Annual Report and Accounts 2011

The heart of student living

UNITE

The UNITE Group plc

# Building for sustainable growth

# Contents

# Introduction

2011 was a strong year for UNITE. High occupancy across our portfolio, solid rental growth and effective cost management drove a step change in the profitability of our core business. Continued success in the delivery of our forward development pipeline and investment in our operating platform have laid the foundations for further growth.

We have made good progress on financing initiatives and asset disposals, while a range of service and efficiency improvements have enhanced our customer service to students and University partners.

Demand for UK University places remains extremely strong and with little new accommodation being built, the outlook for continued growth in rents, values and profitability is positive.

## Financial highlights

**NAV pps**

| | |
|---|---|
| 2007 | 337 |
| 2008 | 252 |
| 2009 | 265 |
| 2010 | 295 |
| 2011 | 318 |

**Net portfolio contribution £m**

| | |
|---|---|
| 2007 | -2.0 |
| 2008 | -5.4 |
| 2009 | 0.6 |
| 2010 | 4.1 |
| 2011 | 11.0 |

**Occupancy %**

| | |
|---|---|
| 2007 | 92 |
| 2008 | 99 |
| 2009 | 97 |
| 2010 | 97 |
| 2011 | 99 |

**Adjusted net debt £m**

| | |
|---|---|
| 2007 | 547 |
| 2008 | 531 |
| 2009 | 390 |
| 2010 | 335 |
| 2011 | 434 |

**Gearing %**

| | |
|---|---|
| 2007 | 106 |
| 2008 | 131 |
| 2009 | 92 |
| 2010 | 71 |
| 2011 | 84 |

**Dividend pps**

| | |
|---|---|
| 2007 | 1.67 |
| 2008 | – |
| 2009 | – |
| 2010 | – |
| 2011 | 1.75 |

## Strong financial performance

- Recurring profits from Operations (net portfolio contribution) increased to £11 million
- Adjusted, diluted net asset value (NAV) per share up 8% to 318 pence, driven by rental growth and development activity
- Like for like growth in net operating income (NOI) of 3.1%, delivering capital growth of £23 million (14pps)
- Development profits of £33 million (20pps) secured as a result of strong progress in site acquisition, construction and planning consents
- Dividend reinstated

## Positive outlook

- Demand for 2012/2013 University places far outstrips supply. Likely shortfall of at least 160,000 places
- Our reservations for 2012/2013 are solid at 59% with enquiry levels healthy and supportive of rental growth of 3-4% for the full year
- Development pipeline progressing well and on track to deliver a further £40 million of NAV uplift by December 2014
- Rental growth, new openings and cost savings underpin prospects for further growth in NPC and NAV in 2012
- Further accretive development opportunities will be pursued, subject to prudent management of the Group's financial position

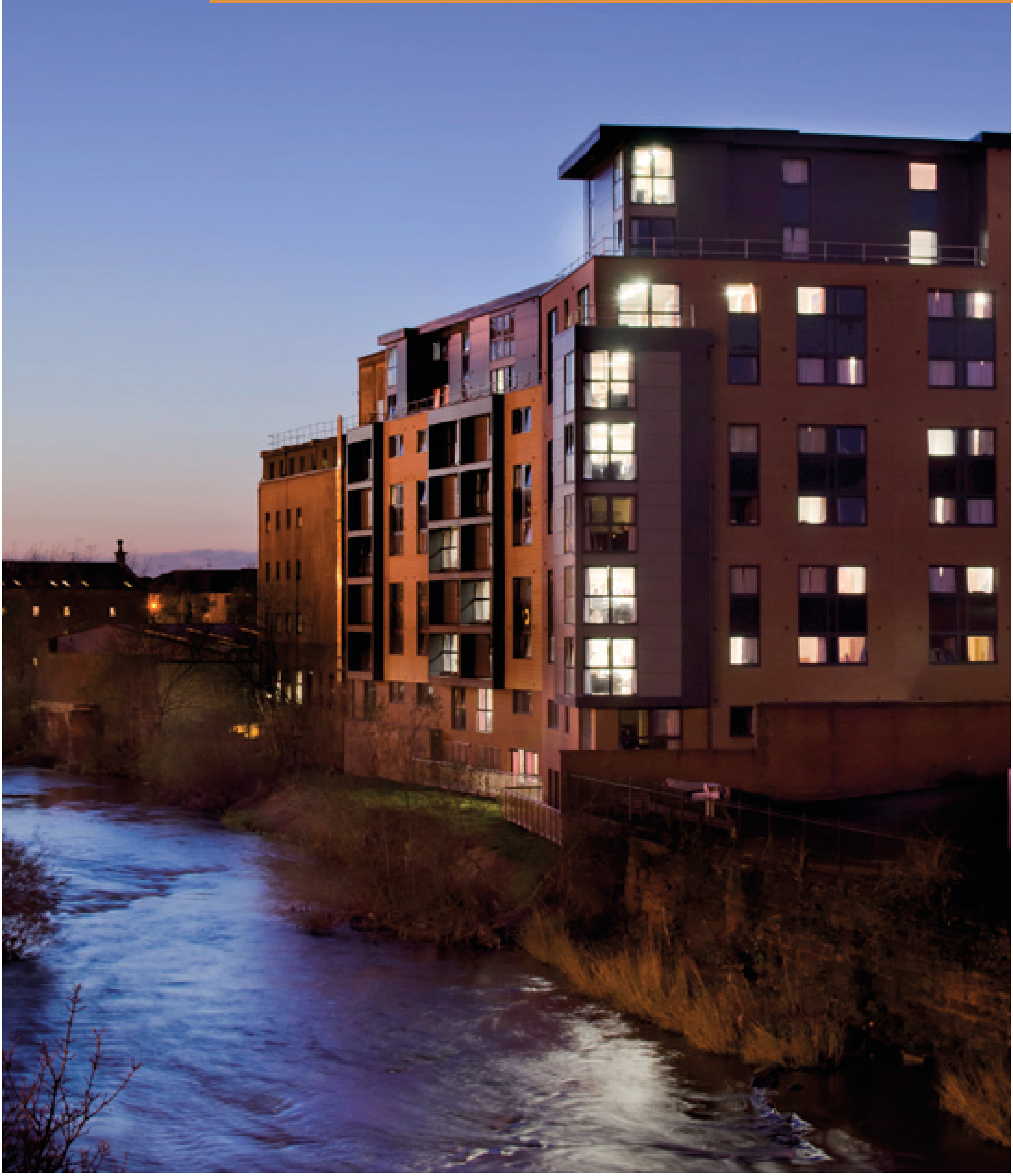
**Cover image**
Emily Bowes Court in Tottenham, London zone 3, is just 20 minutes from central London with excellent transport links and offers students a more affordable option. In 2012 we will open North Lodge on the same site.

# A sell-out year

A very strong sales performance for 2011/12 saw 99% of our rooms sold, boosted by improvements to our online booking system and customer contact centre.

