Press Release

6 March 2013

THE UNITE GROUP PLC

(“UNITE” / “Group” / “Company”)

FULL YEAR RESULTS FOR THE YEAR TO 31 DECEMBER 2012

UNITE PERFORMS STRONGLY ON ALL METRICS, DELIVERING SUBSTANTIAL GROWTH IN EARNINGS, REDUCED LEVERAGE AND A MORE THAN DOUBLED DIVIDEND

HIGHLIGHTS

Strong financial performance

- Net Portfolio Contribution (“NPC”) up 74% to £19.1 million (2011: £11.0 million);
- Adjusted earnings per share up 280% to 9.9 pence (2011: 2.6 pence), representing a yield on opening adjusted NAV of 3.1%;
- Adjusted net asset value (“NAV”) per share up 10% to 350 pence (2011: 318 pence), equating to a total return on equity (including dividends) of 11.3%;
- Final dividend increased to 3.0 pence per share (2011: 1.25 pence), making 4.0 pence for the full year (2011: 1.75 pence).

Portfolio quality enhanced further

- £209 million development programme completed on time and to budget;
- £128 million of non-core assets sales target achieved;
- 90% of the UNITE investment portfolio (including share of co-investment vehicles) is now classified as core (2011: 82%);
- London weighting of 45% increasing to over 50% when portfolio built-out.

Capital structure strengthened

- Adjusted loan-to-value ratio reduced to 52% from 54% at December 2011;
- Weighted average loan maturity extended to 4.9 years (2011:2.9 years) and average cost of debt reduced to 5.5% (2011: 5.7%);
- Strategically important joint venture with GIC extended (to 2022) and expanded (to £1 billion), providing greater visibility of development pipeline financing and returns and

allowing UNITE to accelerate London development activity while returns remain compelling.

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 (2012: 59%);
- 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.
- Rental growth expected to be in line with recent years.

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

"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. The extension of our significant joint venture with GIC during the year also illustrates 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 key 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."

Presentation

There will be a presentation for analysts this morning at 9:15am. The live webcast will be available at www.unite-group.co.uk. Please contact FTI Consulting for further details.

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CHAIRMAN'S STATEMENT

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 (2011: 2.6 pence, excluding UMS closure costs). Adjusted NAV per share increased 10% to 350 pence (2011: 318 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 10 year senior debt facility with Legal and 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. 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.

CHIEF EXECUTIVE'S REVIEW

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. 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.

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

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.

Total return on equity

	2012	2011	2010
Components of total return on equity			
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

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.

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.

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.

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

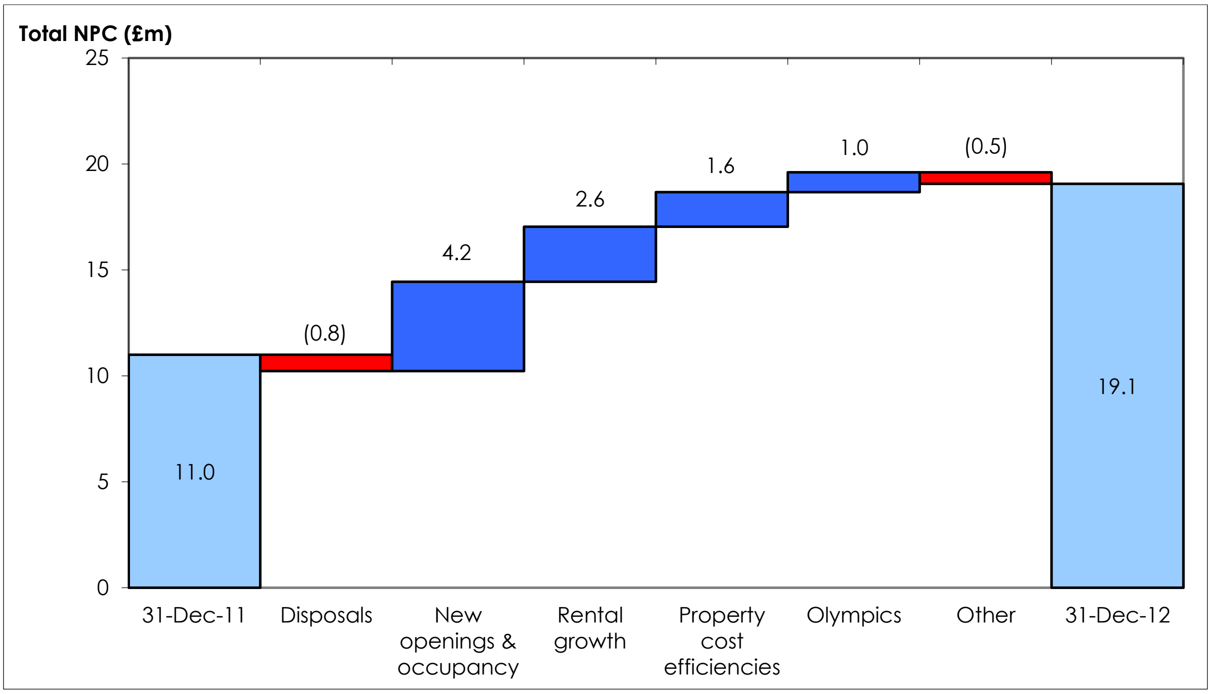
	2012 £m	2011 £m
Total income from managed portfolio	240.2	219.5
UNITE's share of rental income	111.4	95.6
UNITE share of total income	*46%*	*44%*
UNITE's share of operating costs	(32.3)	(29.4)
Net operating income (NOI)	79.1	66.2
NOI margin	*71.0%*	*69.2%*
Management fee income	10.3	10.1

