.8 million (2011: £173.0 million). The following table shows how the increase has been achieved.

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Investment in joint venture £m | Joint venture investment loan £m | Total interest £m | Investment in joint venture £m | Joint venture investment loan £m | Total interest £m |
| **Recognised in the income statement:** | | | | | | |
| Net portfolio contribution (NPC) | 10.1 | – | 10.1 | 8.9 | – | 8.9 |
| Minority interest share of NPC | 1.0 | – | 1.0 | 1.2 | – | 1.2 |
| Management fee adjustment related to trading with joint venture | 2.3 | – | 2.3 | 2.2 | – | 2.2 |
| Net revaluation gains | 14.9 | – | 14.9 | 10.7 | – | 10.7 |
| Deferred tax | 0.4 | – | 0.4 | 0.3 | – | 0.3 |
| Discount on interest free loans | (0.8) | 0.8 | – | (0.7) | 0.7 | – |
| Loss on cancellation of interest rate swaps | (0.6) | – | (0.6) | 0.4 | – | 0.4 |
| Landsbanki cash received | 2.9 | – | 2.9 | – | – | – |
| Ineffective swaps | – | – | – | (0.4) | – | (0.4) |
| Other | 0.1 | – | 0.1 | – | – | – |
| | 30.3 | 0.8 | 31.1 | 22.6 | 0.7 | 23.3 |
| **Recognised in equity:** | | | | | | |
| Movement in effective hedges | 3.6 | – | 3.6 | 0.3 | – | 0.3 |
| Deferred tax on movement in effective hedges | (0.1) | – | (0.1) | (0.2) | – | (0.2) |
| **Other adjustments to the carrying value:** | | | | | | |
| Profit adjustment related to trading with joint venture | (10.1) | 0.2 | (9.9) | (2.4) | 0.2 | (2.2) |
| Acquisition of remaining 49% in USV | (3.8) | (3.9) | (7.7) | – | – | – |
| Acquisition of 50% share in LSAV | 11.5 | – | 11.5 | – | – | – |
| Distributions received | (9.6) | – | (9.6) | (8.9) | – | (8.9) |
| **Increase in carrying value** | **21.8** | **(2.9)** | **18.9** | **11.4** | **0.9** | **12.3** |
| Carrying value at 1 January | 173.0 | 14.1 | 187.1 | 161.6 | 13.2 | 174.8 |
| **Carrying value at 31 December** | **194.8** | **11.2** | **206.0** | **173.0** | **14.1** | **187.1** |

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.

## Section 3: Asset management continued

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

#### 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 a promote fee from USAF if the joint venture outperforms certain benchmarks. The Group receives additional units in USAF as consideration for the promote fee. The Group has recognised the following management fees in its results for the year.

| | 2012 £m | 2011 £m |
|---|---|---|
| USAF | 6.3 | 6.3 |
| UCC | 3.3 | 3.1 |
| OCB | 1.0 | 0.9 |
| **Property management fees** | **10.6** | **10.3** |
| USAF | – | 1.2 |
| OCB | – | 0.1 |
| **Development management fees** | – | 1.3 |
| **Total fees** | **10.6** | **11.6** |

During the year the Group sold one property to USAF for £30.4 million and one property to LSAV for £45.2 million. The two properties were held on the balance sheet as completed property within current assets, the proceeds and carrying value of the properties is therefore recognised in revenue and cost of sales in the income statement and the cash flows in operating activities. No properties were sold to joint ventures in 2011. The profits relating to sales and associated disposal costs and related cash flows are set out below:

| | Profit and loss 2012 | | Profit and loss 2011 | |
|---|---|---|---|---|
| | USAF £m | LSAV £m | USAF £m | LSAV £m |
| Included in revenue (net of joint venture trading adjustment) | 29.7 | 38.2 | – | – |
| Included in cost of sales | (26.7) | (31.2) | – | – |
| **Profit on disposal of property** | **3.0** | **7.0** | **–** | **–** |

| | Cash flow 2012 | | Cash flow 2011 | |
|---|---|---|---|---|
| | USAF £m | LSAV £m | USAF £m | LSAV £m |
| Gross proceeds | 31.0 | 46.2 | – | – |
| Part settled by: | | | | |
| Investment in joint venture | – | (11.5) | – | – |
| **Net cash flows included in cash flows from operating activities** | **31.0** | **34.7** | **–** | **–** |

Included within cash flows from financing activities is (£32.2 million) relating to the repayment of non-current borrowings on disposal of properties to joint ventures. (£9.9 million) relates to USAF and (£22.3 million) relating to LSAV.

UCC properties are partly funded by debt totalling £226.7 million (2011: £248.4 million) which equates to 59.5% (2011: 64.2%) of the market value of these properties. The Group has guaranteed its share, 30%, of this debt amounting to £68.0 million (2011: £74.5 million). This guarantee only takes effect in the event that the joint venture is unable to repay the debt within nine months of it becoming due. The Group considers the likelihood of the guarantee being invoked to be remote based on the level of debt and the time frames allowed under the arrangements. These guarantees are accounted for in accordance with IFRS 4.

OCB properties are partly funded by debt totalling £113.0 million (2011: £113.5 million) which equates to 64.7% (2011: 60.1%) of the market value of these properties. The Group has guaranteed one facility amounting to £50.0 million (2011: £50.0 million). The Group has a back to back guarantee from Oasis Capital Bank for £37.5 million (2011: £37.5 million). This guarantee only takes effect in the event that the joint venture is unable to repay the debt within six months of it becoming due. The Group considers the likelihood of the guarantee being invoked to be remote based on the level of debt and the time frames allowed under the arrangements. These guarantees are accounted for in accordance with IFRS 4.

## Section 3: Asset management continued

### 3.5 Investments in subsidiaries (Company)

**Accounting policies**
In the financial statements of the Company, investments in subsidiaries and joint ventures are carried at fair value with movements in fair value being recognised directly in equity.