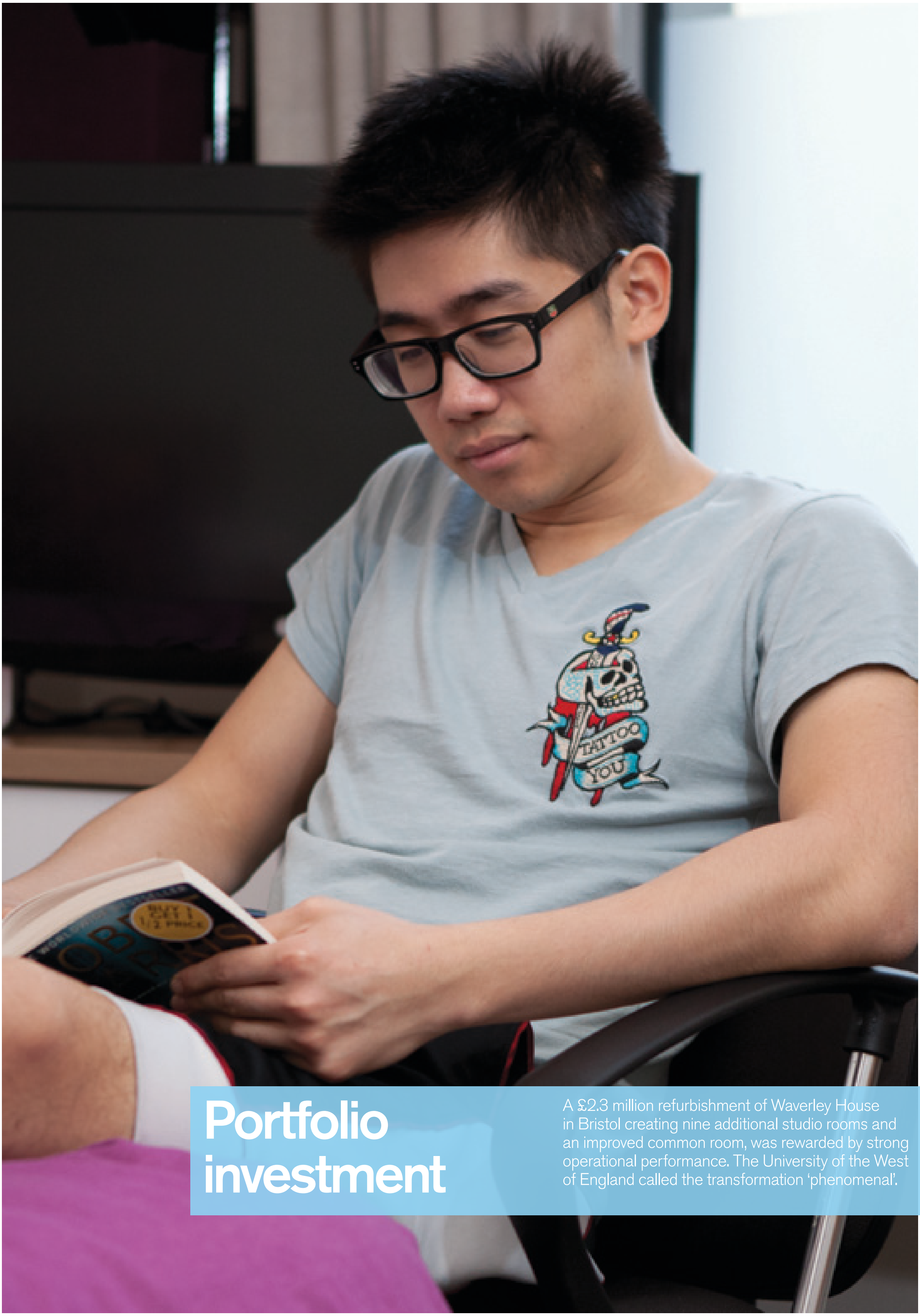
# Targeted investment

Development continues in London and a small number of other cities. In 2011 we opened Thurso Street, a 405-room property in Glasgow's West End where there are strong Universities and high demand for student accommodation.



# Long-term partnerships

We have worked in partnership with Sheffield Hallam University for over ten years supplying 1,850 bedrooms each year. The arrangement is flexible and this year rose to 2,450 rooms when the University increased its intake of international students.




# Portfolio investment

A £2.3 million refurbishment of Waverley House in Bristol creating nine additional studio rooms and an improved common room, was rewarded by strong operational performance. The University of the West of England called the transformation 'phenomenal'.

# Student experience

Customer satisfaction improved in every city in which we operate, leading to increased numbers of students rebooking to live with us and new customers living with us after a recommendation from a friend.

# Major new scheme

Planning was secured for a 951 bedroom property in Stratford adjacent to the Olympic Park and close to several London Universities – a milestone project for London and part of our selective development in the capital.

## Who we are

UNITE develops and manages student accommodation. We have over 130 properties in 23 cities across the UK, centrally-located close to strong Universities. Students living in our high-quality buildings receive broadband, utilities, insurance, maintenance and 24/7 security inclusive in their rent. We work closely with our University partners to ensure we are meeting the needs of all our stakeholders at a time of major change.

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

UNITE is also a manager and investor in three specialist funds and joint ventures:

– UNITE Student Accommodation Fund (USAF) in which we have a 16% stake

– Oasis Capital Bank (OCB) in which we have a 25% stake

– UNITE Capital Cities (UCC) in which we have a 30% stake

We manage all the properties owned by these vehicles.

Our selective development programme is focused on London.

## Our strategy

**Target low double-digit total returns, with modest risk**

| Income growth | Development | Capital growth |
|---|---|---|
| ▪ Rental growth<br>▪ Operating efficiencies<br>▪ New openings<br>▪ Increased ownership stake<br>▪ Dividend reinstated | ▪ London focus<br>▪ Mix of product, price point and location<br>▪ 9% yield on cost target<br>▪ Further accretive developments subject to financing/disposals | ▪ London focus<br>▪ Quality portfolio and Universities<br>▪ Asset management<br>▪ Brand platform<br>▪ Rental growth 3-4% |

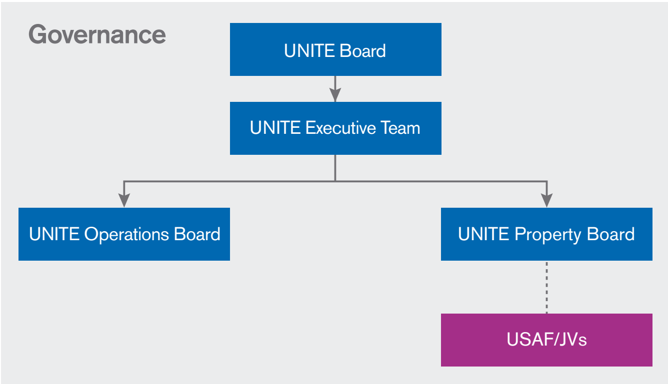
Our key priorities are to maintain the growth of our cashflow and recurring profits, to deliver development profits and earnings growth from a selective development programme, and to reduce our gearing through management of our balance sheet and maintaining the most effective capital structure for the business.

# Managing the business

We made changes in the autumn of 2011 to realign our business and provide a clearer route for making decisions and empowering our people. Our teams in the 23 cities which serve our customers are the heart of UNITE, and we have embedded support functions within this Operations Business Unit to ensure all activities are focused on meeting and exceeding the needs of students and Universities.

The Managing Directors of our two Business Units – Operations and Property (which includes Asset Management and Development) – now represent the interests of their Business Units at the UNITE Group Board, to whom they are directly accountable for performance.

The Executive Team has overall responsibility for developing strategy and meeting our longer term business goals, through which we aim to make UNITE a commercially successful business over the long-term, while balancing the needs of all our stakeholders.




**Phil White CBE**
Chairman

**Mark Allan**
Chief Executive

**Joe Lister**
Chief Financial Officer

**Richard Smith**
Managing Director of Operations

**Richard Simpson**
Managing Director of Property

**Nicola Yates**
Group HR Director

**Paul Harris**
Group Strategy and Corporate Relations Director

## UNITE's three phases of growth

### Expansion

**2000-2006**

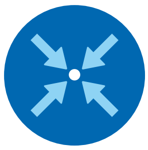
In 2000 we listed on the London Stock Exchange. Having created the private student accommodation sector in 1991, we used our first mover advantage to secure high quality sites and expand rapidly across the UK, growing from 10,000 to 31,000 rooms by 2006.