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.

NPC bridge



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 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.

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 (on opening adjusted NAV)	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.

Our successful Olympics contract, under which we housed 3,600 Olympic Association guests for periods of up to 8 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.
- **WiFi** – We have begun a rolling programme to install WiFi 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.

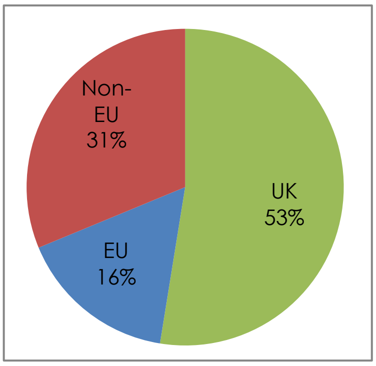
Customer profile

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.

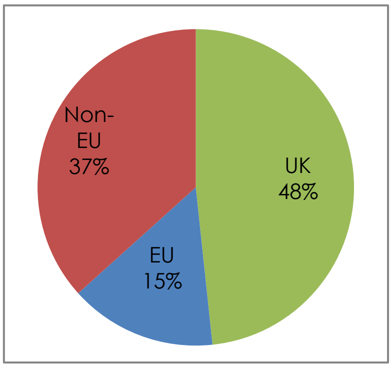
For the 2012/13 academic year our customer base was comprised of students who have been placed with us through University agreements, and students coming to UNITE directly, in an almost even 50/50 split. Of the direct let customer base, the following charts show the domicile breakdown and analysis of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

Direct let break down by domicile

2011-12

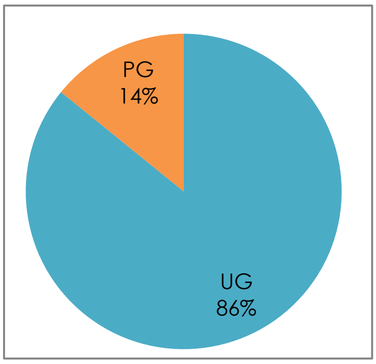


2012-13

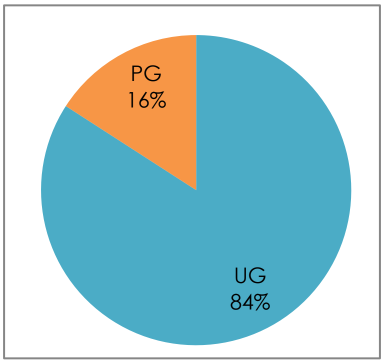


Analysis by year of study

2011-12



2012-13



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 strong performance 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.