**a) Carrying value of investment in subsidiaries and joint ventures**
The movements in the Company's interest in unlisted subsidiaries and joint ventures during the year are as follows.

| | Investment in subsidiaries | | Investment in joint ventures | |
|---|---|---|---|---|
| | 2012 £m | 2011 £m | 2012 £m | 2011 £m |
| At 1 January | 112.0 | 106.8 | 2.5 | 3.7 |
| Acquisitions | 1.8 | – | – | – |
| Transfer from investment in joint ventures | 2.5 | – | (2.5) | – |
| Disposals | (4.3) | – | – | – |
| Revaluation | 116.4 | 5.2 | – | (1.2) |
| **At 31 December** | **228.4** | **112.0** | **–** | **2.5** |

The carrying value of investment in subsidiaries has been calculated using the equity attributable to the owners of the parent company from the consolidated balance sheet adjusted for the fair value of fixed rate loans. This includes investment property, investment property under development and swaps at a fair value calculated by a third party expert. In addition a market value adjustment is applied based on the profitability of the main development company. This represents Level 2 in the IFRS 7 fair value hierarchy.

In addition to the equity investment in subsidiaries and joint ventures, the Company has provided a loan with interest chargeable at 6.125% to LDC (Holdings) plc. The carrying value of the loan to LDC (Holdings)plc was £90.0 million (2011: nil). During the year the interest free loan the Company made to the USV joint venture was repaid as part of the Group's acquisition of the second half of the USV joint venture. The carrying value of the investment loan to USV at 31 December 2012 was £nil (2011: £3.9 million).

A full list of the Company's subsidiaries is appended to the annual return. The Company's principal subsidiaries and joint ventures are:

| | Country of incorporation | Class of Shares held | Ownership interest |
|---|---|---|---|
| LDC (Holdings) plc * | England and Wales | Ordinary | 100% |
| UNITE Holdings plc * | England and Wales | Ordinary | 100% |
| UNITE Integrated Solutions plc | England and Wales | Ordinary | 100% |
| UNITE Modular Solutions Ltd | England and Wales | Ordinary | 100% |
| USAF LP Ltd | England and Wales | Ordinary | 100% |
| USAF Jersey Investments Ltd | Jersey | Ordinary | 100% |
| UNITE (Capital Cities) Jersey Ltd | Jersey | Ordinary | 100% |
| LDC (Imperial Wharf) Ltd | England and Wales | Ordinary | 100% |
| UNITE Finance One (Property) Ltd | England and Wales | Ordinary | 100% |
| USAF Feeder (Guernsey) Ltd | Guernsey | Ordinary | 51% |
| OCB UNITE Property Holdings (Jersey) Ltd^ | Jersey | Ordinary | 25% |

* Held directly by the Company.

^ Joint venture. Joint control is explained in note 3.4.

## Section 4: Funding

**The Group finances its development and investment activities through a mixture of retained earnings, borrowings and equity. The Group continuously monitors its financing arrangements to manage its gearing.**

**Interest rate swaps are used to manage the Group's risk to fluctuations in interest rate movements.**

**The following pages provide disclosures about the Group's funding position, including borrowings, gearing and hedging instruments; its exposure to market risks; and its capital management policies.**

### 4.1 Borrowings

**Accounting policies**
Interest bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 £m | 2011 £m | 2012 £m | 2011 £m |
| **Current** | | | | |
| In one year or less, or on demand | 100.2 | 29.2 | 1.2 | – |
| **Non-current** | | | | |
| In more than one year but not more than two years | 65.1 | 251.9 | – | – |
| In more than two years but not more than five years | 131.8 | 140.4 | – | – |
| In more than five years | 230.8 | 29.2 | 90.0 | – |
| | 427.7 | 421.5 | 90.0 | – |
| **Total borrowings** | **527.9** | **450.7** | **91.2** | **–** |

In addition to the borrowings currently drawn as shown above, the Group has available undrawn facilities of £34.9 million (2011: £14.3 million). A further working capital facility of £20.0 million (2011: £20.0 million) is also available.

A further £146 million (2011: £132 million) of facilities are available if certain conditions are met. Of this amount £75 million (2011: £30 million) is only available for rental properties and £41 million (2011: £99 million) for development properties. The remaining amount is available for investment or development.

The carrying value of borrowings is considered to be approximate to fair value, except for the Group's fixed rate loans carried at £227.8 million (2011: £17.4 million). The fair value of these fixed rate loans has been calculated by a third party expert discounting estimated future cash flows on the basis of market expectations of future interest rates. The fair value of these loans is £237.2 million (2011: £18.4 million).

Properties with a carrying value of £728.1 million (2011: £696.8 million) have been pledged as security against the Group's borrowings.

### 4.2 Interest rate swaps

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

**Accounting policies**
Interest rate swaps are recognised initially and subsequently at fair value, with mark to market movements recognised in the income statement unless cash flow hedge accounting is applied.
Hedge accounting, as defined in IFRS, is when the interest rate swap is designated as the hedging instrument in a hedge of the variability in cash flows attributable to the interest risk of borrowings. The effective portion of changes in fair value of the interest rate swap is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the interest rate swap is recognised immediately in profit or loss. The Group only applies hedge accounting when the hedge is expected to be highly effective.
When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in equity with any subsequent movements in fair value taken to the income statement. If the hedged transaction is no longer probable, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.
The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current credit worthiness of the swap counterparties.

## Notes to the financial statements continued

### Section 4: Funding continued

#### 4.2 Interest rate swaps continued

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

| | 2012 £m | 2011 £m |
|---|---|---|
| Current | 0.7 | – |
| Non-current | 23.0 | 39.0 |
| Fair value of interest rate swaps | 23.7 | 39.0 |

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

#### 4.3 Net financing costs

**Accounting policies**

Net financing costs comprise interest payable on borrowings less interest receivable on funds invested (both calculated using the effective interest rate method) and gains and losses on hedging instruments that are recognised in the income statement.

| Recognised in the income statement: | 2012 £m | 2011 £m |
|---|---|---|
| Finance income | | |
| – Interest income on deposit | (0.2) | (0.1) |
| – Impact of discounting on interest free joint venture investment loans (note 3.4b) | (0.8) | (0.7) |
| **Finance income** | **(1.0)** | **(0.8)** |
| | | |
| Gross interest expense on loans | 21.9 | 15.8 |
| Loan break costs | 0.1 | – |
| Interest capitalised | (6.0) | (7.1) |
| Loan interest and similar charges | 16.0 | 8.7 |
| | | |
| Changes in mark to market of interest rate swaps not accounted for as hedges | 7.6 | 10.6 |
| **Finance costs** | **23.6** | **19.3** |
| **Net financing costs** | **22.6** | **18.5** |

The Group's overall average cost of debt as at 31 December 2012 is 5.5% (2011: 5.7%). The average cost of the Group's investment debt at 31 December 2012 is 5.5% (2011: 5.4%).