### Co-investment

**2006-2009**

During this period of operational and financial consolidation we implemented a change programme, standardising our brand and operations, and established our co-investment model with the launch of USAF.

### Focus



**2009-2012**

We now have 41,000 rooms in 23 cities and our focus is on managed growth with an emphasis on London, growing our recurring cash flows and differentiating our brand.

# Our markets

### Full-time student numbers

Student numbers have doubled since 1991 (Chart 1), driven by government policy, demographics and global mobility, with almost 1.7 million students now studying full-time in the UK, with some 17% from outside the UK. There are expected to be over 160,000 more applicants than places for the 2012/13 academic year (Chart 2). The changes to the Higher Education (HE) sector mean there will be variations in student numbers in some cities and Universities; however UNITE is aligned with stronger Universities. The HE sector remains vastly oversubscribed and actual student numbers are not anticipated to decline.

### International students

The strength of UK institutions, with 32 UK Universities in the top 200 of the Times Higher Education's World University Ranking, make the UK an attractive place for international students and more than 47% of UNITE customers are from outside the UK. Between 2000 and 2009 international students studying abroad increased by 76% (Chart 3) and furthermore the UK increased its market share during this time – resulting in a rise in actual numbers.

The global trend for studying abroad looks set to continue with the OECD forecasting that international mobility will more than double by 2025.

### Supply demand imbalance

A fundamental supply/demand imbalance persists in the student accommodation sector. University housing levels remain flat, while the private residential sector is facing tougher regulations and high demand from non-students. Access to capital and an increasingly strict planning environment are constraining new supply of corporate purpose built student accommodation.

### The London student market

London has three important characteristics that distinguish it from the wider UK market (Chart 4); a large full-time student market of around 284,000 students; low accommodation supply ratio with London's Universities only able to supply accommodation to 30% of first year and international students; and a large international student population of around 80,000 (Chart 6) with high expectations of their accommodation.

UNITE has built a substantial London student accommodation business in recent years and we will continue to focus our new development in the capital. For the 2012/13 academic year we will operate over 8,000 bed spaces in London and 47% of our London customers are from outside the EU and therefore not impacted by incoming fee changes.

### Rent and occupancy outlook

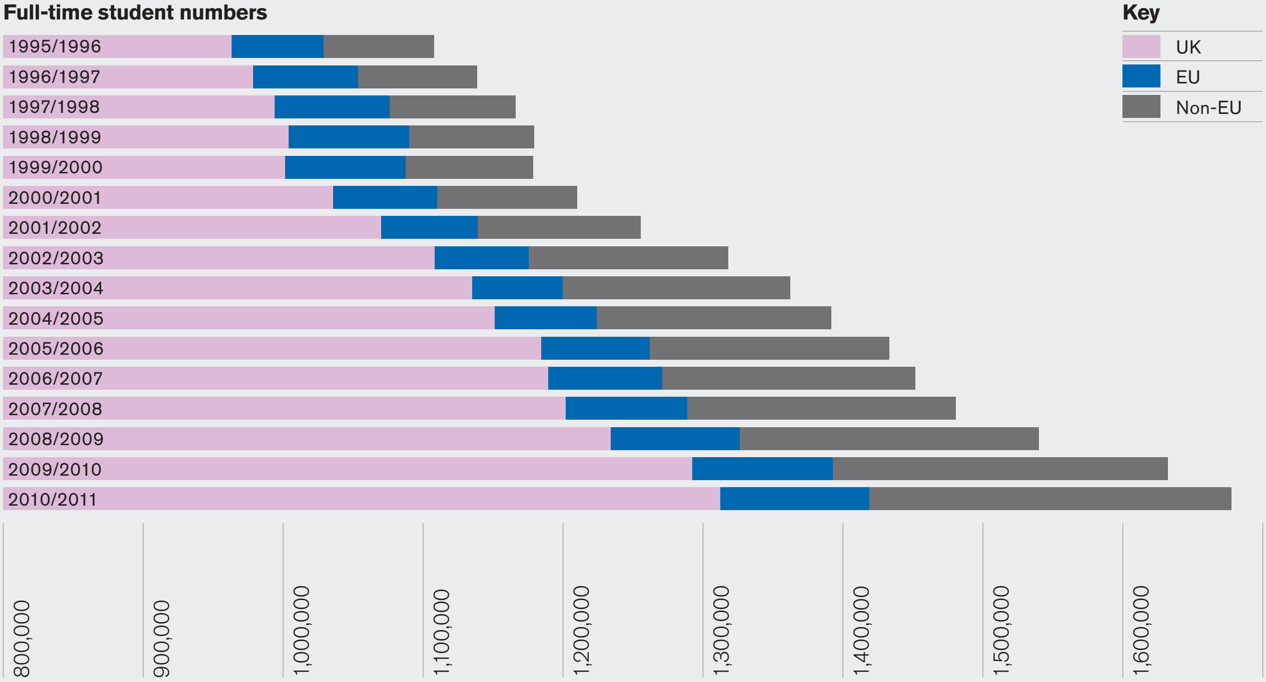
Demand – the much publicised University fee increases of up to £9,000 resulted in a reduction in applications of 7% which was firmly in line with UNITE's expectations of a 5-10% fall. After the fall there are expected to remain over 160,000 more University applicants than places available to study. Demand from school leavers is resilient and international demand is increasing; both of which are key customer groups for UNITE.

Supply – the planning regime remains challenging with capital constraints limiting new supply. New corporate student accommodation projects are focused in London (c.15,000 beds by 2015, of which 20% are UNITE developments).

Rental growth – at the end of February 2012 UNITE's 2012/13 reservations were already at 59% which is supportive of our projected 3-4% increase in NOI. Prospects are higher than this for London and stronger University cities.

## Chart 1

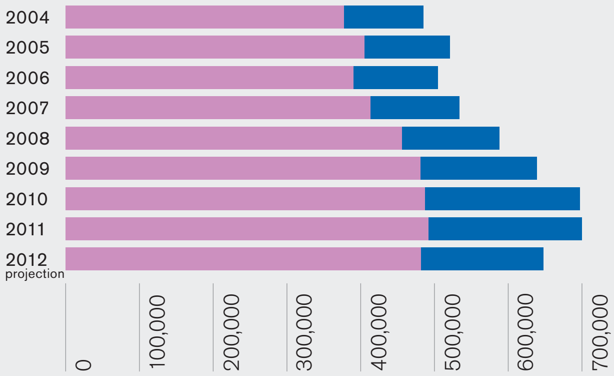
**Full-time student numbers**




Source: HESA

## Chart 2

### UCAS full year applicants

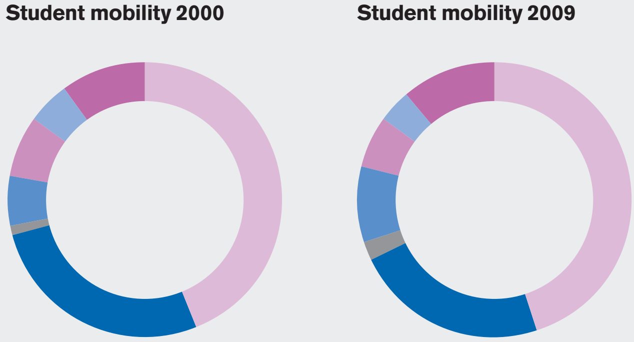



**Key**

| | |
|---|---|
| Accepted applicants | |
| Unplaced applicants | |

Source: UCAS

## Chart 3



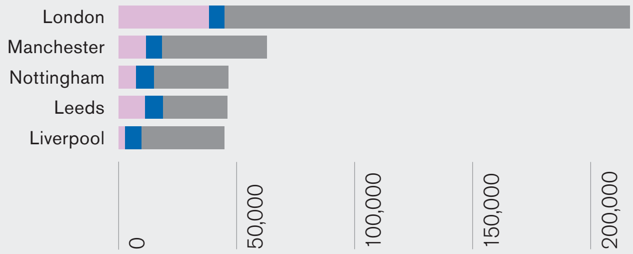

**Key**

| | 2000 | 2009 |
|---|---|---|
| Europe | 44% | 45% |
| North America | 27% | 23% |
| Latin America | 1% | 2% |
| Oceania | 6% | 9% |
| Other | 7% | 6% |
| Africa | 5% | 4% |
| Asia | 10% | 11% |

