PRESS RELEASE

22 February 2017

THE UNITE GROUP PLC

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

FULL YEAR RESULTS FOR THE YEAR TO 31 DECEMBER 2016

The Unite Group plc, the UK's leading manager and developer of student accommodation, announces its full year results for the year ended 31 December 2016.

HIGHLIGHTS

Continued delivery of strong financial performance driven by operational focus

- Adjusted EPRA earnings up 24% to £61.3 million or 27.7p (2015: £49.5 million, 23.1p). Including the yield element of the USAF performance fee, EPRA earnings £62.7 million (2015: £61.3 million)
- Profit before tax £201.4 million (2015: £388.4 million), generating basic EPS of 101.3p compared to 164.2p in 2015 due to lower level of revaluation surplus as a result of yield compression in 2015
- Increased dividend pay-out ratio to 75% of EPRA earnings (excluding USAF performance fees). Final dividend declared up 26% to 12.0p (2015: 9.5p). Full year dividend of 18.0p (2015: 15.0p)
- Like-for-like rental growth of 3.8% for the full year (2015: 3.8%)
- EPRA NAV per share up 12% to 646p (2015: 579p) making, together with dividends declared, a total accounting return of 15% for the year
- LTV at 34% with net debt at £776 million (2015: 35% and £731 million) and cost of debt reduced to 4.2% (2015: 4.5%)

Earnings growth visibility underpinned by rental growth, sector fundamentals, efficiencies and high quality development programme

- Operational portfolio increased to 49,000 beds valued at £4.3 billion; Unite share £2.1billion (2015: 46,000 beds, valued at £3.8 billion; Unite share £1.8 billion)
- Student number growth, Unite's operational capability and high quality University relationships support occupancy and rental growth outlook of 3.0-3.5% in 2017
- Delivery of PRISM supporting margin improvement to 73.1% and overhead efficiency to 40 basis points (2015: 72.5% and 48 basis points). On track to deliver both targets of 75% and 25-30 basis points of gross asset value by the end of 2017
- High quality development portfolio of 7,000 beds with development yield of 8.4%, together with rental growth, could add 15 to 20p to earnings over the next few years
- Acquisition of Aston University's 3,100 bed on-campus portfolio for £227 million (£113 million on a see-through basis) in February 2017 will contribute to earnings growth and further enhance portfolio quality

- Disposal of 4,175-bed regional portfolio in February 2017 for £295 million; Unite share £102 million to provide funding for ASV acquisition and development pipeline

Outlook remains positive

- Unite's brand, operating system, quality portfolio, University relationships and sector fundamentals underpin future performance
- Reservations for 17/18 academic year at 73%, a record level for this time of year (2015: 67%)
- University intake continues to grow with record intake in 2016, with high to mid-ranked Universities performing most strongly with acceptances up 3%
- EU referendum is not expected to significantly impact student numbers and supports Unite strategy to focus on its relationships with high to mid-ranked Universities
- Further opportunities to extend development pipeline and growth through University relationships
- Conversion to REIT status on 1 January 2017 supports earnings and dividend growth

Richard Smith, Chief Executive of Unite Group, commented:

"These are another excellent set of results that reflect the quality of our people, properties and service execution that sets us apart in our sector. Looking forward, we will maintain the quality of our portfolio through development and also strategic acquisitions such as our recent purchase of Aston Student Village, our first on-campus. Students and Universities remain our core focus and we will continue to invest in our operational capabilities, providing excellent service and ensuring consistently high satisfaction levels. This strategy, plus the ongoing strength of UK Higher Education, student numbers and the demand for beds means we are confident in further growth."

PRESENTATION

There will be a presentation for analysts this morning at 10:30. The live webcast will be available at: www.unite-group.co.uk. Please contact Bell Pottinger for further details. Dial-in number for the presentation: 020 3059 8125.

For further information, please contact:

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CHAIRMAN'S STATEMENT

2016 has been a landmark year for Unite Students for several reasons: celebrating our 25th year, welcoming our 500,000th customer and providing homes for 49,000 students, our largest ever intake in a single year. We also achieved a Gold accreditation in the 'Investors in People' people management standard, placing us in the top tier of businesses.

Performance has again been strong, with a total accounting return of 15% and growth in Adjusted EPRA earnings to £61.3 million, up 24%. Profit before tax was £201.4 million which includes property revaluations of £136.3 million (2015: £388.4 million and £324.6 million respectively). As a result of this strong performance, we are increasing our dividend pay-out ratio to 75%, a year ahead of schedule and declaring a final dividend of 12.0p. This adds up to a total of 18.0p for the full year, an increase of 20% year on year.

Unite Students is a service brand and the strong performance we have delivered for our customers, University partners and shareholders is only possible because of the talent and hard work of our teams across the business. On behalf of the Board, I would like to thank them for another excellent year.

On 31 May, Mark Allan stepped down as Chief Executive, a role he held since 2006. Mark played a key role in the success of Unite Students and on behalf of the Board and everyone at Unite, I would like to thank him for his service and wish him well for the future.

Richard Smith has taken over as Chief Executive, having been the Managing Director of our Operations business for the last five years, successfully leading the transformation of our service delivery and implementation of our PRISM operating platform.

A core part of our recent success has been our consistent strategy and we will continue to focus on its three main elements: to deliver great service to our students and University partners, to operate brilliant buildings and to maintain high quality earnings and a strong capital structure. As a result of our continuing progress in these areas, we have successfully transitioned to become a REIT, effective from 1 January 2017, and we believe this is consistent with our focus on income and capital discipline.

The outlook for our market remains positive with structural growth being supported by the strength of the world renowned UK Higher Education sector, increasing participation rates, the internationalisation of Higher Education and the shortage of housing in the UK.

The impact of Brexit is starting to become clearer and we do not expect it to have a material impact on student numbers. Our high quality portfolio, University relationships and market-leading operating platform leave us well placed to continue performing strongly in the years to come.

CHIEF EXECUTIVE'S REVIEW

In my first year as Chief Executive, I am pleased to report another strong set of results for the year ending 31 December 2016. We have maintained our focus on delivering sustainable growth in recurring profits and cash flow in the long term, and delivering a Home for Success to all of the students who live with us. We do this by providing great service and operating brilliant buildings that students and Universities choose. We also ensure investment discipline to maintain a strong capital structure and deliver high quality earnings.

Performance in 2016 was driven by another year of strong growth in EPRA earnings, rental growth and development profits, combining to deliver a total accounting return of 15%. Adjusted EPRA earnings (adjusted to exclude the yield related element of the USAF performance fee) increased by 24% to £61.3 million and now represents one-third of the total shareholder return. As a result of the significant growth in earnings and the positive outlook for further earnings growth, we are declaring a final dividend of 12.0p (2015: 9.5p), making a dividend per share of 18.0p for the full year (2015: 15.0p), an increase of 20% year on year.

Financial highlights

	2016	2015
EPRA earnings	£62.7m	£61.3m
Adjusted EPRA earnings	£61.3m	£49.5m
Adjusted EPRA EPS	27.7p	23.1p
Profit before tax	£201.4m	£388.4m
Basic EPS	101.3p	164.2p
Dividend per share	18.0p	15.0p
Total accounting return	15%	37%
Loan to value (LTV)	34%	35%

We are continuing to focus on growing earnings in absolute terms and also as a proportion of our total return. This is driven by our ability to continue growing rental levels on an annual basis, the delivery of cost efficiencies and from the completion of our high quality development pipeline.

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

Since the year end, we have completed two important strategic initiatives with the acquisition of a 3,100-bed, on-campus portfolio at Aston University and also the sale of a regional portfolio, which together improve our portfolio quality and focus on the best Universities.

The business completed its planned conversion to become a REIT on 1 January 2017. This transition supports our continued focus on earnings, capital discipline and commitment to distribute earnings to shareholders. As a result of the strong performance and positive outlook, we have accelerated our increased pay-out ratio to 75% of Adjusted EPRA earnings (excluding USAF performance fees) a year ahead of schedule.

Delivering great service to our students and University partners

We provide a high quality and secure living environment where young people can develop academically and socially and make the most of their time at University.

For many people, University is where the foundations of their career are laid. We understand that a University education is a significant investment for young people, and believe that no-one should miss out simply because of their personal circumstances. But, for every generation of students, University is more than simply a stepping stone to a job. It moulds them as individuals and provides a critical bridge to adulthood, where they can learn the interpersonal skills they will need for life. We believe that where a student lives has a material impact on their academic and social experience of University and, ultimately, their lives. We therefore aim to create an environment which is caring and supportive, but also allows our students to express their natural desire for independence.

We recognise that affordability of Higher Education is an important consideration and therefore we offer a variety of accommodation at different price points to students with the majority of our accommodation focused at the mid-range price point for purpose-built student accommodation. 65% of our customers are from the UK and we continue to attract growing numbers of second and third-year students, who now make up one-third of our customer base. We will continue to focus on providing our customers with excellent service and an experience that they value.

Our focus on the student experience is completely aligned to the aims of our University partners, for whom student experience is a key measure. With students spending more time in their accommodation than on campus, we can demonstrate to Universities how we can support them and their ambitions. This focus has led to 58% of our accommodation being let to Universities through nominations agreements. With an average remaining life of 6 years, our nominations agreements provide income and rental growth certainty on over half of our revenue. In turn, this provides protection from any potential changes to student numbers, and has helped to deliver average occupancy of 98% and rental growth of 3.5% over the last five years.

Students too, expect more from their accommodation and this year, we maintained customer service satisfaction levels – a key performance indicator for us – at high levels, placing us on a par with some of the best European service companies. We also secured excellent results in our independently assessed employee effectiveness and University trust scores. The delivery of great customer service to students and Universities translates into our strong financial performance, delivering occupancy of 98% and rental growth of 3.8% in 2016 (2015: 98%, 3.8%). With our new operating system, PRISM we have also delivered further improvements to our NOI margin and overhead efficiency measure.

Our people, University relationships, the quality of our portfolio, PRISM and the broader operating platform set us apart from the other operators in the sector and will support the ongoing growth in our portfolio, service levels and financial performance.

Operating brilliant buildings

Our strategy is built around the quality, location and scale of our portfolio. We aim to operate buildings that are located in and around the Universities with the best prospects. We believe that our focus on high quality Universities across the UK is the best strategy to achieve continued high levels of occupancy and rental growth. We generate 82% of our income from customers attending high and mid-ranked Universities, increasing to 86% on completion of our development pipeline.

During 2016, we opened 3,100 new beds, invested £12 million in asset management and refurbishment programmes and sold £114 million of assets (on a see-through basis). Taking into account these activities together with valuation movements, the value of our investment portfolio (including our share of co-investment vehicles) increased by 14% to £2.1 billion as at 31 December 2016 and is valued at an average portfolio yield of 5.45% (2015: £1.8 billion and 5.55% yield).

We also made excellent progress with our development pipeline during the year. We completed five new buildings over the summer and secured an additional four new development schemes, which increases our secured development pipeline to 7,000 beds for delivery over the next three years. Construction of all our 2017 openings is progressing in line with plans, planning consents and build contracts are in place for all of our 2018 deliveries and planning permission is in place for all but one of our 2019 schemes.

We are continuing to see attractive development opportunities in strong University markets and we plan to invest selectively in target markets to enhance portfolio quality and deliver target returns. Whilst demand for student accommodation remains strong in London, the fall in land prices over the last 12 months has not been sufficient, when combined with new planning requirements for affordable student housing provision, to enable us to achieve our target returns. We will continue to monitor the situation for opportunities.