PROPERTY REVIEW

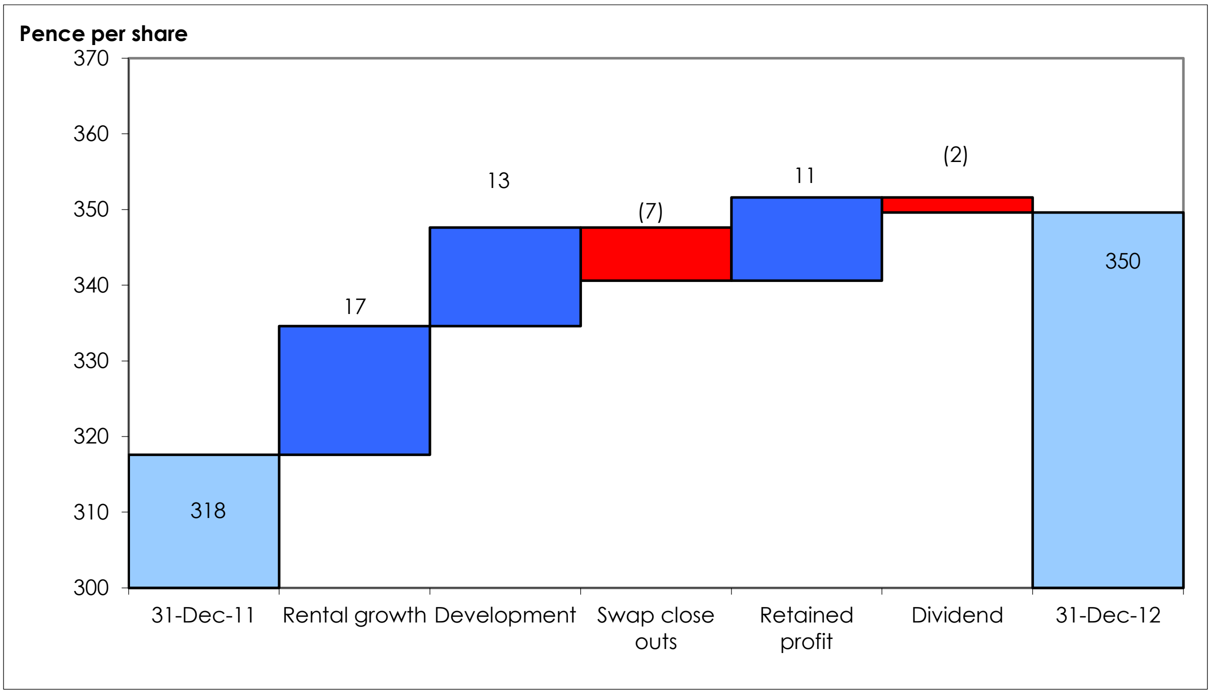
NAV growth

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); and
- Dividends paid (-2 pps).

Adjusted NAV bridge



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.

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%.

Summary balance sheet

	2012 £'m			2011 £'m		
	UNITE	Share of JVs	**Total**	UNITE	Share of JVs	**Total**
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%

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.

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	Value	917	34	-	-	329	-	**1,280**	**490**

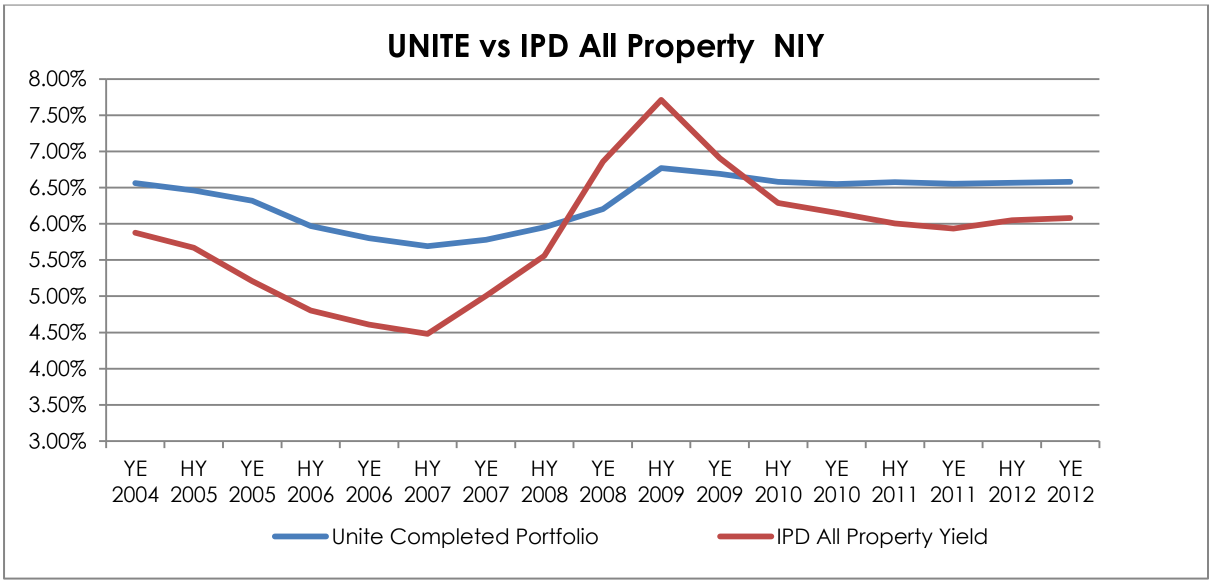
provincial	(£m)								
	Beds	16,525	333	-	-	5,817	2,147	**24,822**	**42%**
Provincial	Value (£m)	215	-	-	-	160	-	**375**	**195**
	Beds	3,885	-	-	-	3,268	1,785	**8,938**	**17%**
Total	**Value (£m)**	**1,320**	**381**	**50**	**175**	**763**	**-**	**2,689**	**1,162**
	Beds	21,835	2,601	528	1,128	11,095	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.