Source: Education at a Glance, OECD, Paris (2010)

## Chart 4

### Accommodation choices in top five full-time student markets



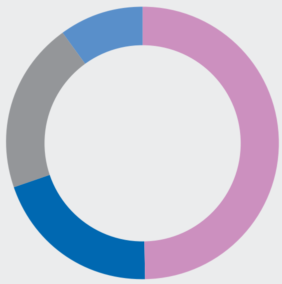

**Key**

| | |
|---|---|
| HMO/Other | |
| Corporate PBSA | |
| Institution Halls | |

Source: HESA 2010/11

## Chart 5

### Accommodation choices of full-time students studying in UK Higher Education Institutions (HEIs)



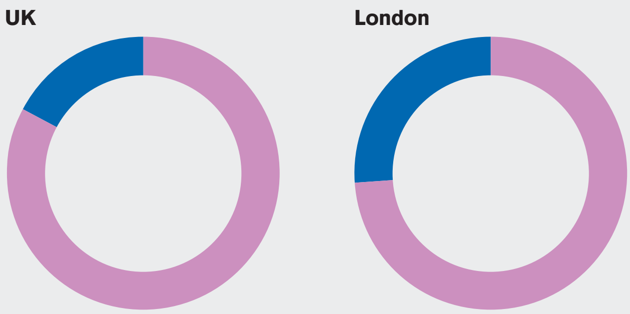
**Key**

| | |
|---|---|
| Private residential sector | 833,814 |
| University purpose built student accommodation | 336,681 |
| Parental/guardian home | 341,089 |
| Corporate purpose built student accommodation | 165,759 |

Source: HESA 2010/11

## Chart 6

### Overall proportion of international students




**Key**

| | UK | London |
|---|---|---|
| UK students | 83% | 74% |
| International | 17% | 26% |

Source: HESA 2010/11 – all students

## Key performance indicators

Over the medium term we are looking to deliver consistent, balanced returns to shareholders by meeting and exceeding the collective expectations of our five key stakeholders, Students, Universities, Employees, Communities and Investors.

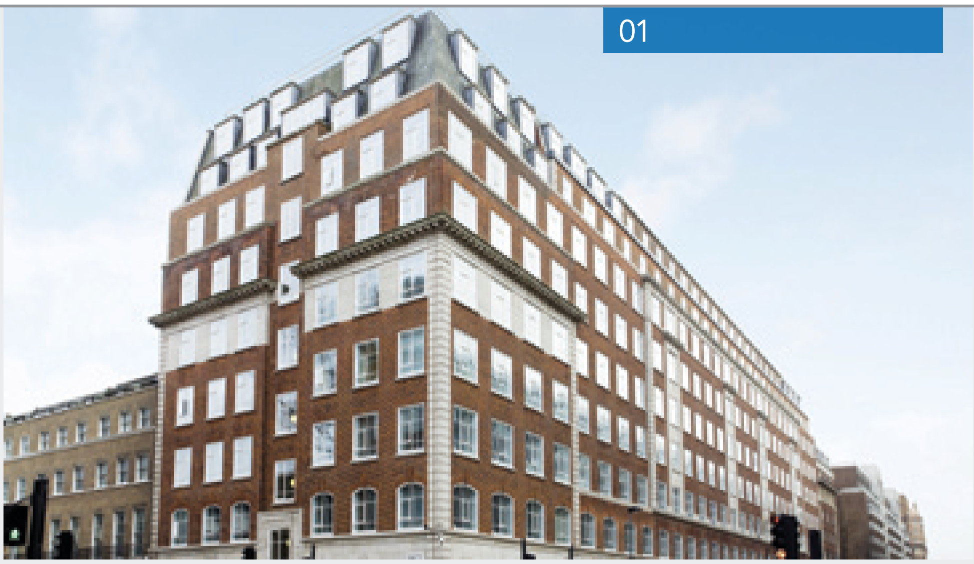
| Financial KPI | Definition | Performance 2011 | Performance 2010 | Commentary | Target |
|---|---|---|---|---|---|
| **Net portfolio contribution** | Our key indicator of operational performance measuring the income from rental properties after financing costs and our total non-development related overheads. | **£11.0m** | £4.1m | Our continued focus on cash generation and profit growth has delivered a 168% increase of £6.9m in NPC. | High occupancy, rental growth and continued focus on efficiency to drive further growth in recurring profits. |
| **Adjusted net asset value per share** | Our adjusted NAV per share measures the market value of properties and developments less any debt used to fund them plus any working capital in the business. | **318pps** | 295pps | Rental growth and development profits drove this 8% increase. | Continue to deliver strong returns through rental growth, development activity and recurring profits. |
| **Total returns** | Measures the total return to shareholders calculated by the growth in adjusted NAV plus dividends. | **8.5%** | 11.3% | Total return has been driven by growth in adjusted NAV and the reinstatement of the dividend. | Plan to deliver a low double digit return balanced between dividend, rental growth and development. |
| **Adjusted net debt** | Measures the net indebtedness of the business and our ability to generate cash and control expenditure calculated as debt, net of cash and excluding the mark to market of interest rate swaps. | **£434m** | £335m | Growth in net debt is the result of planned capital expenditure on development offset by asset disposals and paying down debt. | Plan to manage total net debt through targeted disposals, and paying down existing debt. |
| **Gearing** | Measures our ratio of debt to equity. | **84%** | 71% | We have maintained our focus on controlling gearing levels and extending debt maturities. | Continue to work closely with funding partners to manage our debt level at around its current level. |
| **Operating cashflow** | Measures the conversion of recurring profit from the Operations business into cash. | **£13.8m** | £0.6m | Growth in net portfolio contribution and working capital management drove the increase in operating cashflow. | Continue to deliver improvements in operating cashflow aligned to net portfolio contribution growth. |

| Non-financial KPI | Definition | Performance 2011 | 2010 | Target |
|---|---|---|---|---|
| **Health and safety** | Measures the number of reportable accidents in Operations each year as a means of assessing our success in approaching health and safety. We also monitor health and safety in all other parts of the Group. | **1**<br>Monthly audits and ongoing programmes to further embed health and safety awareness have led to this improvement. | 4 | We strive to have no reportable accidents. |
| **Reservations for next academic year** | Measurement of how many of our rooms have been leased to students directly or through agreements with Universities by the end of February. | **59%**<br>2011 saw solid reservations performance with enquiry levels healthy and supportive of rental growth of 3-4% for the full year. | 62% | We aim to sell 55-60% of our rooms by this point in our sales cycle. |
| **Employee satisfaction** | We aim to develop and retain high performing people that live UNITE's values. Employee TR*M is an independent benchmarked measure of the extent to which UNITE employees are committed to achieving our corporate goals, our mission, vision and values. | **67**<br>Further investments in our people through improved development programmes have led to this increase. | 63 | We aim to be in the top decile of service companies for employee satisfaction. |
| **Customer satisfaction** | We undertake an independent survey twice a year where we use key indices to understand our relationship with our customers and their likelihood to rebook and recommend. Customer TR*M is benchmarked against other high performing companies. | **52**<br>A shift of emphasis on operational performance has been rewarded by a substantial improvement in customer satisfaction. | 35 | We aim to be in the top third of service companies for customer satisfaction. |