The anticipated yield on cost of our secured pipeline is 8.4% and prospective returns on new schemes remain attractive at 8.0-8.5%. The secured development pipeline is highly accretive and remains a significant component of our future earnings growth and could contribute 12-14 pence per share to EPRA earnings once built out.

We continue to target acquisitions of completed assets and portfolios that enhance the quality of our portfolio and the earnings profile of the business. These acquisitions are targeted through our co-investment vehicles due to their lower cost of capital, allowing us to generate enhanced returns through our asset management and acquisition fees. USAF has acquired two assets under development which will be opened for the 2017 academic year. These 'forward fund' assets represent 404 beds, in Oxford and Edinburgh and were purchased for a combined total of £56 million. Following the year end, LSAV acquired a £227 million portfolio located on the Aston University campus. This exciting development allows us to build a strategic relationship with a high-ranked University and to leverage our PRISM operating system to deliver strong financial returns.

Disposals remain an important part of our strategy and we will continue to recycle assets out of our portfolio to ensure that we increase exposure to the best Universities in the UK, and also to generate capital to invest in further development activity and exciting opportunities such as the Aston Student Village acquisition. During 2016, we sold £114 million of assets (on a see-through basis) including the sale of two assets to USAF. These assets were sold in line with book valuations. We intend to sell £150-200 million (Unite share) of assets during 2017 to take advantage of the ongoing strength in the investment market and to ensure that we maintain a strong and flexible balance sheet as we progress our development pipeline. We have made good progress already in 2017, having completed the sale of a 4,175-bed regional portfolio in February for £295 million (Unite share £102 million) in line with book value.

Maintaining high quality earnings and a strong capital structure

We have maintained full occupancy across our portfolio (98%) with rental growth of 3.8%. With 58% of this income underpinned by nominations agreements, we have a high level of visibility in the ongoing occupancy and rental growth outlook of the portfolio. In addition to revenue growth, a focus on efficiency has resulted in further improvements in our NOI margin up to 73.1% (2015: 72.5%), and in our overhead efficiency revenue which shows that our overheads, net of management fees, now represents 40 basis points of gross asset value (2015: 48 basis points). We remain confident about our ability to make further efficiency gains and to deliver our targets of 75% and 25-30 basis points by the end of 2017.

Unite's share of net debt grew by £45 million to £776 million in 2016. Our capital expenditure programme (Unite share £146 million) was majority funded by our disposal programme and retained earnings. We maintained our LTV within our target range in the mid-30% level at 34% (2015: 35%) as development profits and rental growth outstripped the increase in net debt. Our net debt to EBITDA ratio is 6.5 (2015: 6.9), again within our target level which we intend to maintain.

Interest rates have remained at low levels throughout 2016, and we have continued to take advantage of these historically low rates both on new debt facilities and through entering into forward starting interest rate swaps in respect of future borrowing requirements of our secured development pipeline. As a result of these activities, our average cost of debt has fallen to 4.2% from 4.5%. We expect it to fall a little further over the next few years as forward starting swaps becomes effective. At these levels, the spread to ungeared development yields and investment yields remains significant.

The Group's conversion to REIT status reflects the consistency and quality of the earnings profile and its conservative financing strategy. The Group will ensure that the balance of business, gearing ratios and dividend pay-out levels remain within the guidelines set out within the REIT regime.

Market and strategy

The outlook for the student accommodation sector remains positive, with structural factors continuing to drive the demand:supply imbalance in the University markets in which we operate. The UK Higher Education sector is recognised globally for the strength of its Universities and contribution that it makes to research, innovation, talent development and the UK economy more broadly. The UK is the second most popular destination for international students and has 18 out of the world's top 100 Universities and 47 of Europe's top 200 Universities. We expect the UK Higher Education sector to maintain its global standing and reputation.

The number of applicants and the number of students accepted into courses in 2016 was again at record levels at 725,000 and 540,000 respectively (2015: 710,000 and 530,000), driven by growth in demand from both UK and international students. With applicants outstripping the places offered by Universities by 185,000, the sector is well placed to withstand any potential reductions from UK demographics or the impact of the UK leaving the EU.

Following the removal of the student number cap in 2015, the Higher Education sector is facing further change with the introduction of the Teaching Excellence Framework (TEF) in May 2017. This will provide students with greater visibility of the quality of teaching at Universities and also allow Universities to increase fees in line with inflation if they meet certain criteria. We expect the TEF to have a significant impact on the attractiveness of Universities, particularly to UK students, and we are well placed to respond to changes resulting from this new information.

The gap between the number of applicants and the number of University places could be reduced by external factors, including the potential impact of the EU referendum on student numbers. Since 2015, a demographic trend has seen a reduction in the number of 18-21 year olds, affecting the next four years. Early applications data in January 2017 shows a 5% reduction in applicants for the 2017/18 academic year. However, we expect that the 185,000 surplus of applicants over places and the removal of the cap means the number of students accepted onto courses will not be materially impacted, and we expect the high and mid-ranked Universities to recruit more students than those at the lower end of the league tables.

The qualities of the student accommodation sector have attracted significant levels of capital investment over the last three years with over £11 billion of investment activity. This increased investment activity has also seen the level of new supply increase and the total number of purpose-built beds to increase to 250,000 beds (14% of the UK's student population). The outlook for new supply suggests that the rate of new supply will continue at a similar rate of around 20,000-25,000 over the next two years. However, a significant proportion of the new beds are focused on the upper end of the price range which will have a minimal impact on our type of accommodation.

Furthermore, our exposure to changes in student numbers is mitigated by our high quality University relationships and nominations agreements and therefore we remain confident that well-located, mid-range, direct-let student accommodation will be able to maintain high levels of occupancy and rental growth.

Outlook

Building on a period of consistent strong performance, and supportive market fundamentals, the Group remains well placed to deliver sustainable earnings growth in the years ahead. Our development pipeline and operational expertise provides good visibility over the future rental growth and increasing recurring earnings. Our portfolio is focused on stronger Universities, plus our highly scalable operating platform and strong brand leaves us well placed to extend our market leading position.

Despite the broader macro uncertainties created by the EU referendum, the demand:supply outlook for student accommodation remains in our favour, and we will look to benefit from opportunities to extend our development pipeline, grow on-campus accommodation and strengthen University relationships. With this backdrop, a strong balance sheet and our new REIT status, we are confident that the business remains well placed to deliver highly attractive shareholder returns.

OPERATIONS REVIEW

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

Sales, rental growth and profitability

The key strengths of our operating business are our people, our PRISM operating platform, the strength of our brand and the strength of our relationships with Universities. We have continued to build on these strengths throughout 2016, resulting in a £11.8 million, 24% increase in Adjusted EPRA earnings to £61.3 million compared to last year (2015: £49.5 million). This growth has again been driven by high occupancy, rental growth and the impact of portfolio movements as well as further operational efficiencies and ongoing cost discipline.

Summary EPRA income statement

	2016 £m	2015 £m
Unite's share of rental income	159.1	144.3
Unite's share of property operating expenses	(42.8)	(39.8)
Net operating income (NOI)	**116.3**	**104.5**
NOI margin	*73.1%*	*72.5%*
Management fees	14.0	12.0
Operating expenses	(23.1)	(21.9)
Finance costs	(45.9)	(48.1)
USAF acquisition and net performance fee	6.9	22.0
Development and other costs	(5.5)	(7.2)
EPRA earnings	**62.7**	**61.3**
Yield related element of performance fee	(1.4)	(11.8)
Adjusted EPRA earnings	**61.3**	**49.5**
Adjusted EPRA EPS	**27.7p**	**23.1p**

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

The Group's share of rental income has increased by £14.8 million, up 10%, as a result of new openings and sustained rental growth. NOI margin improved to 73.1% (December 2015: 72.5%), reflecting further operating efficiencies that were driven by the implementation of our new PRISM operating platform during 2016. PRISM provides us with the ability to differentiate ourselves from others, driving efficiencies through the use of technology which enables us to provide enhanced levels of service to our customers. We maintain our expectation that NOI margins will improve towards 75%, although balancing margin growth and service level enhancement will remain our overriding priority.

We are now managing 49,000 beds compared to 46,000 at 31 December 2015. Alongside this increase in beds there has been a growth in overheads of £1.2 million, driven mainly by depreciation costs associated with the new PRISM system, and we expect a further small increase of depreciation costs in 2017. Recurring management fee income from joint ventures increased by £2.0 million to £14.0 million (2015: £12.0 million), as a result of the growth of assets under management in USAF and LSAV. In addition to the recurring asset management fees, a further £6.9 million of net USAF performance and acquisition fees were generated (2015: £22.0 million). Our key overhead efficiency measure (total operating expenses less management fees as a proportion of Unite's share of property value) continues to improve and now stands at 40bps (December 2015: 48bps), and we remain focused on our target of 25-30bps by the end of 2017 based on current yields.

The £6.5 million USAF net performance fee is payable in units and is based on USAF's cumulative total return at 31 December 2016. The component of the fee that relates to yield movement has been excluded from Adjusted EPRA earnings purposes to reflect a normalised level of earnings. The operational element of the performance fee is driven by USAF's income and rental growth performance and is not expected to significantly add to our earnings performance going forward given the current valuation yields, gearing levels and rental growth outlook.

Finance costs decreased to £45.9 million (2015: £48.1 million). An increase in net debt of £45 million to £776 million (2015: £731 million) was offset by a lower average cost of finance of 4.2% (2015: 4.5%) as we have added new debt facilities at lower average rates, taking advantage of the historically low cost of debt. In addition, the increase in net debt has been driven largely by spend on development activities which has in turn lead to an increase in the amount of interest that is capitalised into development schemes to £5.9 million, up from £2.7 million in 2015. We expect the level of interest capitalisation to remain at around this level given the ongoing level of development activity in 2017. Development (pre-contract) and other costs fell to £5.5 million (2015: £7.2 million), reflecting the levels of site acquisition in the business, the earnings impact of share based incentives and our contribution to our charitable trust, the Unite Foundation.

Occupancy, reservations and rental growth

Occupancy across Unite's portfolio for the 2016/17 academic year stands at 98% and like-for-like rental growth of 3.8% was achieved on our stabilised portfolio. We have continued to grow the proportion of beds let to Universities with 58% of rooms under nominations agreements, up by 5,000 beds over the last three years. Enhanced service levels and our deep understanding of student needs have resulted in longer term and more robust partnerships with Universities.

We expect the proportion of beds let to Universities to remain at or around this level in the future. This balance of nominations and direct-let beds provides the benefit of having income secured by Universities, as well as the ability to offer rooms to returning students and to determine market pricing on an annual basis. On average, rents on nominations rooms are c.5% below direct let equivalents and, based on our recent experience with new agreements, there is an opportunity to close this discount in the coming years.

Reservations for the 2017/18 academic year are encouraging, at 73% (67% at the same point last year) as a result of our continued focus of working alongside the UK's best Universities as well as our local presence in China building relationships with Chinese Universities. This structural growth within the cities we operate, together with our differentiated service offering, provides us with further confidence in occupancy and rental growth for the 2017/18 academic year which we expect to be in the region of 3.0-3.5%.

Home for Success

Our Home for Success investment programme provides us with a real point of differentiation to other providers of student accommodation. The programme, which was initiated in 2014, generated significant enhancements in our operating platform, the establishment of communal study and relaxation spaces that our customers have told us that they want and the development of a sense of home within our properties. These factors, together with our service levels, student insight, prime locations and mid-market price points, make us stand out for students and Universities.