## Section 4: Funding continued

### 4.4 Gearing

The Group's adjusted gearing ratio is a key indicator that the Group uses to manage its indebtness. Adjusted 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 | 2012 £m | 2011 £m |
|---|---|---|---|
| Cash and cash equivalents | 5.1 | 75.4 | 16.8 |
| Current borrowings | 4.1 | (100.2) | (29.2) |
| Non-current borrowings | 4.1 | (427.7) | (421.5) |
| Interest rate swaps liabilities | 4.2 | (23.7) | (39.0) |
| **Net debt per balance sheet** | | **(476.2)** | **(472.9)** |
| Mark to market of interest rate swaps | | 23.6 | 38.9 |
| **Adjusted net debt** | | **(452.6)** | **(434.0)** |
| Reported net asset value (attributable to owners of the parent company) | 2.3c | 515.8 | 387.6 |
| Adjusted net asset value | 2.3c | 566.5 | 514.5 |
| **Gearing** | | | |
| Basic (Net debt/Reported net asset value) | | 92% | 122% |
| Adjusted gearing (Adjusted net debt/Adjusted net asset value) | | 80% | 84% |
| See-through adjusted gearing (including share of JV properties and net debt) | | 114% | 126% |
| See- through adjusted LTV | | 52% | 54% |

### 4.5 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risks – primarily interest rate risk, credit risk and liquidity risk. The Group's treasury policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Details on credit risk can be found in note 5.3.

#### a) Interest rate risk

Interest rate risk is the risk that the Group is impacted by significant changes in interest rates. Borrowings issued at or swapped to floating rates expose the Group to interest rate risk. The Group's policy is separated into two main areas:

#### i) Development and refinancing

The Group had no specific development borrowings at 31 December 2012 and is currently funding its developments from general borrowings. The Group has development debt facilities in place to finance those going forward. After taking account of interest rate swaps, £36 million (89%) of the Group's development borrowings at 31 December 2011 was fixed. The Group will continue to review the level of its hedging in the light of the current low interest rate environment.

The Group's principal exposure to interest rate fluctuations during development relates to movements in longer term interest rates which affect the amount of debt the property income is capable of servicing at completion. Significant adverse movements undermine the Group's ability to release equity from its developments.

The Group's policy also allows this exposure to be managed through the use of forward starting swaps.

## Section 4: Funding continued

### 4.5 Financial risk factors continued

**a) Interest rate risk continued**

ii) Medium and long-term finance

The Group holds its medium and long-term bank finance under both floating and fixed rate arrangements. The majority of this floating debt is hedged through the use of interest rate swap agreements, although not all these arrangements qualify for hedge accounting under IAS 39. During 2012, the Group's policy guideline has been to hedge in excess of 75% of the Group's exposure for terms of approximately 2-10 years.

At 31 December 2012, after taking account of interest rate swaps, 88% (2011: 69%) of the Group's medium and long-term investment borrowing was held at fixed rates. Excluding the £241 million of swaps the fixed investment borrowing is at an average rate of 5.5% (2011: 5.7%) for an average period of 9 years (2011: 2 years), including these swaps the average rate is 5.5%.

The Group holds interest rate swaps at 31 December 2012 against £258 million (2011: £302.9 million) of the Group's borrowings. The maturity of these swaps and the applicable interest rates are as follows:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Nominal amount hedged £m | Applicable interest rates % | Nominal amount hedged £m | Applicable interest rates % |
| Within one year | – | – | – | – |
| Between one and two years | 116.2 | 2.3-5.8 | 27.6 | 5.2-5.3 |
| Between two and five years | 122.8 | 1.7-5.3 | 242.5 | 2.8-5.8 |
| More than five years | 1.8 | 5.6 | 32.8 | 5.3-5.6 |

During the year, if interest rates had increased/decreased by 1%, pre-tax profit for the year would have been £1.2 million (2011: £0.8 million) lower/higher.

**b) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. For development activities, the Group has a policy to inject substantially the full amount of equity required for each development before drawing debt against the specific facility for the development. The funding requirements of each scheme are therefore substantially 'ring fenced' and secured at the outset of works.

The table below analyses the Group's financial liabilities and interest rate swaps into relevant maturity groupings based on the period remaining until the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest), so will not always reconcile with the amounts disclosed on the balance sheet.

2012

| | Total contractual cash flows £m | Less than 1 year £m | Between 1 and 2 years £m | Between 2 and 5 years £m | Over 5 years £m |
|---|---|---|---|---|---|
| Bank and other loans | 652.3 | 119.7 | 82.3 | 175.0 | 275.3 |
| Trade and other payables | 82.0 | 82.0 | – | – | – |
| Interest rate swaps – effective | 4.4 | 1.3 | 1.3 | 1.2 | 0.6 |
| Interest rate swaps – ineffective | 11.2 | 5.6 | 3.1 | 2.5 | – |
| | 749.9 | 208.6 | 86.7 | 178.7 | 275.9 |

2011

| | Total contractual cash flows £m | Less than 1 year £m | Between 1 and 2 years £m | Between 2 and 5 years £m | Over 5 years £m |
|---|---|---|---|---|---|
| Bank and other loans | 480.0 | 42.2 | 260.4 | 146.0 | 31.4 |
| Trade and other payables | 84.4 | 84.4 | – | – | – |
| Interest rate swaps – effective | 13.5 | 3.9 | 4.4 | 4.7 | 0.5 |
| Interest rate swaps – ineffective | 17.9 | 10.8 | 5.1 | 2.0 | – |
| | 595.8 | 141.3 | 269.9 | 152.7 | 31.9 |

## Section 4: Funding continued

### 4.5 Financial risk factors continued

#### c) 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 2012, 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 available cash is used to reduce debt.

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| | Weighted covenant | Weighted actual | Weighted covenant | Weighted actual |
| Loan to value | 70% | 35%* | 74% | 56%* |
| Interest cover | 1.38 | 2.60 | 1.18 | 1.74 |
| Minimum net worth | £250m | £567m | £250m | £515m |

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

### 4.6 Operating leases

#### a) Payable

**Accounting policies**

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense. Where the property interest under an operating lease is classified as an investment property, the property interest is accounted for as if it were a finance lease and the fair value model is used for the asset recognised.