# Top 20 properties

## Our top 20 managed properties by value (and funding vehicle).*

**01 Woburn Place London**
**Beds: 454 (UCC)**
Woburn Place is ideally located adjacent to three University campuses at the heart of student life in central London. A smart collection of twin and studio rooms sit alongside one and two bedroom flats. Customers enjoy an assortment of high end communal and in-room facilities.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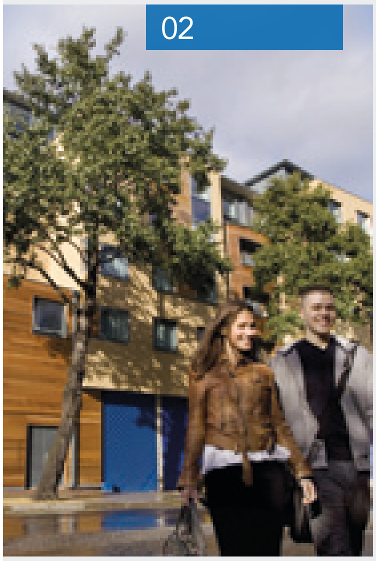
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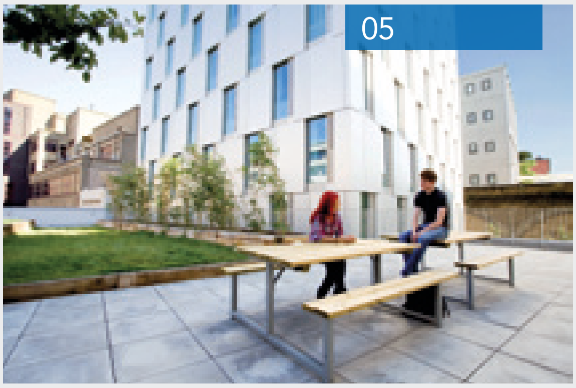
03


04


05


07


06

**02 Woodland Court London**
**Beds: 573 (OCB)**
Shared en-suite flats set around a communal courtyard, one stop from Kings Cross underground.

**03 Emily Bowes Court London**
**Beds: 693 (USAF)**
With a contemporary room design and zone 3 location, quick links into central London make this a popular choice for students seeking a lower rent offering.

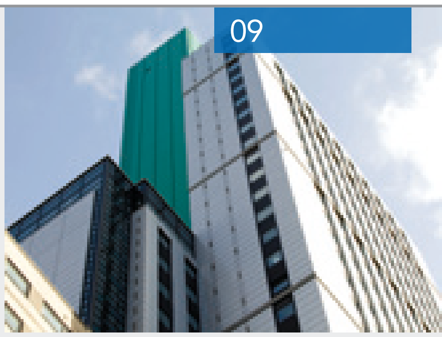
**04 Grand Central Liverpool**
**Beds: 1,210 (USAF)**
The largest, most centrally located student accommodation residence in Liverpool, ideally located for Lime Street station, the city centre and Universities.

**05 Great Suffolk Street London**
**Beds: 233 (OCB)**
Just three minutes' walk from the Southbank and close to Waterloo and London Bridge, this property incorporates a roof top terrace and common room, with stunning views over Westminster. A smart mix of premium and studio accommodation with retail facilities let to Tesco.

**06 Wedgwood Court London**
**Beds: 322 (OCB)**
Immediately opposite London Metropolitan University, offering shared flats with retail units let to Sainsbury's and Costa Coffee.

**07 Parkway Gate Manchester**
**Beds: 729 (UNITE)**
Architectural flagship building in the centre of Manchester ideally located for the two main Universities in the city.

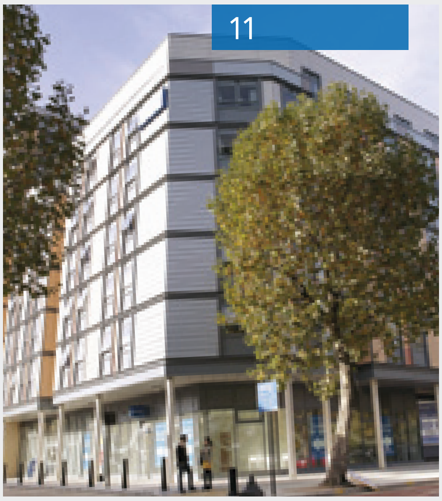
* Initials in brackets denote the ownership vehicle for each property. UNITE: wholly owned by UNITE, USAF: UNITE UK Student Accommodation Fund, UCC: UNITE Capital Cities, OCB: Oasis Capital Bank. See page 106 for explanation of each funding vehicle.


**08 The Heights Birmingham**
**Beds: 909 (USAF)**
Prime city centre property, with strong links to two of the city's Universities.

**09 The Plaza Leeds**
**Beds: 964 (USAF)**
Modern premises completed in 2006 convenient for both Universities in Leeds.

**10 The Forge Sheffield**
**Beds: 1,378 (UNITE)**
Campus-style living within a city centre environment that includes retail facilities let to Sainsbury's and Wilkinsons.



**11 Blithehale Court London**
**Beds: 306 (USAF)**
High performing property with easy access to several top Universities.

**12 Curzon Gateway Birmingham**
**Beds: 742 (UNITE)**
Opposite Birmingham City University's new campus development and ideally located for the city centre.



**13 Sky Plaza Leeds**
**Beds: 533 (USAF)**
A prominent feature of the Leeds city skyline with 34 floors of unrivalled views across the vibrant city centre.

**14 Callice Court Coventry**
**Beds: 666 (UNITE)**
Boasts the best location for student accommodation in Coventry with its prime position next to the University and city centre.

**15 New Medlock House Manchester**
**Beds: 672 (USAF)**
Prime city centre location, ideally located for the city's Universities, this property offers both budget and higher end accommodation.

**16 Piccadilly Point Manchester**
**Beds: 530 (USAF)**
Adjacent to Piccadilly train station and Manchester University this is one of the best properties in the city.

**17 St Peters Court Nottingham**
**Beds: 808 (USAF)**
Premium property in an established student accommodation area very popular with University of Nottingham students.

**18 Canto Court London**
**Beds: 164 (UCC)**
Modern studio accommodation for students studying in the wide variety of London's nearby HEIs.


**19 East Central House London**
**Beds: 245 (UNITE)**
Established property popular with international and domestic students attracted by the zone 1 location.

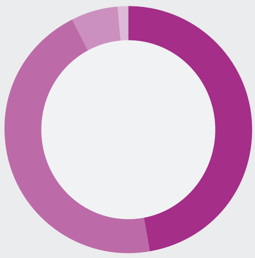
**20 Newarke Point Leicester**
**Beds: 653 (USAF)**
At the heart of the DeMontfort campus and adjacent to the city centre.