Investment in people, technology and relationships

Satisfaction with service and the strength of our relationships with Universities has been maintained at high levels as both students and Universities benefit from the investments that we are making. The final elements of PRISM were delivered in 2016, providing full online viewing and booking functionality alongside enhanced maintenance service levels and revenue management functionality. We will continue to invest in and evolve this platform to maintain our sector leading advantage in this area.

We have continued to invest in our digital capabilities, focusing on the student experience. In 2016, this has seen us deliver further enhancements to our student-focused apps and our website, a portfolio-wide communications portal to drive engagement and to help students access the information they need to support them during the course of the academic year. Our apps and digital platforms provide students with a hassle free solution to every day concerns, provide them with the support they need and so allow them to focus on their studies and time at University.

Developing our teams remains a priority for us and we have implemented new leadership programmes across the whole organisation over the past two years. These programmes ensure that we are providing our teams with the training required to deliver excellent customer service as well as developing their careers, and they have been an integral part of our successful attainment of Investors in People Gold status in 2016.

We also continue to invest meaningfully in our Higher Education sector relationships. Our Universities Partnerships and Engagement team is dedicated to building strong working relationships with key University partners, and this approach has seen us incorporate University requirements into new developments and driven the growth in the number of beds under nominations agreements..

In China, our marketing office is now fully operational and our local online presence has been established. We have also started to create meaningful relationships with both local and British Universities in China, as well as providing important support to our Chinese customers before they travel to the UK and to their parents while their children are overseas. We are confident that this investment will deliver long-term benefit to the business as well as to Chinese students and UK Universities.

PROPERTY REVIEW

EPRA NAV growth

EPRA NAV per share increased by 12% to 646 pence at 31 December 2016, up from 579 pence at 31 December 2015. In total, EPRA net assets were £1,557 million at 31 December 2016, up from £1,394 million a year earlier.

The main factors behind the 67 pence per share growth in EPRA NAV per share were:

- The growth in the value of the Group's share of investment assets (+34 pence), as a result of rental growth (+26 pence) and yield compression (+8 pence)
- The value added to the development portfolio (+21 pence)
- EPRA earnings for the period (+25 pence)
- Dividends paid of 14 pence reduced NAV

Looking forward, our portfolio is well placed to deliver continued value growth. Our focus on the strongest University locations underpins rental growth prospects and we will continue to deliver meaningful upside from our development activity. In total, our secured pipeline is expected to deliver 43 pence per share of NAV uplift and 13 pence of earnings per share once completed.

Property portfolio

The valuation of our property portfolio at 31 December 2016, including our share of gross assets held in USAF and joint ventures, was £2,277 million (31 December 2015: £2,065 million). The £212 million increase in portfolio value (Unite share) was attributable to:

- Capital expenditure on developments of £146 million and £12 million on investment assets relating to refurbishment and LED installations
- Disposals of £114 million
- Valuation increases of £136 million on the investment and development portfolios, with like-for-like rental growth of 3.8% being generated on the stabilised portfolio
- Increased share of USAF of £32 million, as a result of the performance fee earned in 2015

Summary balance sheet

	2016 £m			2015 £m		
	Wholly owned £m	Share of Fund/JV £m	Total £m	Wholly owned £m	Share of Fund/JV £m	Total £m
Rental properties	1,062	1,023	2,085	1,024	811	1,835
Properties under development	185	7	192	150	80	230
	1,247	1,030	2,277	1,174	891	2,065
Adjusted net debt	(432)	(344)	(776)	(448)	(283)	(731)
Other assets/(liabilities)	(15)	(14)	(29)	(5)	(18)	(23)
Convertible bond	85	-	85	83	-	83
EPRA net assets	**885**	**672**	**1,557**	**804**	**590**	**1,394**

* A reconciliation of the IFRS balance sheet to EPRA net assets is set out in section 2.2 of the financial statements

The proportion of our property portfolio that is income generating is 92%, up from 89% at December 2015, with 8% now under development. With the completion of the LSAV development pipeline, the majority of development activity relates to wholly-owned assets. We will continue to manage the development weighting of our balance sheet and expect it to remain at around these levels, well within our internal cap of 20% going forward.

Unite investment portfolio analysis at 31 December 2016

		USAF	LSAV	Wholly owned	Lease	Total	Unite share
London	Value (£m)	351	965	425	-	**1,741**	**988**
	Beds	2,014	5,861	1,989	260	**10,124**	**47%**
Major provincial	Value (£m)	1,584	44	440	-	**2,068**	**826**
	Beds	20,656	331	5,914	2,577	**29,478**	**40%**
Provincial	Value (£m)	322	-	197	-	**519**	**271**
	Beds	4,804	-	3,253	1,059	**9,116**	**13%**
Total	**Value (£m)**	**2,257**	**1,009**	**1,061**	**-**	**4,327**	**2,085**
	Beds	27,474	6,192	11,156	3,896	48,718	100%
Unite ownership share		23%	50%	100%	-		
Unite ownership (£m)		519	505	1,061	-	**2,085**	

The investment portfolio (see through) is split between London (47%) and the rest of the UK (53%), broadly in line with previous years. The regional focus of our development pipeline means that the London weighting is likely to fall to around 35% as the portfolio is built out.

Student accommodation yields

The level of transactions in the student accommodation sector has remained high in 2016 following the unprecedented levels seen in 2015, with over £3 billion of assets trading during the year. The majority of buyers have been supported by global institutional capital. An element of uncertainty in the few months following the EU referendum in June was replaced with confidence in the market with a high volume of portfolios and assets trading in the second half of the year.

As a result of the investor appetite and subsequent transactions, there has been a modest level of yield compression across the sector. This yield compression has been reflected in our portfolio and the average yield (on a see-through basis) at 31 December 2016 was 5.45%, an inward movement of nine basis points over the year.

Indicative valuation yields

	31 December 2016	31 December 2015
London	4.5 - 5.0%	4.5 - 5.25%
Prime provincial	5.25 – 5.75%	5.35 – 5.8%
Provincial	6.0 - 6.5%	6.0 - 6.5%

Development activity

Development activity continues to be a significant driver of growth in NAV and future earnings. We are continuing to see opportunities to selectively secure sites for delivery in 2019 and 2020 in strong regional locations alongside high quality Universities within our target range of 8.0-8.5% yield on cost. Returns on potential new projects in London still remain below our hurdle rate of 7.0% due principally to higher alternative use values for prospective sites and planning levies, and we have not seen the correction in land prices that were anticipated following the EU referendum.

2016 and 2017 completions

We completed five schemes during 2016 in line with budget and programme. Over 70% of these beds are let to Universities under nominations agreements for the 2016/17 academic year, with an average duration of 10 years.

The 2017 pipeline is progressing well. We are on track to deliver three wholly-owned schemes in Edinburgh, Liverpool and Coventry and, in USAF, two forward funded developments in Oxford and Edinburgh, adding a total of 2,200 beds. We expect all of the schemes to be fully let for the 2017/18 academic year.

Regional development pipeline

During the year, we have continued to grow our 2018 and 2019 regional pipeline and have now secured a total of eight schemes which are expected to deliver approximately 4,800 beds in addition to our ongoing 2017 projects. All new regional developments are being undertaken wholly on balance sheet and prospective returns for the secured pipeline are very attractive at an average 8.5% yield on cost.

Planning is now in place on all but one of the schemes in the pipeline. During the year, we have reorganised the phasing of deliveries in 2018 and 2019, with Aberdeen and Bristol being pushed back to 2019 and Birmingham and Sheffield accelerated to 2018. This will ensure a balanced level of activity across the two years.

Secured development pipeline (wholly owned)

		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	%
<u>2017 completions</u>								
St Leonards	Edinburgh	581	64	41	15	13	9	9.5%
Millennium Point	Coventry	391	34	24	12	12	4	8.8%
Tara House	Liverpool	776	65	46	24	13	6	9.3%
<u>2018 completions</u>								
Newgate Street	Newcastle	575	46	37	7	29	8	8.5%
Brunel House	Bristol	232	28	21	1	10	5	8.5%
Chaucer House	Portsmouth	484	41	33	6	26	6	8.0%
St Vincent's	Sheffield	545	46	36	1	35	10	8.2%
International House	Birmingham	586	48	38	1	37	11	8.0%
<u>2019 completions</u>								
Skelhorne	Liverpool	1,085	92	73	14	60	16	8.0%
Old BRI[1]	Bristol	706	93	74	2	58	20	8.4%
Constitution Street	Aberdeen	600	54	40	0	33	7	8.4%
Total (wholly owned)		**6,561**	**611**	**462**	**83**	**326**	**102**	**8.5%**

[1] Subject to obtaining planning consent

Secured forward fund pipeline (USAF)

USAF has secured two assets on a forward fund basis in Oxford and Edinburgh. These acquisitions are consistent with its strategy to increase exposure to high quality Universities and to expand its presence in markets to take advantage of scale.

Whilst USAF has fully deployed its equity, USAF is making good progress with a small number of further acquisitions and could expect to deploy more capital, released from portfolio recycling activities into these opportunities.

		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	%
USAF								
2017 completions								
Beech House	Oxford	167	23	18	11	8	3	6.3%
Lutton Court	Edinburgh	237	33	29	18	9	4	6.0%
Total USAF		**404**	**56**	**47**	**29**	**17**	**7**	**6.1%**
Unite share of USAF		**n/a**	**13**	**11**	**7**	**4**	**2**	**6.1%**

Our development pipeline remains a source of significant future value and earnings growth and the table below summarises its potential impact on future NAV and earnings per share:

	Illustrative returns (by 2019)	
	Future NAVps	Future EPS
Secured regional projects (wholly owned)	42	13
Secured USAF projects	1	-
Total secured pipeline	43	13

Asset disposals

During 2016, £52 million of assets were sold in third-party transactions (Unite share: £46 million). In addition, Unite sold two wholly-owned assets in Portsmouth and Coventry to USAF for a combined total of £88 million, taking total disposals on a see-through basis to £114 million. All of the assets were sold in line with book value.

Asset disposals remain an important part of our strategy going forward to ensure that we align our portfolio with our strategy to work with high and mid-ranked Universities. Disposals also provide the capital to fund further growth in our development pipeline in 2019 and 2020. We remain focused on our capital discipline to balance further growth opportunities with our leverage targets and expect to make around £150-200 million (Unite share) of disposals in 2017. In February 2017, we exchanged contracts to sell a regional portfolio of 4,175 beds for £295 million (Unite share £102 million) in line with book value.

FINANCIAL REVIEW

Income statement and profit measures

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

	2016 £m	2015 £m
Adjusted EPRA earnings	61.3	49.5
EPRA earnings	62.7	61.3
Valuation gains and profit/loss on disposal	136.3	324.6
Changes in valuation of interest rate swaps and debt break costs	(1.0)	0.3
Minority interest and tax included in EPRA earnings	3.4	2.2
Profit before tax	**201.4**	**388.4**
Adjusted EPRA earnings per share	27.7p	23.1p
Basic earnings per share	101.3p	164.2p

EPRA earnings of £62.7 million to 31 December 2016 (2015: £61.3 million) is stated after deducting tax charges, share option costs and abortive / pre-contract development spend of £5.5 million. The significant reduction in profit before tax is primarily the result of a lower level of unrealised valuation gains of £136.3 million being recognised in 2016 compared with the £324.6 million recognised in 2015.