The total future minimum lease rentals payable under non-cancellable operating leases fall due for repayment as follows:

| | 2012 £m | 2011 £m |
|---|---|---|
| Less than one year | 15.3 | 14.5 |
| Between one and five years | 58.2 | 57.2 |
| More than five years | 192.9 | 226.5 |
| **Total** | **266.4** | **298.2** |

These leases primarily relate to properties which the group has sold and leased back and on which rental income is earned. The leases are generally for periods between 17 and 25 years and subject to annual RPI-based rent review. Two properties are subject to a fixed annual rent increase of 2%. The total operating lease expenditure incurred during the year was £15.3 million (2011: £14.6 million)

#### b) Receivable

The Group accounts for its tenancy contracts offered to commercial and individual tenants as operating leases. The future minimum lease payments receivable under non-cancellable operating leases are as follows:

| | 2012 £m | 2011 £m |
|---|---|---|
| Less than one year | 48.8 | 52.0 |
| Between one and five years | 30.1 | 22.3 |
| More than five years | 10.5 | 13.4 |
| **Total** | **89.4** | **87.7** |

# Notes to the financial statements continued

## Section 4: Funding continued

### 4.7 Capital management
The capital structure of the Group consists of shareholders' equity and adjusted net debt, including cash held on deposit. The Group's equity is analysed into its various components in the Statement of Changes in Equity. The components and calculation of adjusted net debt is set out in note 4.4. Capital is managed so as to continue as a going concern and to promote the long-term success of the business and to maintain sustainable returns for shareholders and joint venture partners.

The Group uses a number of key metrics to manage its capital structure:

- Adjusted net debt (4.4)
- Adjusted gearing (4.4)
- See through LTV (2.3a)
- Weighted average cost of investment debt (4.5aii)

In order to manage levels of adjusted gearing over the medium term, the Group seeks to deliver NAV growth and to dispose of non-core property assets in order to offset capital that is committed to development activity. £150 million of non-core assets were sold in 2012 and a further £50 million of non-core property disposals are targeted by December 2013. The Group targets new developments with a yield on cost of approximately 9%. The Group does not commit to developing new sites until sufficient equity and funding to fulfil the full cost of the development is secure.

The Board monitors the ability of the Group to pay dividends out of available cash and distributable profits and reinstated dividends during 2011. The Operations Segment generated cash of £17.2 million (2011: £13.8 million) during the year, thereby covering the proposed dividend of £6.4 million, 3 times (2011: £2.8 million, 5 times).

### 4.8 Equity

**Accounting policies**
Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction, net of tax, in equity from the proceeds. Share issue costs incurred directly in connection with a business combination are deducted from the proceeds of the issue.

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

| | Number of ordinary shares | |
|---|---|---|
| | 2012 | 2011 |
| Issued at start of year – fully paid | 160,271,460 | 160,268,343 |
| Share options exercised | 189,982 | 3,117 |
| Issued at end of year – fully paid | 160,461,442 | 160,271,460 |

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.

### 4.9 Dividends

**Accounting policies**
Dividends are recognised through equity on the earlier of their approval by the Company's shareholders or their payment.

During the year, the Company declared and paid an interim dividend of £1.6 million (2011: £0.8 million) and paid a £2.0 million final dividend relating to the year ended 31 December 2011.

After the year end, the Directors proposed a final dividend per share of 3p (2011: 1.25p), bringing the total dividend per share for the year to 4p (2011: 1.75p). No provision has been made in relation to this dividend.

## Section 5: Working capital

**This section focuses on how the Group generates its operating cash flows. Careful management of working capital is vital to ensure that the Group can meet its trading and financing obligations within its ordinary operating cycle.**

**On the following pages you will find disclosures around the Group's cash position and how cash is generated from the Group's trading activities, and disclosures around trade receivables and payables.**

### 5.1 Cash

**Accounting policies**
Cash and cash equivalents comprise cash balances and call deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

The Group's cash position at 31 December 2012 was £75.4 million (2011: £16.8 million).

At 31 December 2012 the Company had an overdraft of £1.2 million (2011 cash position: £0.1 million).

The Group's cash balances include £12.1 million (2011: £14.5 million) whose use at the balance sheet date is restricted by funding agreements to pay operating costs and loan interest relating to specific properties.

The Group generates cash from its operating activities as follows:

| | Note | Group 2012 £m | Group 2011 £m | Company 2012 £m | Company 2011 £m |
|---|---|---|---|---|---|
| Profit/(loss) for the year | | 127.2 | 3.9 | (0.7) | (0.9) |
| Adjustments for: | | | | | |
| Depreciation and amortisation | 3.3 | 2.9 | 4.1 | – | – |
| Dividends receivable | | – | – | – | (2.3) |
| Fair value of share based payments | 6.1 | 1.5 | 1.2 | – | – |
| Impairment of fixed assets | 3.3 | – | 3.7 | – | – |
| Change in value of investment property | 3.1 | (79.5) | (7.7) | – | – |
| Net finance costs | 4.3 | 22.6 | 18.5 | 0.3 | 0.1 |
| Profit on acquisition of subsidiary | | – | – | (2.2) | – |
| Loss on disposal of investment property | | 2.4 | 0.2 | – | – |
| Share of joint venture profit | 3.4b | (30.3) | (22.6) | – | – |
| Trading with joint venture adjustment | | (1.6) | 2.2 | – | – |
| Tax (credit)/charge | 2.6a | (1.0) | 0.8 | – | – |
| **Cash flows from operating activities before changes in working capital** | | **44.2** | **4.3** | **(2.6)** | **(3.1)** |
| (Increase)/decrease in trade and other receivables | | (12.9) | 1.2 | – | – |
| Decrease/(increase) in completed property and property under development | | 43.8 | (114.7) | – | – |
| Decrease/(increase) in inventories | | 5.3 | (6.8) | – | – |
| (Decrease)/increase in trade and other payables | | (11.7) | 31.0 | 0.2 | 0.7 |
| (Decrease)/increase in provisions | | (10.3) | 11.0 | – | – |
| **Cash flows from operating activities** | | **58.4** | **(74.0)** | **(2.4)** | **(2.4)** |

Cash flows consist of the following segmental cash inflows/(outflows): Operations £17.2 million (2011: £13.8 million), property £48.3 million (2011: (£17.2 million)) and unallocated (£6.9 million) (2011: £3.6 million). The unallocated amount includes restructuring £nil (2011: £1.4 million), Group dividends (£3.6 million) (2011: £0.8 million), LSAV set-up costs (£1.3 million) (2011: £nil), own shares purchase (£1.3 million) (2011: (£0.1 million)), tax payable of (£0.9 million) (2011: £0.6 million) and amounts received from shares issued £0.2 million (2011: £nil).