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.

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%

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.

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.

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

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%

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 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.

2012 Developments

	Beds	Occupancy	GAV	TDC	NAV uplift	Profit on cost	Yield	Weekly cluster rent
		%	£m	£m	£m	%	%	£
London								
Waterloo Road	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%	

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 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 Kings Cross regeneration zone, close to the Royal Veterinary College and 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.

Development pipeline

		Secured beds	Total completed value	Total development costs	Capex in period	Capex remaining	Forecast NAV remaining	Forecast yield on cost
		No.	£m	£m	£m	£m	£m	%
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 2	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%**

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.

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

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.

Asset disposals

	2012		2011	
	Proceeds	Book value*	Proceeds	Book value*
Open market transactions	£m	£m	£m	£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

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	2011
	£'m	£'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 transferring 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 10-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.

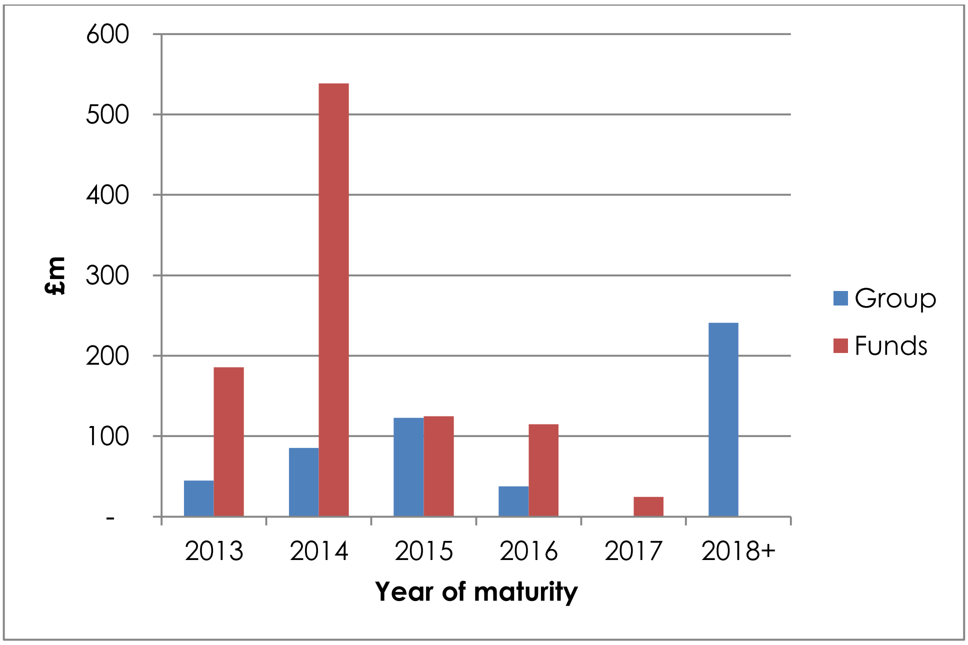
New debt facilities

The arrangement of non-bank debt facilities has been an important strategic development. The Legal and 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 below.