Cash flow and net debt

The Operations business generated £61.3 million of net cash in 2016 (2015: £40.8 million) and see-through net debt increased marginally to £776 million (2015: £731 million). The key components of the movement in see-through net debt were the operational cash flow and the disposal programme (generating total inflows of £175 million) offset by total capital expenditure of £158 million and dividends paid of £34 million. In 2017, we expect net debt to increase by a similar level as capital expenditure on investment and development activity will exceed anticipated asset disposals.

Dividend

We are increasing our dividend pay-out level to 75% of EPRA earnings (excluding USAF performance fees) and are recommending a fully covered final dividend payment of 12.0 pence per share (2015: 9.5 pence), making 18.0 pence for the full year (2015: 15.0 pence). Subject to approval at Unite's Annual General Meeting on 11 May 2017, the dividend will be paid on 19 May 2017 to shareholders on the register at close of business on 21 April 2017.

Tax and REIT conversion

During the year, the Group elected to convert to REIT status with effect from 1 January 2017. This has resulted in the release of the provision for deferred tax on property business assets totalling £41.1 million as disposals of investment property, as a REIT, will be exempt from tax. The remaining deferred tax liability relating to unrealised gains on joint venture investments of £17.2 million, which are not exempt from tax, exceeds the deferred tax asset relating to tax adjusted losses carried forward of £11.8 million. As the losses can be set against gains as they arise, the deferred tax asset relating to the losses can be recognised in full against deferred tax liabilities.

Certain activities, primarily the investment management of joint ventures, whilst expected to fall within the limits of the balance of business tests, will incur a tax charge which we expect to be in the region of £2-3 million per annum.

Debt financing

During the period, we have maintained our focus on controlling gearing levels, extending debt maturities and minimising financing costs:

Key debt statistics (see-through basis)

	2016	2015
Net debt	£776m	£731m
LTV	34%	35%
Net debt:EBITDA ratio	6.5	6.9
Average debt maturity	4.9 years	5.6 years
Average cost of debt	4.2%	4.5%
Proportion of investment debt at fixed rate	100%	90%

The Group's see-through LTV improved to 34% at 31 December 2016, from 35% at the end of 2015 as a result of the value growth of the portfolio exceeding the increase in net debt. We will continue to manage our gearing proactively and intend to maintain our LTV around the mid-30% level going forward, assuming current yields. With greater focus on the earnings profile of the business, we are also now monitoring our net debt to EBITDA ratio, which was 6.5 times in 2016 and we plan to keep this in line with current levels going forward.

Interest rate hedging arrangements and cost of debt

Our see-through cost of debt has reduced to 4.2% (2015: 4.5%) as we have secured additional debt on our recent completions and refinancing in USAF at historically low levels. The Group has 100% of its see-through investment debt subject to a fixed interest rate (2015: 90%) for an average term of 4.9 years.

Convertible bond

The Group's £90 million convertible bond is due to mature in October 2018. Under the terms of the bond, early conversion of the debt into equity could be triggered by us from October 2016 onwards if the share price trades over 1.3 times the conversion price for a period of time. The initial conversion price of £5.10 has reduced to £4.88 following share placings and dividend payments and therefore EPRA NAV has been prepared on the basis that the bond will convert in the future. This has resulted in

NAV dilution of 15 pence per share as at 31 December 2016. Conversion would result in around a 4% point reduction in LTV.

Funds and joint ventures

The table below summarises the key financials for each vehicle:

Vehicle	Property assets £m	Net debt £m	Other assets £m	Net assets £m	Unite share of NAV £m	Total return	Maturity	Unite share
USAF	2,288	(714)	(51)	1,523	352	11%	Infinite	23%
LSAV	1,009	(354)	(15)	640	320	15%	2022	50%

USAF and LSAV have continued to perform well in 2016. LSAV's total return is driven by stronger capital growth from development returns. USAF currently does not have any acquisition capacity following the forward fund acquisitions and acquisitions from Unite made in the year, but will continue to monitor acquisition opportunities funded by capital recycling.

Fees

During the year, the Group recognised net fees of £21.9 million (2015: £35.9 million) from its fund and asset management activities as follows:

	31 December 2016 £m	31 December 2015 £m
USAF		
Asset management fee	10.0	8.7
Acquisition fee	0.4	1.8
Net performance fee	6.5	20.2
LSAV		
Asset and property management fee	4.0	3.3
Development management fee	1.0	1.9
Total fees	21.9	35.9

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

The asset management fees from both USAF and LSAV have increased as a result of the growth in the portfolios under management during the year generated by acquisitions and valuation growth.

A total performance fee of £8.1 million was earned and will be paid in units during the first quarter of 2017. The net fee recognised of £6.5 million is after deducting £1.1 million, which represents the Group's share of the performance fee paid by USAF and after advisory costs of £0.5 million. The level of the fee is sensitive to movements in property valuations and is therefore significantly lower than in 2015 due to the high level of yield compression in 2015. After payment of the fee, our stake in USAF will remain at 23%.

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

We confirm that to the best of our knowledge:

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

Richard Smith	Joe Lister
Chief Executive Officer	Chief Financial Officer

22 February 2017

INTRODUCTION AND TABLE OF CONTENTS

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

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

- **Results for the year, including segmental information, EPRA earnings and EPRA NAV**
- **Asset management**
- **Funding**
- **Working capital**
- **Key management and employee benefits**
- **Company subsidiaries and joint ventures**

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 2016

	Note	2016 £m	2015 £m
Rental income	2.4	**97.1**	93.0
Property sales and other income	2.4	**23.6**	115.8
Total revenue		**120.7**	**208.8**
Cost of sales	2.4	**(44.9)**	(114.9)
Operating expenses		**(25.0)**	(28.5)
Results from operating activities		**50.8**	65.4
Profit / (Loss) on disposal of property		**0.4**	(0.6)
Net valuation gains on property	3.1	**77.2**	164.8
Profit before net financing costs		**128.4**	**229.6**
Loan interest and similar charges	4.3	**(20.9)**	(22.6)
Mark to market changes in interest rate swaps	4.3	**–**	(0.6)
Swap cancellation costs	4.3	**(1.0)**	–
Finance costs	4.3	**(21.9)**	(23.2)
Finance income	4.3	**0.1**	0.2
Net financing costs	4.3	**(21.8)**	**(23.0)**
Share of joint venture profit	3.3b	**94.8**	181.8
Profit before tax		**201.4**	**388.4**
Current tax	2.5	**(2.3)**	(1.6)
Deferred tax	2.5	**27.3**	(31.1)
Profit for the year		**226.4**	**355.7**
Profit for the year attributable to			
Owners of the parent company	2.2c	**224.0**	351.9
Minority interest		**2.4**	3.8
		226.4	**355.7**
Earnings per share			
Basic	2.2c	**101.3p**	**164.2p**
Diluted	2.2c	**94.7p**	**150.3p**

All results are derived from continuing activities.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	2016 £m	2015 £m
Profit for the year		**226.4**	**355.7**
Movements in effective hedges	4.2	**(9.2)**	(1.9)
- Deferred tax in relation to movements in effective hedges	2.5d	**(1.1)**	1.0
Gains on hedging instruments transferred to income statement within mark to market changes in interest rate swaps		**–**	0.3
- Deferred tax in relation to hedging instruments transferred to income statement		**–**	(0.1)
Share of joint venture movements in effective hedges	3.3b	**(1.4)**	0.6
- Deferred tax in relation to share of joint venture movements in effective hedges	2.5d	**(0.5)**	(0.1)
Other comprehensive income for the year		**(12.2)**	(0.2)
Total comprehensive income for the year		**214.2**	**355.5**
Attributable to			
Owners of the parent company		**211.8**	351.6
Minority interest		**2.4**	3.9
		214.2	**355.5**

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

CONSOLIDATED BALANCE SHEET

At 31 December 2016

	Note	2016 £m	2015 £m
Assets			
Investment property	3.1	**1,061.6**	1,024.4
Investment property under development	3.1	**184.6**	149.8
Investment in joint ventures	3.3b	**692.9**	610.6
Other non-current assets		**29.8**	24.5
Deferred tax asset	2.5d	**–**	1.0
Total non-current assets		**1,968.9**	**1,810.3**
Inventories	3.2	**2.9**	3.6
Trade and other receivables		**77.9**	83.0
Cash and cash equivalents	5.1	**42.7**	27.0
Total current assets		**123.5**	**113.6**
Total assets		**2,092.4**	**1,923.9**
Liabilities			
Borrowings	4.1	**(1.3)**	(31.3)
Trade and other payables		**(123.7)**	(115.5)
Current tax liability		**(2.4)**	(2.3)
Total current liabilities		**(127.4)**	**(149.1)**
Borrowings	4.1	**(473.5)**	(443.8)
Interest rate swaps	4.2	**(11.6)**	(2.3)
Deferred tax liability	2.5d	**(4.4)**	(31.0)
Total non-current liabilities		**(489.5)**	**(477.1)**
Total liabilities		**(616.9)**	**(626.2)**
Net assets		**1,475.5**	**1,297.7**
Equity			
Issued share capital	4.6	**55.5**	55.5
Share premium	4.6	**493.6**	493.3
Merger reserve		**40.2**	40.2
Retained earnings		**867.9**	679.5
Hedging reserve		**(15.0)**	(2.8)
Equity portion of convertible instrument	4.1	**9.4**	9.4
Equity attributable to the owners of the parent company		**1,451.6**	**1,275.1**
Minority interest		**23.9**	22.6
Total equity		**1,475.5**	**1,297.7**

These financial statements of The Unite Group plc, registered number 3199160 were approved by the Board of Directors on 22 February 2017 and were signed on its behalf by:

R S Smith	**J J Lister**
Director	**Director**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2016

	Issued share capital £m	Share premium £m	Merger reserve £m	Retained earnings £m	Hedging reserve £m	Equity portion of convertible instrument £m	Attributable to owners of the parent £m	Minority interest £m	Total £m
At 1 January 2016	**55.5**	**493.3**	**40.2**	**679.5**	**(2.8)**	**9.4**	**1,275.1**	**22.6**	**1,297.7**
Profit for the year	**–**	**–**	**–**	**224.0**	**–**	**–**	**224.0**	**2.4**	**226.4**
Movements in effective hedges (net of associated deferred tax)	**–**	**–**	**–**	**–**	**(12.2)**	**–**	**(12.2)**	**–**	**(12.2)**
Total comprehensive income for the year	**–**	**–**	**–**	**224.0**	**(12.2)**	**–**	**211.8**	**2.4**	**214.2**
Shares issued	**–**	**0.3**	**–**		**–**	**–**	**0.3**	**–**	**0.3**
Deferred tax on share based payments	**–**	**–**	**–**	**(0.1)**	**–**	**–**	**(0.1)**	**–**	**(0.1)**
Fair value of share based payments	**–**	**–**	**–**	**1.2**	**–**	**–**	**1.2**	**–**	**1.2**
Own shares acquired	**–**	**–**	**–**	**(2.5)**	**–**	**–**	**(2.5)**	**–**	**(2.5)**
Dividends paid to owners of the parent company	**–**	**–**	**–**	**(34.2)**	**–**	**–**	**(34.2)**	**–**	**(34.2)**
Dividends to minority interest	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1.1)**	**(1.1)**
At 31 December 2016	**55.5**	**493.6**	**40.2**	**867.9**	**(15.0)**	**9.4**	**1,451.6**	**23.9**	**1,475.5**