# Notes to the financial statements continued

## Section 5: Working capital continued

### 5.2 Trade and other receivables

**Accounting policies**
Trade receivables are initially recognised at the amount invoiced to the customer (fair value) and subsequently at the amounts considered recoverable (amortised cost). Estimates are used in determining the level of receivables that will not, in the opinion of the Board, be collected. These estimates include such factors as historical experience and industry specific factors. A provision for impairment of trade receivables is established when there is sufficient evidence that the Group will not be able to collect all amounts due. The carrying value of trade receivables is considered to approximate fair value.

Trade and other receivables can be analysed as follows, all trade and other receivables are current.

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 £m | 2011 £m | 2012 £m | 2011 £m |
| Trade receivables | 7.8 | 6.7 | – | – |
| Amounts due from group undertakings | – | – | 321.5 | 317.7 |
| Amounts owed by joint ventures | 27.9 | 13.4 | – | – |
| Prepayments and accrued income | 16.7 | 19.5 | – | – |
| Other receivables | 1.1 | 1.4 | – | – |
| **Trade and other receivables** | **53.5** | **41.0** | **321.5** | **317.7** |

The Group offers tenancy contracts to commercial (Universities and retail unit tenants) and individual tenants based on the academic year. The Group monitors and manages the recoverability of its receivables based on the academic year to which the amounts relate. Rental income is payable immediately, therefore all receivables relating to tenants are past the payment due date.

2012

| | Ageing by academic year | | | |
|---|---|---|---|---|
| | Total £m | 2012/13 £m | 2011/12 £m | Prior years £m |
| **Rental debtors** | | | | |
| Commercial tenants (past due and impaired) | 6.2 | 5.6 | 0.6 | – |
| Individual tenants (past due and impaired) | 4.1 | 2.3 | 0.9 | 0.9 |
| Provisions carried | (3.4) | (1.2) | (1.3) | (0.9) |
| Rental debtors (past due but not impaired) | 6.9 | 6.7 | 0.2 | – |
| Manufacturing debtors (not past due or impaired) | 0.9 | 0.9 | – | – |
| **Trade receivables** | **7.8** | **7.6** | **0.2** | **–** |

2011

| | Ageing by academic year | | | |
|---|---|---|---|---|
| | Total £m | 2011/12 £m | 2010/11 £m | Prior years £m |
| **Rental debtors** | | | | |
| Commercial tenants (past due and impaired) | 4.3 | 4.3 | – | – |
| Individual tenants (past due and impaired) | 6.3 | 1.0 | 2.0 | 3.3 |
| Provisions carried | (5.9) | (1.2) | (1.7) | (3.0) |
| Rental debtors (past due but not impaired) | 4.7 | 4.1 | 0.3 | 0.3 |
| Manufacturing debtors (not past due or impaired) | 2.0 | 2.0 | – | – |
| **Trade receivables** | **6.7** | **6.1** | **0.3** | **0.3** |

Amounts receivable from joint ventures are not past due or impaired.

Movements in the Group's provision for impairment of trade receivables can be shown as follows:

| | 2012 £m | 2011 £m |
|---|---|---|
| At 1 January | 5.9 | 6.3 |
| Impairment charged to income statement in year | 1.4 | 2.6 |
| Receivables written off during the year (utilisation of provision) | (3.4) | (3.0) |
| **At 31 December** | **3.9** | **5.9** |

## Section 5: Working capital continued

### 5.3 Credit risk

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

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

| | Note | 2012 £m | 2011 £m |
|---|---|---|---|
| Cash | 5.1 | 75.4 | 16.8 |
| Trade receivables | 5.2 | 7.8 | 6.7 |
| Amounts due by joint ventures (excluding loans that are capital in nature) | 5.2 | 27.9 | 13.4 |
| Joint venture investment loans | 3.4b | 11.2 | 14.1 |
| | | **122.3** | **51.0** |

#### a) Cash

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

#### b) Trade receivables

The Group's customers can be split into three groups – (i) students (individuals), (ii) commercial organisations including Universities and (iii) manufacturing customers. The Group's exposure to credit risk is influenced by the characteristics of each customer. The Group holds tenant deposits of £7.9 million (2011: £9.0 million) as collateral against individual customers.

#### c) Joint ventures

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

### 5.4 Trade and other payables

#### Accounting policies

Trade payables are initially recognised at the value of the invoice received from a supplier (fair value) and subsequently at amortised cost. The carrying value of trade payables is considered approximate to fair value.

Trade and other payables due within one year can be analysed as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2012 £m | 2011 £m | 2012 £m | 2011 £m |
| Trade payables | 4.1 | 9.7 | – | – |
| Retentions on construction contracts for properties | 2.4 | 3.1 | – | – |
| Amounts due to group undertakings | – | – | 29.7 | 29.7 |
| Other payables and accrued expenses | 41.9 | 53.0 | 3.2 | 3.0 |
| Deferred income | 33.6 | 18.6 | – | – |
| **Trade and other payables** | **82.0** | **84.4** | **32.9** | **32.7** |

Other payable and accrued expenses include £7.9 million (2011: £9.0 million) in relation to customer deposits. These will be returned at the end of the tenancy subject to the condition of the accommodation and payment of any outstanding amounts. Deferred income relates to rental income that has been collected in advance of it being recognised as revenue.

# Notes to the financial statements continued

## Section 5: Working capital continued

### 5.5 Transactions with other group companies

During the year, the company entered into various interest free loans with its subsidiaries, the aggregate of which are disclosed in the cash flow statement. In addition, the Company was charged by UNITE Integrated Solutions plc for corporate costs of £2.4 million (2011: £2.7 million).

As a result of these intercompany transactions, the following amounts were due (to)/from the company's subsidiaries at the year end.

| | 2012 £m | 2011 £m |
|---|---|---|
| UNITE Holdings plc | 74.6 | 76.5 |
| LDC (Holdings) plc | 246.9 | 241.2 |
| **Amounts due from group undertakings** | **321.5** | **317.7** |
| | | |
| Unilodge Holding Ltd | (13.9) | (13.9) |
| Unilodge Holdings (UK) Ltd | (15.8) | (15.8) |
| **Amounts due to group undertakings** | **(29.7)** | **(29.7)** |

The Company has had a number of transactions with its joint ventures, which are disclosed in note 3.4c.