## Rent by city

The table below lists our average rents per city, broken down for shared flats and studios.

| Location | 2011/2012 £ Shared Flat | 2011/2012 £ Studio |
|---|---|---|
| Aberdeen | 119 | 178 |
| Bath | 110 | 192 |
| Birmingham | 109 | 164 |
| Bournemouth | 93 | 113 |
| Bristol | 113 | 163 |
| Coventry | 114 | 154 |
| Edinburgh | 131 | 185 |
| Exeter | 129 | 159 |
| Glasgow | 113 | 183 |
| Huddersfield | 94 | n/a |
| Leeds | 109 | 153 |
| Leicester | 111 | 145 |
| Liverpool | 107 | 141 |
| Loughborough | 92 | 119 |
| Manchester | 124 | 190 |
| Newcastle | 104 | 139 |
| Nottingham | 106 | 165 |
| Plymouth | 113 | 142 |
| Poole | 99 | 114 |
| Portsmouth | 59 | 59 |
| Reading | 135 | 204 |
| Sheffield | 95 | 121 |
| **Rest of UK** | **108** | **154** |

| Location | 2011/2012 £ Shared Flat | 2011/2012 £ Studio |
|---|---|---|
| London Central | 195 | 341 |
| London East | 174 | 251 |
| London North | 178 | 252 |
| **London** | **183** | **311** |



**A mix of tenancies**

| | |
|---|---|
| Leased directly to students | **19,001** |
| Leased to students via Universities* | **18,209** |
| Leased to Universities | **2,446** |
| Leased to key workers | **484** |

Data from 31 October 2011.

* Leases range from two to 20 years.

These rates are based on weighted average weekly rates. No adjustment has been made for differing tenancy lengths.

# Where we operate

We operate in 23 cities across the UK and our properties are aligned with cities that have strong and often multiple higher education institutions.


**Number of rooms by location**

| | |
|---|---|
| London | **7,224** |
| Major provincial | **24,197** |
| Provincial | **9,448** |

# Chairman's statement

"The strong financial performance of the business has been built on important improvements in customer service."

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

UNITE enjoyed a strong year in 2011 across its core business. The combination of strong rental growth, 99% occupancy and effective control of costs drove a significant increase in Net Portfolio Contribution (NPC) to £11 million from £4 million in 2010 and has enabled us to reinstate a dividend at 1.75 pence per share for the full year. We also laid the foundations for further growth in NPC in 2012; new openings, continued rental growth, further cost savings and a focus on London should all help ensure recurring profits and cash flows grow strongly again in 2012.

Rental growth and a strong performance in our development business contributed to an 8% increase in adjusted NAV per share to 318 pence across the year and, despite broader economic volatility, yields across our portfolio remained stable at 6.6%. Development activity and rental growth will continue to underpin NAV growth in future years and this growth would have been even stronger in 2011 had we not recorded a charge of £21 million (13 pence per share) in relation to UNITE Modular Solutions (UMS) in our 2011 accounts for trading losses and costs associated with our decision to cease trading. Whilst it is disappointing to incur these costs it does remove a loss making activity for the Group and will result in greater visibility of the underlying profitability and cash generation of our core business. There will be no detrimental impact on the Group's future development pipeline as a result of the UMS closure.

The strong financial performance of the business has been built on important improvements in customer service, both for our student residents and our University partners. Credit for this must go to the dedicated employees throughout our business and I would like to congratulate them and thank them for their impressive performance.

We have remained very focused on managing the Group's financial position over the year. Operationally the business has significantly improved its cash generation and capital commitments to new development activity have been, and will continue to be, carefully managed until the outcome of debt refinancing can be viewed with more certainty. We have also made positive early steps to sell non-core assets as a means of enhancing portfolio quality and controlling leverage. In addition, in January 2012 we successfully bought out Lehman Brothers, our former partner in the UNITE Student Village (USV) Joint Venture, at an attractive price and made positive progress with our other partners in establishing longer term strategies for our remaining joint ventures. There is more to be done in 2012 in all these areas but the progress to date has been pleasing.

Unsurprisingly, debt financing has been very much in focus throughout 2011 and again UNITE has enjoyed success in this area. Despite the ongoing constraints on credit, we successfully arranged or extended £234 million of new debt facilities for ourselves, our fund and joint ventures during the year, with a further £82 million arranged since the year end, all of which has resulted in a fall in our overall cost of debt from 6.8% to 5.7%. Of course, this will remain an area of focus during 2012 but our long track record and recent successes give us continued confidence as we move forward.

University applications were also the subject of much media coverage throughout 2011 following the Government's introduction of higher tuition fees from 2012. At the initial closing date in January 2012, applications were down 7.4% overall but despite this fall there will still be over 160,000 unsuccessful applicants this year. In addition, with applications from school leavers only down 2% and demand from non-EU students (a key customer segment for UNITE) up 14%, the fundamentals of longer term demand remain stable. Our reservations and enquiry levels for the forthcoming academic year are solid and we remain confident of delivering rental growth of 3-4% for the full year.

**"Despite the ongoing constraints on credit, we successfully arranged or extended £234 million of new debt facilities."**

2011 also saw some important changes on the UNITE Board. John Tonkiss, our COO, left the company at the end of December after nearly ten years of committed service and, as part of a wider management reorganisation, we made two internal promotions to the Board with Richard Simpson and Richard Smith joining with effect from January 2012 as Managing Directors of Property and Operations respectively. On the non-executive side, we were pleased to appoint Manjit Wolstenholme as an additional Director on 1 December. Manjit will succeed Nigel Hall as Chair of the Audit Committee when he retires from the Board following the annual general meeting (AGM) in May 2012.

In recent years, Boards and management teams have had to adjust to operating in a much more volatile environment and we do not expect 2012 to be any different. Our focus is very much to build further on the good work of 2011; to keep growing recurring profits and cashflow substantially and sustainably, to pursue attractive development opportunities selectively, and to manage the Group's financial position prudently. With a robust outlook for demand, a clear strategy in place that is being delivered and a strong track record we look forward to 2012 with continued confidence.

**Phil White CBE**
**Chairman**
**1 March 2012**

# Selective development programme

Moonraker Point forms part of our secured development pipeline. The property is a significant project in the heart of London's Southbank close to two other UNITE properties. The 671 room development on Great Suffolk Street in the London Borough of Southwark, is due for completion for the 2012/13 academic year. King's College, London, has agreed a nominations agreement, securing the lease of the building over a 15 year period.

Teams from both organisations worked to ensure that the UNITE offer matches King's standard offer to incoming students so that the experience of residents at Moonraker is in line with that of King's students in other College residences.

## Overview

Our key objectives in 2011 were to grow recurring profits and cash flow, make good progress in the delivery of our targeted development programme and manage the Group's financing effectively in challenging conditions. We made very good progress in all areas.

This progress has ensured positive movements in our key metrics of Net Portfolio Contribution (NPC) and Adjusted Net Asset Value (NAV) whilst keeping gearing within target levels. The financial performance has been driven by rental growth and high levels of occupancy across the portfolio together with tight financial stewardship of operating and interest expenses and the overall level of gearing in the business.

### Financial highlights

| | 2011 | 2010 |
|---|---|---|
| NPC | £11.0m | £4.1m |
| Profit before tax | £4.7m | £24.2m |
| NPC per share | 6.9p | 2.6p |
| Adjusted earnings per share (EPS) (pre UMS) | 3.4p | 2.7p |
| NAV (adjusted, fully diluted) | 318pps | 295pps |
| Gearing (adjusted) | 84% | 71% |
| See through loan to value (LTV) | 54% | 54% |
| Operating cashflow | £13.8m | £0.6m |
| Full year dividend | 1.75pps | – |
| Occupancy for current academic year | 99% | 97% |
| Reservations for next academic year at 28 February | 59% | 62% |
| Net operating income growth (like-for-like) | 3.1% | 3.1% |

As a result of a disappointing performance at UMS, a reduction in the Group's own development pipeline and a challenging outlook for the construction sector generally we have taken the decision to close the facility once production has finished at the end of March. The resultant provision, together with in year trading losses, has resulted in a reduction in NAV in 2011 of £21 million. However, a strong performance in all other areas of the business means that this charge has been absorbed within an overall increase in adjusted NAV per share of 8% for the year. Whilst disappointing, the closure of UMS means that going forward we can focus on our core activities to deliver shareholder returns.