	Issued share capital £m	Share premium £m	Merger reserve £m	Retained earnings £m	Hedging reserve £m	Equity portion of convertible instrument £m	Attributable to owners of the parent £m	Minority interest £m	Total £m
At 1 January 2015	**50.4**	**385.8**	**40.2**	**359.2**	**(2.5)**	**9.4**	**842.5**	**19.8**	**862.3**
Profit for the year	–	–	–	351.9	–	–	351.9	3.8	355.7
Other comprehensive income for the year	–	–	–	–	(0.3)	–	(0.3)	0.1	(0.2)
Total comprehensive income for the year	–	–	–	351.9	(0.3)	–	351.6	3.9	355.5
Shares issued	5.1	107.5	–	–	–	–	112.6	–	112.6
Deferred tax on share based payments	–	–	–	0.8	–	–	0.8	–	0.8
Fair value of share based payments	–	–	–	2.9	–	–	2.9	–	2.9
Own shares acquired	–	–	–	(3.4)	–	–	(3.4)	–	(3.4)
Dividends paid to owners of the parent company	–	–	–	(31.9)	–	–	(31.9)	–	(31.9)
Dividends to minority interest	–	–	–	–	–	–	–	(1.1)	(1.1)
At 31 December 2015	**55.5**	**493.3**	**40.2**	**679.5**	**(2.8)**	**9.4**	**1,275.1**	**22.6**	**1,297.7**

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2016

	Note	Group 2016 £m	Group 2015 £m
Cash flows from operating activities	5.1	**70.3**	**120.8**
Cash flows from taxation		**(2.2)**	**(0.3)**
Investing activities			
Proceeds from sale of investment property		**126.1**	(0.6)
Payments to/on behalf of subsidiaries		**–**	–
Payments from subsidiaries		**–**	–
Repayment received of joint venture investment loan		**–**	–
Loan to joint ventures		**–**	(30.5)
Dividends received		**29.2**	22.9
Interest received		**0.1**	0.2
Investment in joint ventures		**–**	(52.4)
Acquisition of intangible assets		**(8.2)**	(7.7)
Acquisition of property		**(131.0)**	(96.3)
Acquisition of plant and equipment		**(3.1)**	(4.1)
Cash flows from investing activities		**13.1**	**(168.5)**
Financing activities			
Interest paid in respect of financing activities		**(23.7)**	(21.8)
Ineffective swap payments		**–**	(2.3)
Swap cancellation costs		**(1.0)**	–
Proceeds from the issue of share capital		**0.3**	112.6
Payments to acquire own shares		**(2.5)**	(3.4)
Proceeds from non-current borrowings		**99.0**	17.6
Repayment of borrowings		**(102.3)**	(36.1)
Dividends paid to the owners of the parent company		**(34.2)**	(31.9)
Dividends paid to minority interest		**(1.1)**	(1.1)
Cash flows from financing activities		**(65.5)**	**33.6**
Net (decrease)/increase in cash and cash equivalents		**15.7**	(14.4)
Cash and cash equivalents at start of year		**27.0**	41.4
Cash and cash equivalents at end of year	5.1	**42.7**	**27.0**

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 2016 or 2015 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies, and those for 2016 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 2015 or 2016.

Going concern

The Group's business activities, together with the factors likely to affect its future development and position are set out in the Strategic Report. In addition, section 4 of these Notes to the financial statements includes the Group's objectives, policies and processes for managing its capital; details of its borrowings and interest rate swaps; and in note 5.2 its exposure to credit risk.

The Group has prepared cash flow projections three years forward to December 2019 and the Group has sufficient headroom to meet all its commitments. The Group added £100m to an existing facility during 2016 and this together with existing facilities will be sufficient to fund the Group's commitments over the next three years. The Group maintains positive relationships with its lending banks and has historically secured new facilities before maturity dates and remained within its covenant levels. The Group is in full compliance with its covenants at 31 December 2016. Our debt facilities include loan-to-value, interest cover and minimum net worth covenants, all of which have a high level of headroom. In order to manage future financial commitments, the Group operate a formal approval process, through its Major Investment Approvals committee, to ensure appropriate review is undertaken before any transactions are agreed.

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

Section 2: Results for the year

Performance measures

	Note	**2016**	2015
Earnings basic	2.2c	**£224.0m**	£351.9m
Earnings diluted	2.2c	**£227.7m**	£351.9m
Basic earnings per share (pence)	2.2c	**101.3p**	164.2p
Diluted earnings per share (pence)	2.2c	**94.7p**	150.3p
Net assets Basic	2.3c	**£1,451.6m**	£1,275.1m
Basic NAV per share (pence)	2.3d	**653p**	574p

EPRA performance measures

	Note	**2016**	2015
EPRA earnings	2.2a	**£62.7m**	£61.3m
EPRA earnings per share (pence)	2.2c	**28.4p**	28.6p
Adjusted EPRA earnings	2.2a	**£61.3m**	£49.5m
Adjusted EPRA earnings per share (pence)	2.2c	**27.7p**	23.1p
EPRA NAV	2.3a	**£1,557.3m**	£1,394.4m
EPRA NAV per share (pence)	2.3d	**646p**	579p
EPRA NNNAV	2.3c	**£1,517.3m**	£1,330.2m
EPRA NNNAV per share (pence)	2.3d	**630p**	552p

2.1 Segmental information

The Board of Directors monitor the business along two activity lines, Operations and Property. The reportable segments for the years ended 31 December 2016 and 31 December 2015 are Operations and Property.

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

The Group's properties are located exclusively in the United Kingdom. The Group therefore has one geographical segment.

2.2 Earnings

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

The Operations segment manages rental properties, owned directly by the Group or by joint ventures. Its revenues are derived from rental income and asset management fees earned from joint ventures.. The Operations segment is the main contributor to EPRA earnings and EPRA EPS and these are therefore the key indicators which are used by the Board to monitor the Operations business.

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

a) EPRA earnings

2016

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

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

Included in the above is rental income of £18.5 million and property operating expenses of £5.9 million relating to sale and leaseback properties.

The unallocated to segments balance includes the fair value of share based payments of (£1.2 million), UNITE Foundation of (£1.0 million), fees received from USAF relating to acquisitions £0.4 million, net USAF performance fee of £6.5 million, deferred tax of (£0.3 million) and current tax charges of (£2.0 million).

2015

	UNITE	Share of joint ventures			Group on EPRA basis
	Total £m	USAF £m	LSAV £m	Total £m	Total £m
Rental income	93.0	31.6	19.7	51.3	144.3
Property operating expenses	(28.2)	(9.3)	(2.3)	(11.6)	(39.8)
Net operating income	**64.8**	**22.3**	**17.4**	**39.7**	**104.5**
Management fees	17.5	(2.2)	(3.3)	(5.5)	12.0
Operating expenses	(21.3)	(0.3)	(0.3)	(0.6)	(21.9)
	61.0	19.8	13.8	33.6	94.6
Operating lease rentals*	(14.5)	–	–	–	(14.5)
Net financing costs	(23.6)	(5.6)	(4.4)	(10.0)	(33.6)
Operations segment result	**22.9**	**14.2**	**9.4**	**23.6**	**46.5**
Property segment result	**(1.8)**	**–**	**–**	**–**	**(1.8)**
Unallocated to segments	**16.6**	**–**	**–**	**–**	**16.6**
EPRA earnings	**37.7**	**14.2**	**9.4**	**23.6**	**61.3**
Yield related USAF performance fees	(11.8)	–	–	–	(11.8)
Adjusted EPRA earnings	**25.9**	**14.2**	**9.4**	**23.6**	**49.5**

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

Included in the above is rental income of £20.3 million and property operating expenses of £6.6 million relating to sale and leaseback properties.

The unallocated to segments balance includes the fair value of share based payments of (£2.9 million), UNITE Foundation of (£1.0 million), fees received from USAF relating to acquisitions £1.8 million, net USAF performance fee of £20.2 million, deferred tax of (£0.1 million) and current tax charges of (£1.4 million).

b) IFRS reconciliation to EPRA earnings

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

	Note	2016 £m	2015 £m
EPRA earnings	2.2a	**62.7**	**61.3**
Net valuation gains on investment property	3.1	**77.2**	164.8
Property disposals and write downs		**0.3**	6.8
Share of joint venture gains on investment property	3.3b	**58.8**	152.7
Share of joint venture property disposals and write downs		**–**	0.3
Mark to market changes in interest rate swaps*	4.3	**–**	(0.6)
Interest rate swap payments on ineffective hedges*		**–**	1.2
Swap cancellation costs		**(1.0)**	–
Share of joint venture swap cancellation costs	3.3b	**–**	(0.3)
Deferred tax relating to interest rate swap movement		**–**	(0.2)
Deferred tax relating to properties		**27.6**	(30.9)
Minority interest share of reconciling items**		**(1.6)**	(3.2)
Profit attributable to owners of the parent company		**224.0**	**351.9**

* Swaps are designated as hedging instruments within hedge relationships concluded to be effective for the year ended 31 December 2016 and so are reported within Other comprehensive income for the year. In the prior year certain hedging relationships were concluded to be ineffective and hence fair value movement of the swaps designated as hedging instruments in those relationships were recorded within the Income statement rather than Other comprehensive income.

** 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.

c) Earnings per share

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

The calculations of basic and EPRA EPS for the year ended 31 December 2016 is as follows:

	Note	**2016** **£m**	2015 £m
Earnings			
Basic		**224.0**	351.9
Diluted		**227.7**	351.9
EPRA	2.2a	**62.7**	61.3
Adjusted EPRA (excluding yield related USAF performance fee)	2.2a	**61.3**	49.5
Weighted average number of shares (thousands)			
Basic		**221,013**	214,304
Dilutive potential ordinary shares (convertible bond and share options)		**19,315**	19,877
Diluted		**240,328**	234,181

Earnings per share (pence)		
Basic	**101.3p**	164.2p
Diluted	**94.7p**	150.3p
EPRA EPS	**28.4p**	**28.6p**
Adjusted EPRA EPS (excluding yield related USAF performance fee)	**27.7p**	**23.1p**

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

Excluded from the potential dilutive shares (share options), in 2016, are 16,838 (2015: 191,000) options which do not affect the diluted weighted average number of shares.