The Company has guaranteed £152 million of its subsidiary companies borrowings (2011: £235 million). The guarantees have been entered into in the normal course of business. A liability would only arise in the event of the subsidiary failing to fulfil its contractual obligations. These guarantees are accounted for in accordance with IFRS 4.

## Section 6: Key management and employee benefits

**The Group's greatest resource is its staff and it works hard to develop and retain its people. The remuneration policies in place are aimed to help recognise the contribution that UNITE's people make to the performance of the Group.**

**Over the next couple of pages you will find disclosures on wages and salaries and share option schemes which allow employees of the Group to take an equity interest in the Group.**

### 6.1 Staff numbers and costs

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

| | Number of employees | |
|---|---|---|
| | 2012 | 2011 |
| Managerial and administrative | 338 | 371 |
| Site operatives | 628 | 606 |
| | **966** | **977** |

The aggregate payroll costs of these persons were as follows:

| | 2012 £m | 2011 £m |
|---|---|---|
| Wages and salaries | 32.8 | 30.7 |
| Social security costs | 3.5 | 3.2 |
| Pension costs | 0.6 | 0.7 |
| Fair value of share based payments | 1.5 | 1.2 |
| | **38.4** | **35.8** |

The wages and salaries costs include redundancy costs of £0.3 million (2011: £1.1 million).

**Accounting policies**

The Group operates a defined contribution pension scheme. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

### 6.2 Key management personnel

The Board considers that the key management personnel within the Group are those appointed to the Board. As such, the remuneration of key management personnel is contained within the Remuneration Report on pages 52 to 63.

## Notes to the financial statements continued

### Section 6: Key management and employee benefits continued

#### 6.3 Share based compensation

A transaction is classified as a share based transaction where the Group receives services from employees and pays for these in shares or similar equity instruments. The Group operates a number of share-based compensation schemes allowing employees to acquire shares in the Company.

**a) Share schemes**

The Group operates the following schemes:

| | |
|---|---|
| Executive share option scheme – 'The Approved Scheme'<br>Executive share option scheme – 'The Unapproved Scheme'<br>Executive Long-Term Incentive Plan (LTIP) | Details can be found in the Directors' Remuneration Report |
| Save As You Earn Scheme (SAYE) | Open to employees, vesting periods of three to five years, service condition |
| Employee Share Ownership (ESOT) | Used to award part of Directors' and senior managers' bonuses in shares, vest after three years continued service |

**b) Outstanding share options**

The table below summarises the movements in the number of share options outstanding for the Group and their average exercise price:

| | Weighted average exercise price 2012 | Number of options (thousands) 2012 | Weighted average exercise price 2011 | Number of options (thousands) 2011 |
|---|---|---|---|---|
| Outstanding at 1 January | £0.85 | 2,375 | £1.92 | 875 |
| Forfeited during the year | £1.44 | (308) | £1.21 | (355) |
| Exercised during the year | £1.44 | (190) | £1.90 | (3) |
| Granted during the year | £0.35 | 1,843 | £0.41 | 1,858 |
| **Outstanding at 31 December** | £0.52 | 3,720 | £0.85 | 2,375 |
| | | | | |
| **Exercisable at 31 December** | £2.22 | 256 | £1.92 | 439 |

For those options exercised in the year, the average share price during 2012 was £2.63 (2011: £2.08).

For those options still outstanding, the range of exercise prices at the year end was 0p to 299p (2011: 0p to 344p) and the weighted average remaining contractual life of these options was 0.3 years (2011: 0.9 years).

The Group funds the purchase of its own shares by the 'Employee Share Ownership Trust' to meet the obligations of the LTIP and executive bonus scheme. The purchases are shown as 'Own shares acquired' in retained earnings.

The accounting is in accordance with the relevant standards. No further information is given as the amounts for share based payments are immaterial.

# Five year record

| | | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| Adjusted diluted net asset value per share (pence)* | | **350** | 318 | 295 | 265 | 306 |
| Net asset value per share (pence) | | **321** | 242 | 242 | 229 | 252 |
| Adjusted net assets (£m) | | **567** | 515 | 475 | 423 | 483 |
| IFRS net assets (£m) | | **516** | 388 | 388 | 366 | 320 |
| Managed portfolio value (£m) | | **2,688** | 2,502 | 2,334 | 2,039 | 1,829 |
| Gearing | adjusted (%) | **80** | 84 | 71 | 92 | 131 |
| | including share of co investment funds (%) | **114** | 126 | 115 | 133 | 174 |
| | on balance sheet (%) | **92** | 122 | 96 | 115 | 180 |
| Rental income | from wholly owned assets (£m) | **79** | 64 | 64 | 58 | 58 |
| | including share of co investment funds (%) | **111** | 96 | 89 | 82 | 78 |
| Net portfolio contribution (£m) | | **19** | 11 | 4 | 1 | (5) |
| Adjusted profit/(loss) before tax (£m) | | **16** | (17) | (5) | (4) | (24) |
| Profit/(loss) before tax (£m) | | **126** | 5 | 24 | (35) | (116) |
| Earnings per share | adjusted (pence) | **10** | (11) | (3) | (3) | (19) |
| | basic (pence) | **78** | 1 | 12 | (26) | (92) |

# Notice of annual general meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of The UNITE Group plc (the Company) will be held at The Core, 40 St Thomas Street, Bristol BS1 6JX at 9.30 a.m. on 16 May 2013 for the purpose of considering and, if thought fit, passing the following resolutions which, in the case of resolutions numbered 1 to 15 (inclusive), shall be proposed as ordinary resolutions and, in the case of resolutions numbered 16 and 17, shall be proposed as special resolutions.

## ORDINARY BUSINESS

1. To receive the audited annual accounts of the Company for the year ended 31 December 2012, together with the Directors' Report and Auditor's Report on those accounts and that section of the Remuneration Report subject to audit.
2. To confirm and declare a final dividend on the ordinary shares for the year ended 31 December 2012 of 3p per ordinary share payable to shareholders on the register at the close of business on 19 April 2013.
3. To approve the Directors' Remuneration Report for the year ended 31 December 2012.
4. To appoint Mr A Jones as a Director of the Company.
5. To re-appoint Mr P M White as a Director of the Company.
6. To re-appoint Mr M C Allan as a Director of the Company.
7. To re-appoint Mr J J Lister as a Director of the Company.
8. To appoint Mr R C Simpson as a Director of the Company.
9. To appoint Mr R S Smith as a Director of the Company.
10. To re-appoint Mrs M K Wolstenholme as a Director of the Company.
11. To re-appoint Mr R S Walker as a Director of the Company.
12. To re-appoint Sir Tim Wilson as a Director of the Company
13. To re-appoint KPMG Audit Plc as auditors to hold office until the conclusion of the next general meeting of the Company at which accounts are laid.
14. To authorise the Directors to determine the remuneration of the auditors.