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%

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 10 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.

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 (i.e. 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.

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 the following main headings:
- **Results for the year, including segmental information, adjusted profits and adjusted NAV**
- **Asset management**
- **Funding**
- **Working capital**

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

Consolidated income statement

For the year ended 31 December 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	3.3b	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.

At 31 December 2012

Consolidated balance sheet

For the year ended 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	3.3b	194.8	173.0
Joint venture investment loans	3.3b	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		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		(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

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**

Consolidated statement of cash flows

For the year ended 31 December 2012

	Note	2012 £m	2011 £m
Cash flows from operating activities	5.1	**58.4**	**(74.0)**
Cash flows from taxation		**(0.9)**	**(0.6)**
Investing activities			
Proceeds from sale of investment property		27.5	8.3
Dividends received		9.6	8.9
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)**
Financing activities			
Total interest paid		(21.1)	(15.0)
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)
Ineffective swap payments		(18.8)	(11.7)
Proceeds from the issue of share capital		0.2	–
Payments to acquire own shares		(1.3)	(0.1)
Proceeds from non-current borrowings		291.3	113.6
Repayment of borrowings		(235.9)	(21.7)
Dividends paid to the owners of the parent company		(3.6)	(0.8)
Dividends paid to minority interest		(0.8)	(0.7)
Cash flows from financing activities		**15.1**	**70.7**
Net increase / (decrease) in cash and cash equivalents		**58.6**	**(7.0)**
Cash and cash equivalents at start of year		16.8	23.8
Cash and cash equivalents at end of year	5.1	**75.4**	**16.8**

Notes to the financial statements

Section 1: Basis of preparation

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2012 or 2011 but is derived from those accounts. Statutory accounts for 2011 have been delivered to the Registrar of Companies, and those for 2012 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006 in respect of the accounts for 2011 or 2012.

Going concern

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 4.5.

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

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.

Section 2: Results for the year

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	3.3b	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	3.3b	(0.6)	0.4
Current tax included in unallocated to segments		0.4	0.4
Share of joint venture deferred tax credit/(charge)	3.3b	0.4	0.3
Minority interest share of NPC**	3.3b	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 3.3.

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**

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**

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.

Section 2: Results for the year continued

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%.

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).

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**

Section 2: Results for the year continued

2.6 Tax continued

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.

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.

Section 3: Asset management

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.

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**

Section 3: Asset management continued

3.1 Wholly owned property assets continued

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.

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.

Section 3: Asset management continued

3.1 Wholly owned property assets continued

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.

3.3 Investments in joint ventures (Group)

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

3.3 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.

Section 3: Asset management continued

3.3 Investments in joint ventures (Group) continued

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

The carrying value of the Group's investment in joint ventures has increased by £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

3.3 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 4: Funding

4.1 Borrowings

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

	2012 £m	2011 £m
Current		
In one year or less, or on demand	100.2	29.2
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
	427.7	421.5
Total borrowings	**527.9**	**450.7**

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.

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.

Section 4: Funding continued

4.3 Net financing costs

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%).

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%

Section 4: Funding continued

4.5 Covenant compliance

Many of the Group's funding facilities carry covenants. The Group monitors its covenant position and the headroom available on an ongoing basis. At 31 December 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 Equity

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.

4.7 Dividends

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

5.1 Cash

The Group's cash position at 31 December 2012 was £75.4 million (2011: £16.8 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	2012 £m	2011 £m
Profit/(loss) for the year		127.2	3.9
Adjustments for:			
Depreciation and amortisation		2.9	4.1
Fair value of share based payments		1.5	1.2
Impairment of fixed assets		–	3.7
Change in value of investment property	3.1	(79.5)	(7.7)
Net finance costs	4.3	22.6	18.5
Loss on disposal of investment property		2.4	0.2
Share of joint venture profit	3.3b	(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**
(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
(Decrease) / increase in provisions		(10.3)	11.0
Cash flows from operating activities		**58.4**	**(74.0)**

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).

5.2 Credit risk

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

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

	Note	2012 £m	2011 £m
Cash	5.1	75.4	16.8
Trade receivables		7.8	6.7
Amounts due by joint ventures (excluding loans that are capital in nature)		27.9	13.4
Joint venture investment loans	3.3b	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.