2.3 Net assets

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

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

a) EPRA net assets

	2016			2015		
	Wholly owned £m	**Share of JVs £m**	**Total £m**	Wholly owned £m	Share of JVs £m	Total £m
Investment properties	**1,061.6**	**1,023.2**	**2,084.8**	1,024.4	810.8	1,835.2
Investment properties under development	**184.6**	**7.2**	**191.8**	149.8	80.2	230.0
Total property portfolio	**1,246.2**	**1,030.4**	**2,276.6**	**1,174.2**	**891.0**	**2,065.2**
Debt on properties	**(474.8)**	**(366.8)**	**(841.6)**	(475.1)	(304.6)	(779.7)
Cash	**42.7**	**23.1**	**65.8**	27.0	22.0	49.0
Net debt	**(432.1)**	**(343.7)**	**(775.8)**	**(448.1)**	**(282.6)**	**(730.7)**
Other assets/(liabilities)	**(14.6)**	**(14.3)**	**(28.9)**	(4.9)	(18.3)	(23.2)
EPRA net assets (pre convertible)	**799.5**	**672.4**	**1,471.9**	**721.2**	**590.1**	**1,311.3**
Convertible bond*	**85.4**	**–**	**85.4**	83.1	–	83.1
EPRA net assets	**884.9**	**672.4**	**1,557.3**	**804.3**	**590.1**	**1,394.4**
Loan to value	**35%**	**33%**	**34%**	**38%**	**32%**	**35%**

* Under the terms of the Convertible Bond, early conversion of the debt into equity can be triggered if the share price trades over 1.3 times the conversion price for a period of time.

b) Movement in EPRA NAV during the year

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

2016	UNITE	Share of joint ventures			Group on EPRA basis
	Total £m	USAF £m	LSAV £m	Total £m	Total £m
Operations					
Operations segment result	**31.9**	**17.3**	**12.1**	**29.4**	**61.3**
Property					
Rental growth	**35.8**	**14.8**	**12.0**	**26.8**	**62.6**
Yield movement	**4.9**	**7.2**	**7.5**	**14.7**	**19.6**
Disposals and acquisition gains	**1.0**	**–**	**–**	**–**	**1.0**
Investment property gains	**41.7**	**22.0**	**19.5**	**41.5**	**83.2**
Development property gains	**36.5**	**0.4**	**14.5**	**14.9**	**51.4**
Pre-contract/other development costs	**(1.0)**	**–**	**–**	**–**	**(1.0)**
Total property	**77.2**	**22.4**	**34.0**	**56.4**	**133.6**
Unallocated					
Shares issued	**0.3**				**0.3**
Investment in joint ventures	**3.3**	**7.3**	**(10.6)**	**(3.3)**	**–**
Convertible bond	**2.3**	**–**	**–**	**–**	**2.3**
Dividends paid	**(34.2)**	**–**	**–**	**–**	**(34.2)**
USAF performance fee	**6.5**	**–**	**–**	**–**	**6.5**
USAF property acquisition fee	**0.4**	**–**	**–**	**–**	**0.4**
Swap cancellation costs	**(1.0)**	**–**	**–**	**–**	**(1.0)**
Other	**(6.3)**	**–**	**–**	**–**	**(6.3)**
Total unallocated	**(28.7)**	**7.3**	**(10.6)**	**(3.3)**	**(32.0)**
Total EPRA NAV movement in the year	**80.6**	**46.8**	**35.5**	**82.3**	**162.9**
Total EPRA NAV brought forward	**804.3**	**305.3**	**284.8**	**590.1**	**1,394.4**
Total EPRA NAV carried forward	**884.9**	**352.1**	**320.3**	**672.4**	**1,557.3**

The £6.3 million charge that comprises the other balance within the unallocated segment includes a tax charge of £2.3 million, fair value of share options charge of £3.0 million and £1.0 million for the UNITE Foundation.

2015	UNITE	Share of joint ventures			Group on EPRA basis
	Total £m	USAF £m	LSAV £m	Total £m	Total £m
Operations					
Operations segment result	**22.9**	**14.2**	**9.4**	**23.6**	**46.5**
Property					
Rental growth	21.6	5.8	22.2	28.0	49.6
Yield movement	97.6	37.0	41.1	78.1	175.7
Disposals and acquisition costs	(17.3)	0.1	0.2	0.3	(17.0)
Investment property gains	101.9	42.9	63.5	106.4	208.3
Development property gains	45.7	–	36.1	36.1	81.8
Pre-contract/other development costs	(1.8)	–	–	–	(1.8)
Total property	**145.8**	**42.9**	**99.6**	**142.5**	**288.3**
Unallocated					
Shares issued	112.6	–	–	–	112.6
Investment in joint ventures	(57.8)	41.6	16.2	57.8	–
Convertible bond	83.1	–	–	–	83.1
Dividends paid	(31.9)	–	–	–	(31.9)
USAF performance fee	19.8	–	–	–	19.8
USAF property acquisition fee	1.7	–	–	–	1.7
Swap losses and debt exit costs	(1.1)	(0.3)	–	(0.3)	(1.4)
Other	(5.4)	–	–	–	(5.4)
Total unallocated	**121.0**	**41.3**	**16.2**	**57.5**	**178.5**
Total EPRA NAV movement in the year	**289.7**	**98.4**	**125.2**	**223.6**	**513.3**
Total EPRA NAV brought forward	514.6	206.9	159.6	366.5	881.1
Total EPRA NAV carried forward	**804.3**	**305.3**	**284.8**	**590.1**	**1,394.4**

The £5.4 million charge that comprises the other balance within the unallocated segment includes a tax charge of £1.5 million, fair value of share options charge of £2.9 million and £1.0 million for the UNITE Foundation.

c) Reconciliation to IFRS

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

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

The Net Assets reported under IFRS reconcile to EPRA NAV and EPRA NNNAV as follows:

	Note	**2016** **£m**	2015 £m
Net asset value reported under IFRS		1,451.6	**1,275.1**
Mark to market interest rate swaps		14.9	4.3
Deferred tax		5.4	31.9
EPRA NAV (pre convertible)	2.3a	1,471.9	**1,311.3**
Convertible bond		85.4	83.1
EPRA NAV		1,557.3	**1,394.4**
Mark to market of fixed rate debt		(19.7)	(28.0)
Mark to market interest rate swaps		(14.9)	(4.3)
Deferred tax		(5.4)	(31.9)
EPRA NNNAV		1,517.3	**1,330.2**

d) NAV per share

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

	Note	**2016** **£m**	2015 £m
Net assets			
Basic	2.3c	**1,451.6**	1,275.1
EPRA	2.3a	**1,557.3**	1,394.4
EPRA diluted		**1,559.9**	1,396.7
EPRA NNNAV (diluted)		**1,520.0**	1,332.5
Number of shares (thousands)			
Basic		**222,268**	222,051
Convertible bond shares		**18,426**	18,124
Outstanding share options		**762**	1,027
Diluted		**241,456**	241,202
Net asset value per share (pence)			
Basic		**653p**	574p
EPRA		**647p**	581p
EPRA (fully diluted)		**646p**	**579p**
EPRA NNNAV (fully diluted)		**630p**	**552p**

2.4. Revenue and costs

The Group earns revenue from the following activities:

		Note	2016 £m	2015 £m
Rental income	Operations segment	2.2a	**97.1**	93.0
Management fees	Operations segment		**16.0**	15.2
Development fees	Property segment		**1.0**	1.9
Property sales	Unallocated		**–**	77.0
USAF performance fee	Unallocated		**7.0**	22.4
			121.1	209.5
Impact of minority interest on management fees			**(0.4)**	(0.7)
Total revenue			**120.7**	**208.8**

The cost of sales included in the consolidated income statement includes property operating expenses of £30.3 million (2015: £28.9 million), operating lease rentals of £13.5 million (2015: £14.5 million), costs associated with development fees of £1.1 million (2015: £1.9 million) and the carrying value of property sales of £nil (2015: £69.6 million).

There were no disposals of properties held as trading properties during 2016 and therefore no revenue was recognised. During 2015, Stratford One, a trading asset, was sold to LSAV resulting in £77.0m of revenue.

2.5 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.

a) Tax – income statement

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

	2016 £m	2015 £m
Income tax on UK rental income arising in non-UK companies	**2.3**	1.6
Current tax charge	**2.3**	**1.6**
Reversal of deferred tax provision in respect of REIT property business assets	**(39.8)**	–
Origination and reversal of temporary differences	**13.7**	27.2
Effect of change in tax rate	**(1.2)**	(4.1)
Recognition of previously unrecognised asset	**–**	8.0
Deferred tax charge/(credit)	**(27.3)**	**31.1**
Total tax (credit)/charge in income statement	**(25.0)**	**32.7**

During the year, the Group elected to be taxed as a REIT with effect from 1 January 2017. As a result of this, the Group's investment properties are exempt from tax and no deferred tax is required on the balance sheet. Accordingly the Group's deferred tax now only relates to non-property investments (being primarily its interests in joint ventures) and historic tax losses. The removal of the deferred tax provision in respect of REIT property business assets is comprised of credits of £29.2m in relation to investment properties and £11.3m in relation to accelerated capital allowances, and a debit of £0.7m for tax adjusted losses extinguished on conversion.

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

In the income statement, a tax credit of £25.0 million arises on a profit before tax of £201.3 million, the taxation charge that would arise at the standard rate of UK corporation tax is reconciled to the actual tax charge as follows:

	2016 **£m**	2015 £m
Profit before tax	**201.4**	**388.4**
Income tax using the UK corporation tax rate of 20% (2015: 20.25%)	**40.3**	78.7
Release of deferred tax balances due to REIT conversion	**(39.8)**	–
Property revaluations not subject to tax	**(20.4)**	(28.4)
Effect of indexation on investments	**(2.1)**	(3.4)
Effect of statutory tax reliefs	**(1.5)**	(2.9)
Income due to Unite Foundation	**(1.0)**	–
Effect of tax deduction transferred to equity on share schemes	**0.4**	1.1
Rate difference on deferred tax	**(1.2)**	(4.1)
Movement on unprovided deferred tax asset	**–**	(0.6)
Recognition of previously un-recognised deferred tax asset	**–**	(7.4)
Prior years adjustments	**0.3**	(0.3)
Total tax charge in income statement	**(25.0)**	**32.7**

The main rate of corporation tax reduced from 21% to 20% with effect from 1 April 2015. Accordingly, the reconciliation above has been calculated at a rate of 20% (2015: 20.25%).

Following the Group's election to become a REIT (effective 1 January 2017), deferred tax on its REIT property business assets is no longer required. Accordingly, the Group has recognised a credit of £39.8m in the Income Statement reversing the provision for deferred tax liabilities and assets recognised at 31 December 2015 relating to the revaluation of investment property, accelerated capital allowances, and property business tax losses.

Deferred tax is an accounting adjustment intended to reflect tax that the Group may have to pay in the future if certain events occur, and is distinct from the Group's current tax charge (the latter being the tax actually payable to HM Revenue & Customs for the year). Accordingly, the release of the deferred tax provision is an accounting only adjustment, and does not result in the Group receiving a tax credit or refund. The current tax charge for the year ended 31 December 2016 is unaffected by the election to become a REIT.

b) Tax – other comprehensive income
Within other comprehensive income a tax charge totalling £1.6 million (2015: £0.8 million credit) has been recognised representing deferred tax. An analysis of this is included in the deferred tax movement in note 2.5 d).

c) Tax – statement of changes in equity
Within the statement of changes in equity a tax charge totalling £0.1 million (2015: £0.8 million credit) has been recognised representing deferred tax. An analysis of this is included in the deferred tax movement in note 2.5 d).

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

2016

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

2015

	At 31 December 2014 £m	Transfers £m	(Credited) in income £m	Charged in equity £m	At 31 December 2015 £m
Investment property	17.3	–	16.7	–	34.0
Property, plant and machinery	(0.6)	–	0.3	–	(0.3)
Investments in joint ventures	10.7	–	11.1	–	21.8
Share options	(1.5)	–	(0.2)	0.1	(1.6)
Interest rate swaps	(0.3)	–	0.2	(1.0)	(1.1)
Interest rate swaps relating to joint ventures	(0.6)	–	–	0.1	(0.5)
Tax value of carried forward losses recognised	(24.4)	–	3.0	(0.9)	(22.3)
Net tax (assets)/liabilities	**0.6**	**–**	**31.1**	**(1.7)**	**30.0**

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 26 September 2016. This will reduce the Group's future current tax charge accordingly. The deferred tax liability at 31 December 2016 has been calculated based on the rate at which it is expected to reverse.