# Operations review

## Sales, rental growth and profitability

Our continued focus on cash generation and profit growth has delivered a £6.9 million increase in NPC to £11.0 million, up from £4.1 million in 2010 and £0.6 million in 2009. This growth has been driven by achieving 99% occupancy for the 2011/12 academic year and delivering 3.1% like-for-like net operating income (NOI) growth across the portfolio, together with the impact of opening 1,277 beds in 2011. We have also been able to reduce the average cost of debt from 6.8% to 5.7% contributing to a lower finance charge, down from £46.8 million in 2010 to £43.7 million in 2011.

**Net portfolio contribution**

| | 2011 £m | 2010 £m |
|---|---|---|
| Total income from managed portfolio | 219.5 | 188.9 |
| UNITE's share of rental income | 95.6 | 89.0 |
| UNITE's share of total income | 44% | 47% |
| UNITE's share of operating costs | (29.4) | (26.9) |
| NOI | 66.2 | 62.1 |
| NOI margin | 69.2% | 69.8% |
| Management fee income | 10.1 | 8.4 |
| Operating expenses | (21.6) | (19.6) |
| Finance costs[1] | (43.7) | (46.8) |
| **NPC** | **11.0** | **4.1** |

1 Finance costs include net interest of £31.1 million and lease payments of £12.6 million on sale and leaseback assets.

UNITE's share of total income from the managed portfolio has decreased to 44% from 47% as a result of asset sales to USAF at the end of 2010 and the 2010 new openings being held within our OCB joint venture. As we intend to hold a greater share of rental properties going forward we would therefore expect to increase our share of total income in the future.

The Group's NOI margin has fallen from 69.8% to 69.2%, primarily due to ongoing increases in utility prices, although these were partially offset by efficiencies elsewhere. The Group has a target NOI margin of 70% and will continue to seek operating efficiencies to improve performance to this level.

Operating expenses increased to £21.6 million (2010: £19.6 million) as a result of increased performance related costs and some one-off transactional costs. Despite these increases, we have made progress in reducing our key overhead efficiency measure (total operating expenses less management fees as a proportion of UNITE's share of gross property asset value) to 95 basis points from 110 basis points in 2010 and remain on track to reduce this to 80 basis points by 2014. As announced in September 2011, we have made a number of changes to the senior management structure of the business which will result in annual overhead savings of £2.5 million per annum with effect from 2012.

The Operations business generated net cash of £13.8 million in 2011, thereby covering the dividend payment of £2.8 million five times.

## Reservations

As at 28 February 2012, reservations across UNITE's portfolio for the 2012/13 academic year stood at 59% of available rooms compared to 62% at the same point in 2011 but in line with the 2010 level (59%). The movement in reservation levels is largely explained by the one-off rush to secure accommodation in 2011 as applications surged ahead of the rise in tuition fees. Overall enquiry levels are 5% ahead of 2011 and remain healthy.

## Operations outlook

Looking forward, the Operations business is well positioned to build on the strong performance in 2011:

- a further 1,822 beds will be opened in September 2012, of which 1,345 will be in London and we will also see the full year NOI impact of the 1,277 beds delivered in 2011
- overhead cost saving initiatives have been actioned and the £2.5 million annual benefits have begun to accrue from early 2012
- the outlook for student numbers in the cities in which we operate remains solid which, together with current reservations, gives us continued confidence in our ability to deliver rental growth of 3-4% in the forthcoming academic year

## Customer service and organisation

Operational performance throughout the year has benefited from a shift of emphasis to ensure empowerment of and ownership by our city teams for the delivery of enhanced customer service. This change has led to a number of improvements including our approach to maintenance, contact centre performance and debt collection. In turn, these efficiencies have led to an improvement in customer satisfaction in every city in which we operate while also delivering financial benefits.

We have made further investments in our people through improved development programmes and our latest employee satisfaction survey puts us in the top quartile for customer service organisations across Europe. We are also proud to have been awarded a Silver Investors in People award for our commitment to learning and development. The tools that we provide our staff with to deliver customer service have also been reviewed and enhanced with a significant investment in the UNITE online booking system, IT network resilience, improved connection speeds at sites and the introduction of improved technology to our contact centre. These investments have underpinned our improvement in customer satisfaction, helping drive cashflows, retention rates and relationships with our University partners.

## Customer profile

Each year we carry out a detailed analysis of our customer base, which provides rich data on the demographic and societal trends which are influencing University education and the student experience. This analysis, combined with other pieces of proprietary research, has enabled us to identify a number of themes and patterns which will influence our longer term strategy, and which underline the resilience of our business model. Some of the major themes include:

- continued increase in international students staying with UNITE, particularly in London (47% across the UK and 71% in London)
- clear alignment of UNITE properties with Universities and cities expecting to maintain or increase student numbers next year
- students who are starting University in 2012 are generally undeterred by tuition fee increases but have higher expectations of University life, including accommodation

Full details of our research have been shared with our University partners to facilitate deeper discussions around meeting student expectations, managing volatility in student numbers and developing strategies for the future.

# Property review

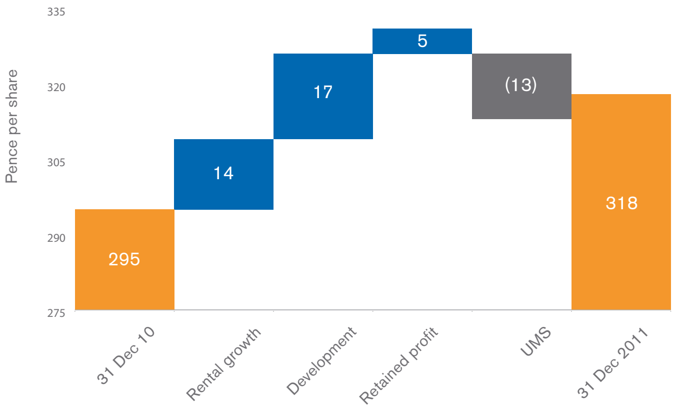
## NAV growth

Adjusted NAV increased by 8% to £514 million or 318 pence per share at 31 December 2011, up from £474 million or 295 pence per share at 31 December 2010, driven by rental growth and development profits but offset by trading losses and charges arising from the decision to cease trading at UMS. Reported NAV, which includes the impact of mark to market adjustments on interest rate swaps and some properties at cost was £405 million at 31 December 2011 (2010: £404 million).

The main factors behind the 23 pence per share growth in adjusted net assets were:

- the growth in the value of the Group's share of assets as a result of rental growth (+14 pence per share), with average yields remaining flat during 2011
- the value added to the development portfolio after pre-contract costs (+17 pence per share)
- the positive impact of retained profits (+5 pence per share)
- the impact of the decision to close UMS together with in year trading losses (-13 pence per share)

**Adjusted NAV bridge**




Looking forward we expect to be able to continue delivering value growth in 2012 and beyond across our portfolio with our London focus driving both rental growth and development profits. At the same time, proceeds from our asset disposal programme will allow us to keep gearing within target levels.

## Capital growth

# Asset management

Realising the potential of our assets is a component of our capital growth strategy. Manchester has the second largest student population in the UK after London and there is strong demand for accommodation. Our 530 room Piccadilly Point property has been fully let since opening in 2007 and we have been granted planning permission to convert the current 15,000 sq/ft of vacant commercial space, which has not been let since the property opened, into 58 additional rooms and 1,450 sq/ft of commercial space.