## SPECIAL BUSINESS

15. That, in substitution for any equivalent authorities and powers granted to the Directors prior to the passing of this Resolution, the Directors be and are generally and unconditionally authorised pursuant to Section 551 of the Companies Act 2006 (the Act):

    (a) to exercise all powers of the Company to allot shares in the Company, and grant rights to subscribe for or to convert any security into shares of the Company, up to an aggregate nominal amount of £13,372,037 (such amount to be reduced by the nominal amount of any allotments or grants made under paragraph (b) below in excess of £13,372,037; and further

    (b) to allot equity securities (as defined by Section 560(1) of the Act) up to an aggregate nominal amount of £26,744,074 (such amount to be reduced by the nominal amount of any allotments or grants made under paragraph (a) above) in connection with an offer by way of rights issue:

    (i) in favour of holders of ordinary shares in the capital of the Company, where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as practicable), to the respective number of ordinary shares in the capital of the Company held by them; and

    (ii) to holders of any other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,

    but subject to such exclusions or other arrangements as the Directors consider expedient in relation to treasury shares, fractional entitlements, legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange or any other matter whatsoever,

    provided that this authority shall expire (unless renewed, varied or revoked by the Company in general meeting), on the date falling 15 months from the passing of this resolution or, if earlier, at the conclusion of the next annual general meeting of the Company to be held following the passing of this Resolution, save that the Company may, before such expiry, make an offer or enter into an agreement which would or might require shares in the Company to be allotted or rights to subscribe for or convert securities into shares be granted after such expiry and the Directors may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of such offer or agreement as if this authority had not expired.

16. THAT, in accordance with Section 570(1) of the Act, the Directors be and are empowered to allot equity securities (within the meaning of Section 560(1) of the Act) pursuant to the general authority conferred on them by Resolution 15 above as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited:

    (a) to the allotment of equity securities in connection with an offer or issue to or in favour of ordinary shareholders on the register on a date fixed by the Directors where the equity securities respectively attributable to the interests of all those shareholders are proportionate (as nearly as practicable) to the respective numbers of ordinary shares held by them on that date, but the Directors may make such exclusions or other arrangements as they consider expedient in relation to fractional entitlements, legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange; and

    (b) to the allotment (other than under (a) above) of equity securities having a nominal value not exceeding in aggregate £2,005,805.

    and this authority shall expire on the date falling 15 months from the passing of this resolution, or, if earlier, at the conclusion of the next annual general meeting of the Company to be held following the passing of this resolution, save that the Company may, before this authority expires, make an offer or agreement which would or might require equity securities to be allotted after it expires and the Directors may allot equity securities in pursuance of such offer or agreement as if this authority had not expired and provided further that this authority shall supersede and revoke all previous authorities under Section 570(1) of the Act.

17. That a general meeting other than an annual general meeting may be called on not less than 14 clear days' notice.

**By order of the board**
**A D Reid**
**Secretary**
**Dated 6 March 2013**

Registered office:
**The Core**
**40 St Thomas Street**
**Bristol**
**BS1 6JX**

## Notes

1. A member of the Company who wishes to attend the meeting in person should arrive at the offices of the Company, The Core, 40 St Thomas Street, Bristol BS1 6JX in good time before the meeting, which will commence at 9.30 a.m. In order to gain admittance to the meeting, members may be required to produce their attendance card, which is attached to the form of proxy enclosed with this document, or otherwise prove their identity.

2. A member of the Company who is unable or does not wish to attend the meeting is entitled to appoint a proxy to exercise all or any of his/her rights to attend and to speak and vote on his/her behalf at the meeting. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A proxy need not be a member of the Company but must attend the meeting to represent his/her appointing member. Appointing a proxy will not prevent a member from attending in person and voting at the meeting. A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. A form of proxy which may be used to make such appointment and give proxy instructions accompanies this notice. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.

3. To be valid, any form of proxy, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, must be received by hand or by post at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY, no later than 9.30 a.m. on 14 May 2013.

4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

5. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear's specifications, and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be a valid, be transmitted so as to be received by the Company's agent (CREST ID 3RA50) by the latest time for receipt of proxy appointments specified in note 3 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

6. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his/her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
7. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).
8. If you would like to submit your proxy vote via the internet, you can do so by accessing our registrar's website (www.eproxyappointment.com). You will require the control number, your unique PIN (which will expire at the end of the voting period) and your Shareholder Reference Number (SRN), printed on the proxy card, in order to log in and submit your proxy vote electronically. You can access this site from any internet enabled PC.
9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
10. If you submit more than one valid proxy appointment in respect of the same shares, the appointment received last before the latest time for the receipt of proxies will take precedence.
11. Any person to whom this notice is sent who is a person nominated under section 146 of the Act to enjoy information rights (a Nominated Person) may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
12. The statement of the rights of shareholders in relation to the appointment of proxies above does not apply to Nominated Persons. These rights can only be exercised by shareholders of the Company.
13. Pursuant to Part 13 of the Companies Act 2006 and Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), the Company specifies that only those shareholders registered in the register of members of the Company at 5.00 p.m. two days before the meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
14. As at 6 March 2013 the Company's issued share capital consists of 160,464,449 ordinary shares carrying one vote each. Therefore the total voting rights in the Company as at 6 March 2013 are 160,464,449.
15. You may not use any electronic address provided either in this notice of meeting or any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.
16. Members attending the meeting have the right to ask and, subject to the provisions of the Act, the Company must cause to be answered, any questions relating to the business being dealt with at the meeting.
17. The following information is available at www.unite-group.co.uk (1) the matters set out in this notice of annual general meeting; (2) the total numbers of shares in the Company in respect of which members are entitled to exercise voting rights at the meeting; (3) the totals of the voting rights that members are entitled to exercise at the meeting; and (4) members' statements, members' resolutions and members' matters of business received by the Company after the date on which notice of the meeting was given.
18. It is possible that, pursuant to requests made by members of the Company under Section 527 of the Act, the Company may be required to publish on a website a statement setting out any matter relating to: (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the annual general meeting; or (b) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Act. The Company may not require the members requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under Section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under Section 527 of the Act to publish on a website.