Following the Group's election to become a REIT, disposals of investment property will be exempt from tax and as a result no deferred tax liability has been recognised in relation to these assets. The movement of £41.1m in the year is made up of a combination of in year movement and reversal of the remaining provision. The Group's investments in property unit trusts (being primarily its interests in joint ventures) are not exempt from tax as a REIT. Where the interest in joint ventures remains subject to tax, a deferred tax liability has been recognised on the excess of the market value of these assets over their historic tax base cost. At 31 December 2016 the deferred tax liability in relation to these investments was £17.2m.

Section 3: Asset management

3.1 Wholly owned property assets

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

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

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

Valuation process
The valuations of the properties are performed twice a year on the basis of valuation reports prepared by external, independent valuers, having an appropriate recognised professional qualification. The fair values are based on market values as defined in the RICS Appraisal and Valuation Manual, issued by the Royal Institution of Chartered Surveyors. CB Richard Ellis Ltd, Jones Lang LaSalle Ltd and Messrs Knight Frank, Chartered Surveyors were the valuers in the years ending 31 December 2016 and 2015.

The valuations are based on both:

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

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

The movements in the carrying value of the Group's wholly owned property portfolio during the year ended 31 December 2016 are shown in the table below. While completed property is held at cost on the balance sheet, the Group manages the assets based on their market value (fair value). These properties are included in EPRA 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 2016 are also shown below.

2016

	Investment property £m	Investment property under development £m	Completed property £m	Total £m
At 1 January 2016	**1,024.4**	**149.8**	**–**	**1,174.2**
Cost capitalised	**7.6**	**101.7**	**–**	**109.3**
Interest capitalised	**–**	**5.9**	**–**	**5.9**
Transfer from investment property under development	**36.6**	**(36.6)**	**–**	**–**
Transfer from work in progress	**–**	**8.0**	**–**	**8.0**
Disposals	**(44.0)**	**(84.4)**	**–**	**(128.4)**
Valuation gains	**44.9**	**41.2**	**–**	**86.1**
Valuation losses	**(7.9)**	**(1.0)**	**–**	**(8.9)**
Net valuation gains	**37.0**	**40.2**	**–**	**77.2**
Carrying value at 31 December 2016	**1,061.6**	**184.6**	**–**	**1,246.2**
Valuation gains not recognised under IFRS but included in EPRA NAV	**–**	**–**	**–**	**–**
Brought forward	**–**	**–**	**–**	**–**
	–	**–**	**–**	**–**
Market value at 31 December 2016	**1,061.6**	**184.6**	**–**	**1,246.2**

The movements in the carrying value of the Group's wholly owned property portfolio during the year ended 31 December 2015 and the fair value of the Group's wholly owned property portfolio at the year ended 31 December 2015 is as follows:

2015

	Investment property £m	Investment property under development £m	Completed property £m	Total £m
At 1 January 2015	850.5	49.2	70.1	969.8
Cost capitalised	8.6	97.4	–	106.0
Interest capitalised	–	2.7	–	2.7
Transfer from investment property under development	41.2	(41.2)	–	–
Transfer from work in progress	–	1.0	–	1.0
Disposals	–	–	(70.1)	(70.1)
Valuation gains	126.4	41.0	–	167.4
Valuation losses	(2.3)	(0.3)	–	(2.6)
Net valuation gains	124.1	40.7	–	164.8
Carrying value at 31 December 2015	**1,024.4**	**149.8**	**–**	**1,174.2**
Valuation gains not recognised under IFRS but included in EPRA NAV				
Brought forward	–	–	31.2	31.2
Disposals	–	–	(31.2)	(31.2)
	–	–	–	–
Market value at 31 December 2015	**1,024.4**	**149.8**	**–**	**1,174.2**

Included within investment properties at 31 December 2016 are £31.5 million (2015: £41.6 million) of assets held under a long leasehold and £8.9 million (2015: £10.5 million) of assets held under short leasehold.

Total interest capitalised in investment and development properties at 31 December 2016 was £34.9 million (2015: £35.4 million) on a cumulative basis. Total internal costs relating to construction and development costs of Group properties amount to £51.1 million at 31 December 2016 (2015: £49.6 million) on a cumulative basis.

Recurring fair value measurement
All investment and development properties are classified as Level 3 in the fair value hierarchy. While completed property and property under development are held at cost in the balance sheet, the Group discloses the fair value of these assets and includes them at fair value in EPRA NAV. Completed property and property under development fair value measurements are categorised as Level 3 in the fair value hierarchy and their fair value is measured using the same techniques as for investment properties and investment properties under development.

Class of asset	2016 £m	2015 £m
London – Rental properties	**424.9**	409.4
Major provincial – Rental properties	**440.2**	431.1
Other provincial – Rental properties	**196.5**	183.9
Major provincial – Development properties	**158.4**	94.2
Other provincial – Development properties	**26.2**	55.6
Market value	**1,246.2**	**1,174.2**

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

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

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

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

Fair value using unobservable inputs (Level 3)

	2016 £m	2015 £m
Opening fair value	**1,174.2**	1,001.0
Gains and losses recognised in income statement	**77.2**	164.8
Gains and losses not recognised on properties under development	**–**	–
Acquisitions	**–**	–
Capital expenditure	**124.1**	109.7
Disposals	**(129.3)**	(101.3)
Closing fair value	**1,246.2**	**1,174.2**

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

2016

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

2015

	Fair value £m	Valuation technique	Unobservable inputs	Range	Weighted average
London		Discounted	Net rental income (£ per week)	£190 – £326	£244
– rental properties	409.4	cash flows	Estimated future rent (%)	2% – 4%	3%
			Discount rate (yield) (%)	4.6% – 5.2%	4.8%
Major provincial		Discounted	Net rental income (£ per week)	£95 – £146	£120
– rental properties	431.1	cash flows	Estimated future rent (%)	1% – 6%	4%
			Discount rate (yield) (%)	5.2% – 7.0%	5.8%
Other provincial		Discounted	Net rental income (£ per week)	£77 – £135	£117
– rental properties	183.9	cash flows	Estimated future rent (%)	2% – 6%	4%
			Discount rate (yield) (%)	5.8% – 9.4%	6.3%
Major provincial		Discounted	Estimated cost to complete (£m)	£9.4m – 47.6m	£31.6m
– development properties	94.2	cash flows	Estimated future rent (%)	3%	3%
			Discount rate (yield) (%)	5.2% – 5.8%	5.6%
Other provincial		Discounted	Estimated cost to complete (£m)	£8.9m – £10.5m	£10.1m
– development properties	55.6	cash flows	Estimated future rent (%)	3%	3%
			Discount rate (yield) (%)	5.8% – 5.9%	5.9%
Fair value at 31 December 2015	**1,174.2**				

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

3.2 Inventories

	2016 £m	2015 £m
Interests in land	**0.8**	0.9
Other stocks	**2.1**	2.7
Inventories	**2.9**	**3.6**

At both 31 December 2016 and 31 December 2015 the Group only has interests in one piece of land.

3.3 Investments in joint ventures (Group)

The Group has two joint ventures:

Joint venture	Group's share of assets/results 2016 (2015)	Objective	Partner	Legal entity in which Group has interest
The UNITE UK Student Accommodation Fund (USAF)	24.6%* (23.0%)	Invest and operate student accommodation throughout the UK	Consortium of investors	UNITE UK Student Accommodation Fund, a Jersey Unit Trust
London Student Accommodation Venture (LSAV)	50% (50%)	Develop and operate student accommodation in London	GIC Real Estate Pte, Ltd Real estate investment vehicle of the Government of Singapore	LSAV Unit Trust, a Jersey Unit Trust and LSAV (Holdings) Ltd, incorporated in Jersey

* Part of the Group's interest is held through a subsidiary, USAF (Feeder) Guernsey Ltd, in which there is an external investor. A minority interest therefore occurs on consolidation of the Group's results representing the external investor's share of profits and assets relating to its investment in USAF. The ordinary shareholders of The Unite Group plc are beneficially interested in 23.0% (2015: 21.4%) of USAF.

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

2016

	USAF £m		**LSAV £m**		**Total £m**	
	Gross	**Share**	**Gross**	**Share**	**Gross**	**Share**
Investment property	**2,287.9**	**562.1**	**1,009**	**504.5**	**3,296.9**	**1,066.6**
Cash	**41.8**	**10.3**	**27.0**	**13.5**	**68.8**	**23.8**
Debt	**(755.5)**	**(185.6)**	**(381.4)**	**(190.7)**	**(1,136.9)**	**(376.3)**
Swap liabilities	**0.7**	**0.2**	**(7.1)**	**(3.5)**	**(6.4)**	**(3.3)**
Other current assets	**3.5**	**0.8**	**0.8**	**0.4**	**4.3**	**1.2**
Other current liabilities	**(55.3)**	**(11.7)**	**(14.8)**	**(7.4)**	**(70.1)**	**(19.1)**
Net assets	**1,523.1**	**376.1**	**633.5**	**316.8**	**2,156.6**	**692.9**
Profit/(loss) for the year	**164.7**	**46.3**	**97.0**	**48.5**	**261.7**	**94.8**
EPRA net assets	**1,567.1**	**352.1**	**640.6**	**320.3**	**2,207.7**	**672.4**

2015

	USAF £m		LSAV £m		Total £m	
	Gross	Share	Gross	Share	Gross	Share
Investment property	2,074.2	477.4	894.4	447.2	2,968.6	924.6
Cash	36.6	8.4	28.4	14.2	65.0	22.6
Debt	(638.3)	(146.9)	(336.0)	(168.0)	(974.3)	(314.9)
Swap liabilities	–	–	(3.9)	(2.0)	(3.9)	(2.0)
Other current assets	1.9	0.5	1.0	0.5	2.9	1.0
Other current liabilities	(66.2)	(11.6)	(18.2)	(9.1)	(84.4)	(20.7)
Net assets	1,408.2	327.8	565.7	282.8	1,973.9	610.6
Profit/(loss) for the year	**234.3**	**63.7**	**236.1**	**118.1**	**470.4**	**181.8**
EPRA net assets	**1,408.2**	**305.3**	**569.6**	**284.8**	**1,977.8**	**590.1**

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

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

The carrying value of the Group's investment in joint ventures has increased by £82.3 million during the year ended 31 December 2016 (2015: £226.8 million), resulting in an overall carrying value of £692.9 million (2015: £610.6 million). The following table shows how the increase has been achieved.

	2016 £m	2015 £m
Recognised in the income statement:		
Operations segment result	**29.4**	23.6
Minority interest share of Operations segment result	**1.2**	1.2
Management fee adjustment related to trading with joint venture	**5.4**	4.1
Net revaluation gains	**58.8**	152.7
Debt exit costs	**–**	–
Loss on cancellation of interest rate swaps	**–**	(0.3)
Loss on disposal of properties	**–**	0.3
Other	**–**	0.2
	94.8	181.8
Recognised in equity:		
Movement in effective hedges	**(1.4)**	0.6
Other adjustments to the carrying value:		
Profit adjustment related to trading with joint venture	**(6.3)**	(11.9)
Increase in loan to USAF	**–**	30.5
Additional capital invested in USAF	**–**	29.1
Performance fee units issued in USAF	**25.6**	–
Additional capital invested in LSAV	**–**	23.3
USAF performance fee	**(1.2)**	(3.7)
Distributions received	**(29.2)**	(22.9)
Increase/(decrease) in carrying value	**82.3**	**226.8**
Carrying value at 1 January	**610.6**	383.8
Carrying value at 31 December	**692.9**	**610.6**

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

c) Transactions with joint ventures
The Group acts as asset and property manager for the joint ventures and receives management fees in relation to these services. In addition, the Group is entitled to performance fees from USAF and LSAV if the joint ventures outperform certain benchmarks. The Group receives an enhanced equity interest in the joint ventures as consideration for the performance fee. The Group has recognised the following fees in its results for the year.