19. In accordance with Section 338 of the Act, a member or members of the Company may (provided that the criteria set out in Section 338(3) of the Act are met) require the Company to give to members notice of a resolution which may properly be moved and is intended to be moved at the meeting, provided that: (a) the resolution must not be, if passed, ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise); and (b) the resolution must not be defamatory of any person, frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must be authenticated by the person or persons making it, must identify the resolution of which notice is to be given and must be received by the Company not later than 6 weeks before the meeting, or, if later, the time at which notice is given of the meeting. (In the foregoing sentence, the terms 'hard copy form', 'electronic form' and 'authenticated' bear their respective meanings set out in the Act in relation to a communication, or a document or information sent or supplied, to a company.)

20. In accordance with Section 338A of the Act, a member or members of the Company may (provided that the criteria set out in Section 338A (3) of the Act are met) require the Company to include in the business to be dealt with at the meeting a matter (other than a proposed resolution) which may properly be included in the business of the meeting, provided that the matter is not defamatory of any person, frivolous or vexatious. A request may be in hard copy form or electronic form, must identify the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person or persons making it and must be received by the Company not later than 6 weeks before the meeting, or, if later, the time at which notice is given of the AGM. (In the foregoing sentence, the terms 'hard copy form', 'electronic form' and 'authenticated' bear the respective meanings set out in the Act in relation to a communication, or a document or information sent or supplied, to a company.)

21. A member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways: either by the appointment of a proxy (as described in the notes above) or of a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the Company's articles of association and the relevant provisions of the Act.

22. The following documents are available for inspection at the registered office of the Company during the usual business hours on any weekday (Saturday, Sunday or public holidays excluded) from the date of this notice until the conclusion of the annual general meeting and will also be available for inspection at the place of the meeting from 9.15 a.m. on the day of the meeting until its conclusion:

    (a) copies of the executive directors' service contracts with the Company and any of its subsidiary undertakings; and

    (b) and letters of appointment of the non-executive directors.

**Adjusted earnings per share**
The diluted earnings per share based on adjusted profit.

**Adjusted, fully diluted net asset value per share (Adjusted NAV)**
The basic NAV per share figure is recalculated to take account of dilutive outstanding share options and adjusted to:

- Exclude the impact of deferred tax
- Exclude the mark to market of interest rate swaps
- Include the valuation gain not recognised on properties held at cost.

**Adjusted gearing**
Adjusted net debt as a percentage of adjusted net assets.

**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 net debt to property assets**
The adjusted net debt as a percentage of the value of UNITE properties.

**Adjusted profit**
Adjusted profit is 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.

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

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

**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.

**LSAV**
The London Student Accommodation Joint Venture (LSAV) is a new 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 projects until such time as its capital investment targets are met.

**Minimum net worth**
Minimum net worth covenant measures the value of the Company against an absolute target.

**Net Initial Yield (NIY or Yield)**
The net operating income generated by a property expressed as a percentage of its value.

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

**Net portfolio contribution (NPC)**
This is an important indicator of operational performance as it measures the income from the rental properties, net of their financing costs and the Group's total non-development related overheads.

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

**Non-core assets**
Properties which do not fit with the Group's long-term investment strategy, either because of their location or because they are let to Universities under long-term agreements.

**OCB**
UNITE successfully established a joint venture with Oasis Capital Bank (OCB) in August 2009. The joint venture consists of three assets located in London, all of which were completed in 2010.

**Rental properties**
Investment and completed properties whose construction has been completed and are used by the Operations segment to generation Net Portfolio Contribution

**Stabilising assets**
Properties that have recently been developed and are not yet generating their optimal net operating income.

**Total income from managed portfolio**
This measure indicates the overall scale of the property portfolio that the Group manages. It comprises rental and related income, totalling £240.2 million from properties owned by:

| | £m |
|---|---|
| The Group | 79.2 |
| Third parties | 0.2 |
| USAF | 115.2 |
| LSAV | 0.5 |
| UCC | 31.5 |
| USV (Pre Acquisition) | 0.3 |
| OCB | 13.3 |

The Group's share of this gross income is shown in note 2.1(a).

**Total returns**
The total return to shareholders calculated by the growth in adjusted NAV plus interim and declared final dividends.

**UCC**
UNITE Capital Cities was established in 2005 as a joint venture between UNITE and GIC Real Estate. In 2012 we extended the maturity of this JV to September 2022 alongside the formation of LSAV.

**USAF/the Fund**
The UNITE UK Student Accommodation Fund (USAF) is Europe's largest fund that purely focuses on direct let student accommodation investment assets. The Fund is an open-ended infinite life vehicle which has unique buying access to UNITE's portfolio. UNITE act as Fund Manager of the Fund, as well as owning a significant minority stake.

**USV**
UNITE Student Village was established in 2004 as a joint venture between UNITE and Lehman Brothers to develop large student village schemes of c1,000 bed spaces. UNITE acquired the USV stake in the one remaining operation asset from Lehman Brothers in January 2012.

**UNITE letting arrangements**

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

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

**Nominations**
Properties where short-hold tenancy agreements are made with students, with the University providing a longer term occupancy guarantee in respect of a significant proportion of rooms.

**Sale and lease back**
Properties which have been sold to a third party investor then leased back to the Company. UNITE are responsible for the management of these assets on behalf of the owner.

# Company information

**Registered office**
The Core
40 St Thomas Street
Bristol BS1 6JX

**Registered number in England**
3199160

**Company Secretary**
**Andrew Reid**

**Auditors**
**KPMG Audit Plc**
15 Canada Square
London E14 5GL

**Financial Advisors**
**JP Morgan Cazenove**
25 Bank Street
London E14 5JP

**Numis Securities**
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

**Registrars**
**Computershare Investor Services PLC**
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

**Financial PR Consultants**
**FTI Consulting**
Holborn Gate
26 Southampton Buildings
London WC2A 1PB

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The UNITE Group plc

The Core
40 St Thomas Street
Bristol BS1 6JX
Tel: 0117 302 7000
Fax: 0117 302 7400
info@unite-group.co.uk

www.unite-group.co.uk
www.unite-students.com

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