	2016 £m	2015 £m
USAF	**12.8**	8.5
LSAV	**8.0**	4.7
Asset and property management fees*	**20.8**	**13.2**
LSAV	**1.0**	1.4
Development management fees	**1.0**	**1.4**
USAF performance fee	**8.1**	25.6
USAF acquisition fee	**0.5**	2.1
Investment management fees**	**8.6**	**27.7**
Total fees	**30.3**	**42.3**

* 2016 Asset and property management fees are shown gross. 2015 Asset and property management fees are shown as reported, net of trading with joint ventures. The equivalent gross figures in 2015 were £10.7m for USAF and £6.6m for LSAV.

** Included in the movement in EPRA NAV is a USAF performance fee of £6.5 million (2015: £20.2 million). This is the gross fee of £8.1 million (2015: £25.6 million) paid by USAF net of advisory fee costs of £0.5 million (2015: £2.2 million) and a £1.1 million (2015: £3.2 million) adjustment related to trading with joint ventures. The USAF performance fee will be settled in units in The UNITE UK Student Accommodation Fund rather than cash.

Included in share of joint venture profit in the income statement is a share of joint venture property management fee costs of £1.6 million (2015: £1.4 million). On an EPRA basis these costs are deducted from the property management fees shown above, plus an adjustment for the minority interest of £0.4 million (2015: £0.2 million). This results in the net fees included in the Operating Segment result (note 2.2a) of £14.0 million (2015: £12.0 million). Development management fees are included in the Property Segment result (note 2.2a). Investment management fees are included within the unallocated to segments (note 2.2a).

Included in the movement in EPRA NAV is a USAF property acquisition fee of £0.4 million (2015: £1.7 million). This is the gross fee of £0.5 million (2015: £2.1 million) paid by USAF net of a £0.1 million (2015: £0.4 million) adjustment related to trading with joint ventures.

During the year the Group has paid operating lease rentals to USAF relating to two properties under a sale and leaseback agreement amounting to £2.2 million (2015: £2.7 million).

During the year the Group sold two properties to USAF for £88.4 million. Both properties were held on the balance sheet as investment property under development within non-current assets, the proceeds and carrying value of the property are therefore recognised in profit on disposal of property and the cash flows in investing activities. One property was sold to LSAV in 2015. The profits relating to sales and associated disposal costs and related cash flows are set out below:

	Profit and loss 2016 LSAV £m	Profit and loss 2015 LSAV £m
Included in property sales and other income (net of joint venture trading adjustment)	**–**	77.2
Included in cost of sales	**–**	(70.1)
Profit on disposal of property	**–**	**7.1**

	Profit and loss 2016 USAF £m	Profit and loss 2015 USAF £m
Included in profit on disposal of property (net of joint venture trading adjustment)	**3.2**	–
Profit on disposal of property	**3.2**	**–**

	Cash flow 2016 LSAV £m	Cash flow 2015 LSAV £m
Proceeds	**–**	84.3
Net cash flows included in cash flows from operating activities	**–**	**84.3**

	Cash flow 2016 USAF £m	Cash flow 2015 USAF £m
Gross proceeds	**88.4**	–
Net cash flows included in cash flows from investing activities	**88.4**	**–**

Section 4: Funding

4.1 Borrowings

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

	Group				Company	
	2016		2015		**2016**	2015
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m	**Carrying value £m**	Carrying value £m
Current						
In one year or less, or on demand	**1.3**	**1.2**	31.3	31.2	**0.1**	1.4
Non-current						
In more than one year but not more than two years	**108.1**	**132.2**	1.5	1.4	**85.3**	–
In more than two years but not more than five years	**126.3**	**125.8**	202.2	240.4	**90.0**	83.0
In more than five years	**239.1**	**223.0**	240.1	225.5	**–**	90.0
	473.5	**481.0**	443.8	467.3	**175.3**	173.0
Total borrowings	**474.8**	**482.2**	**475.1**	**498.5**	**175.4**	**174.4**

In addition to the borrowings currently drawn as shown above, the Group has available undrawn facilities of £245.0 million (2015: £174.0 million). A further overdraft facility of £10.0 million (2015: £10.0 million) is also available.

The carrying value of borrowings is considered to be approximate to fair value, except for the Group's fixed rate loans carried at £330.3 million (2015: £331.4 million) and the convertible bond carried at £86.2 million (2015: £84.3 million). The convertible bond and £90.0 million (2015: £90.0 million) of the fixed rate loans are classified as Level 1 in the IFRS 13 fair value hierarchy and have a fair value of £212.5 million (2015: £218.4 million). The IFRS 13 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.

The remaining £240.3 million (2015: £241.4 million) of the fixed rate loans are classified as Level 2 in the IFRS 13 fair value hierarchy. 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 £215.1 million (2015: £226.4 million).

Properties with a carrying value of £998.0 million (2015: £993.6 million) have been pledged as security against the Group's drawn down 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:

	2016 **£m**	2015 £m
Current	**–**	–
Non-current	**11.6**	2.3
Fair value of interest rate swaps	**11.6**	**2.3**

The fair values of interest rate swaps have been calculated by a third party expert, discounting estimated future cash flows on the basis of market expectations of future interest rates, representing Level 2 in the IFRS 13 fair value hierarchy.

4.3 Net financing costs

Recognised in the income statement:	**2016** **£m**	2015 £m
Finance income		
– Interest income on deposit	**(0.1)**	(0.2)
Finance income	**(0.1)**	**(0.2)**
Gross interest expense on loans	**26.8**	25.3
Interest capitalised	**(5.9)**	(2.7)
Loan interest and similar charges	**20.9**	22.6
Changes in mark to market of interest rate swaps not accounted for as hedges	**–**	0.6
Swap cancellation costs	**1.0**	–
Finance costs	**21.9**	**23.2**
Net financing costs	**21.8**	**23.0**

The average cost of the Group's wholly owned investment debt at 31 December 2016 is 4.4% (2015: 4.7%). The overall average cost of investment debt on an EPRA basis is 4.2% (2015: 4.5%).

4.4 Gearing

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

The Group's gearing ratios are calculated as follows:

	Note	**2016** **£m**	2015 £m
Cash and cash equivalents	5.1	**42.7**	27.0
Current borrowings	4.1	**(1.3)**	(31.3)
Non-current borrowings	4.1	**(473.5)**	(443.8)
Interest rate swaps liabilities	4.2	**(11.6)**	(2.3)
Net debt per balance sheet		**(443.7)**	**(450.4)**
Mark to market of interest rate swaps		**11.6**	2.3
Adjusted net debt		**(432.1)**	**(448.1)**
Reported net asset value (attributable to owners of the parent company)	2.3c	**1,451.6**	1,275.1
EPRA net asset value	2.3c	**1,557.3**	1,394.4
Gearing			
Basic (Net debt/Reported net asset value)		**31%**	35%
Adjusted gearing (Adjusted net debt/EPRA net asset value)		**28%**	32%
Gearing (EPRA net debt/EPRA net asset value)	2.3a	**50%**	52%
Loan to value (EPRA net debt/Total property portfolio)	2.3a	**34%**	35%

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 2016, the Group was in full compliance with all of its borrowing covenants. The Group is able to use available cash to reduce debt to increase headroom on its loan to value (LTV) covenants. The covenant headroom position is outlined below and assumes that the Group is able to use a mixture of available cash and add additional property to banks' security pools.

	31 December 2016		31 December 2015	
	Weighted covenant	**Weighted actual**	Weighted covenant	Weighted actual
Loan to value	**74%**	**15%***	74%	29%*
Interest cover	**1.5**	**4.04**	1.47	4.47
Minimum net worth	**–**	**–**	£250m	£1,394

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

4.6 Equity

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

Called up, allotted and fully paid ordinary shares of £0.25p each	**2016** No. of shares	**Ordinary shares £m**	**Share Premium £m**	2015 No. of shares	Ordinary shares £m	Share Premium £m
At start of year	**221,930,911**	**55.5**	**493.3**	201,541,803	50.4	385.8
Share placing	**–**	**–**	**–**	20,137,326	5.0	107.3
Share options exercised	**116,905**	**–**	**0.3**	251,782	0.1	0.2
At end of year	**222,047,816**	**55.5**	**493.6**	221,930,911	55.5	493.3

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 £13.2 million – 6.0p per share (2015: £12.1 million – 5.5p per share) and paid a £21.0 million final dividend – 9.5p per share relating to the year ended 31 December 2015 (2014: £19.8 million – 9.0p per share).

After the year end, the Directors proposed a final dividend per share of 12.0p (2015: 9.5p), bringing the total dividend per share for the year to 18.0p (2015: 15.0p). No provision has been made in relation to this dividend.

Section 5: Working capital

5.1 Cash and cash equivalents

The Group's cash position at 31 December 2016 was £42.7 million (2015: £27.0 million).

At 31 December 2016 the Company had an overdraft of £0.1 million (2015: overdraft £1.4 million).

The Group's cash balances include £13.4 million (2015: £8.5 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:

		Group	
	Note	**2016 £m**	2015 £m
Profit/(loss) for the year		**226.4**	355.7
Adjustments for:			
Depreciation and amortisation		**4.4**	2.6
Fair value of share based payments		**1.2**	2.9
Dividends received		**–**	–
Change in value of investment property	3.1	**(77.2)**	(164.8)
Net finance costs	4.3	**21.8**	23.0
(Profit)/loss on disposal of investment property		**(0.4)**	0.6
Share of joint venture profit	3.3b	**(94.8)**	(181.8)
Trading with joint venture adjustment		**7.5**	15.5
Tax charge/(credit)	2.5a	**(25.0)**	32.7
Cash flows from operating activities before changes in working capital		**63.9**	**86.4**
(Increase)/decrease in trade and other receivables		**(20.4)**	(39.6)
Decrease/(increase) in completed property and property under development		**–**	70.1
Decrease/(increase) in inventories		**0.7**	0.3
Increase/(decrease) in trade and other payables		**26.1**	3.6
Cash flows from operating activities		**70.3**	**120.8**

£25.6 million of the brought forward trade and other receivables was settled in units in the USAF rather than cash.

Cash flows consist of the following segmental cash inflows/(outflows): Operations £61.3 million (2015: £40.8 million), property (£6.0 million) (2015: (£48.3 million)) and unallocated (£39.6 million) (2015: £6.9 million). The unallocated amount includes Group dividends (£34.2 million) (2015: (£31.9 million)), tax payable of (£2.2 million) (2015: (£0.3 million)), investment in joint ventures (£nil) (2015: (£52.4 million)), contributions to UNITE Foundation (£1.0 million) (2015: (£1.0 million)) and amounts received from shares issued £0.3 million (2015: £112.6 million).

5.2 Credit risk

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

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

	Note	**2016 £m**	2015 £m
Cash	5.1	**42.7**	27.0
Trade receivables	5.2	**17.8**	2.3
Amounts due from joint ventures (excluding loans that are capital in nature)	5.2	**36.3**	41.7
		96.8	**71.0**

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 two groups – (i) students (individuals) and (ii) commercial organisations including Universities. The Group's exposure to credit risk is influenced by the characteristics of each customer. The Group holds tenant deposits of £8.5 million (2015: £7.8 million) as collateral against individual customers. Based on the Group's experience and historical low level of bad debt the Group views these receivables as recoverable balances with a low risk of default.

c) Joint ventures

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