# Property review cont.

## Property portfolio

The valuation of our property portfolio at 31 December 2011, including our share of gross assets held in USAF and joint ventures was £1,206 million (31 December 2010: £1,022 million). The £184 million increase in portfolio value was attributable to £127 million of capital expenditure less disposals and £57 million of valuation movements.

The valuation of the investment portfolio has increased by 3.1% on a like for like basis, reflecting a 4% growth in headline rents offset by a growth in operating costs driven primarily by rising utility costs.

**Summary balance sheet**

| | 31 December 2011 | | | 31 December 2010 | | |
|---|---|---|---|---|---|---|
| | Wholly owned £m | Fund/JV £m | Total £m | Wholly owned £m | Fund/JV £m | Total £m |
| Rental properties | 617 | 400 | 1,017 | 493 | 391 | 884 |
| Properties under development | 189 | – | 189 | 138 | – | 138 |
| | 806 | 400 | 1,206 | 631 | 391 | 1,022 |
| Debt on rental properties (net of cash) | (394) | (212) | (606) | (268) | (212) | (480) |
| Debt on properties under development | (40) | – | (40) | (67) | – | (67) |
| | (434) | (212) | (646) | (335) | (212) | (547) |
| Other assets/(liabilities) | (40) | (6) | (46) | 6 | (7) | (1) |
| **Adjusted net assets** | **332** | **182** | **514** | **302** | **172** | **474** |

We have continued to shift the weighting of our property portfolio towards rental properties with 84% of the portfolio being income generating and 16% being under development. We have also increased our London exposure with 45% of our capital now invested in London assets, up from 41% at December 2010 and from 17% in the five years since December 2006. London remains UNITE's key market by virtue of its size, high concentration of quality Universities, international reputation and significant demand/supply imbalance.

A split of rental properties by ownership and by location is set out in the following table.

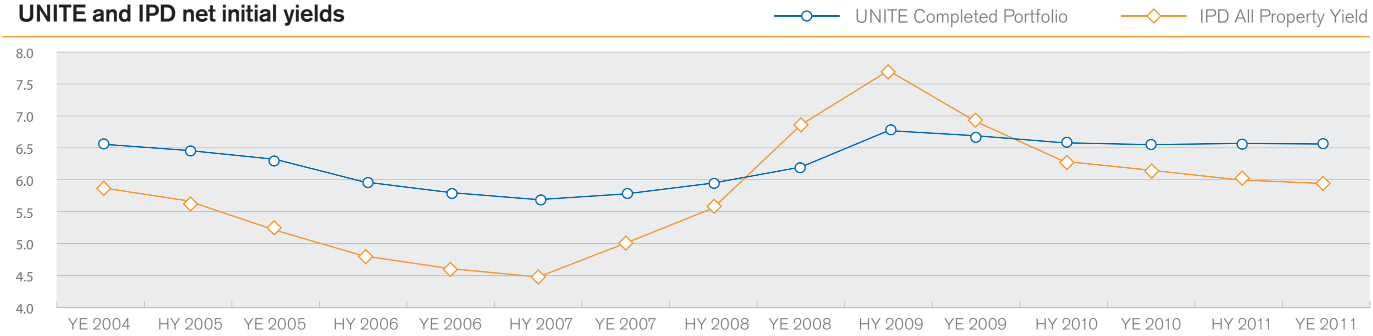
**UNITE portfolio analysis at 31 December 2011**

| | | USAF | UCC | USV | OCB | Wholly owned | Leased | Total | UNITE |
|---|---|---|---|---|---|---|---|---|---|
| London | Value (£m) | 209 | 354 | – | 189 | 182 | – | 934 | 369 |
| London | Beds | 1,952 | 2,426 | – | 1,128 | 1,458 | 260 | 7,224 | 37% |
| Major provincial | Value (£m) | 858 | 33 | 58 | – | 251 | – | 1,200 | 430 |
| Major provincial | Beds | 15,900 | 333 | 1,378 | – | 4,439 | 2,147 | 24,197 | 42% |
| Provincial | Value (£m) | 205 | – | – | – | 185 | – | 390 | 218 |
| Provincial | Beds | 3,875 | – | – | – | 3,788 | 1,785 | 9,448 | 21% |
| Total | Value (£m) | 1,273 | 387 | 58 | 189 | 617 | – | 2,524 | 1,017 |
| Total | Beds | 21,727 | 2,759 | 1,378 | 1,128 | 9,685 | 4,192 | 40,869 | |
| **UNITE ownership share** | | **16%** | **30%** | **50%** | **25%** | **100%** | **100%** | | |
| Ownership share | | 208 | 116 | 29 | 47 | 617 | – | 1,017 | |

Our strong lettings performance in 2011 has meant that the number of stabilising assets has reduced significantly and now amounts to £65 million (2010: £145 million). These assets are all outside London and are expected to stabilise by 2013.

Great Suffolk Street, London

## UNITE and IPD net initial yields




## Student accommodation yields

The average net initial yield across the UNITE portfolio was 6.6% at 31 December 2011 having remained at this level now for the last 24 months. The graph above compares the yields on UNITE's completed portfolio and the Investment Property Databank (IPD) All Property Yield over the last few years and demonstrates the relative stability of UNITE's yields during a period of considerable volatility in the wider property market.

Whilst average yields have remained flat, this masks some changes at the asset level. During the year, yields improved by 10 to 25 basis points for direct let assets in London and by 25 to 40 basis points for assets with long-term income guarantees from Universities. Assets located in weaker University towns have seen yields expand by 10 to 25 basis points. Following these changes, yield ranges across the UNITE portfolio now stand as follows:

### Indicative yields

| | Direct let | University guaranteed |
|---|---|---|
| London | 6.0-6.25% | 5.5-5.75% |
| Major provincial | 6.5-7.0% | 6.0-6.25% |
| Provincial | 7.0-7.25% | 6.5-6.75% |

Despite ongoing economic uncertainty the student accommodation investment market has remained active with a record amount of transactions estimated at £1.1 billion of capital committed to investment and developments in the sector in the whole of 2011 (source: CBRE). The sector continues to deliver strong returns relative to other asset classes with yields generally ranging between 6% and 7% together with year-on-year rental growth.

Total returns have continued to outperform other investment property sectors with the Knight Frank Student London index climbing to 15.1% and the Knight Frank Student Regional index demonstrating 10.5% total returns versus the IPD All Property Index of 9%.

Looking forward we expect one of the main determinants of yield direction to be the activities of lending banks in the sector. A number of regional operators in the sector are highly leveraged and the approach of their lenders to addressing this may result in asset sales over the next 12 to 18 months, which could lead to weakness in some regional locations despite ongoing strong occupational performance. This is much less of a factor in London and it therefore seems likely that the yield differential between London and the provinces will widen over 2012 and 2013.

## Development activity

UNITE completed and let four new developments in 2011 in Reading, Manchester, Glasgow and London, on time and within budget. Very good progress is being made with our four developments planned to open in 2012, three in London and one in Glasgow, as follows:

- Moonraker Point – Southbank – we have signed a 15 year agreement with King's College to take 97% of the 671 rooms and construction is progressing in line with plan
- North Lodge – Tottenham Hale – construction is scheduled for completion in May, and will provide a further 528 rooms close to our existing property, Emily Bowes Court, benefiting from excellent links to central London and a lower rent reflecting the zone 3 location. Emily Bowes Court has been fully let since opening in 2009 and we expect North Lodge to be similarly popular
- Waterloo Road – Waterloo – the 146 room development is on track for opening in September and is attracting interest from a number of prospective University occupiers
- Nairn Street – Glasgow – following the successful launch of our new property in Thurso Street in 2011, Nairn Street will add a further 477 rooms to cater for Glasgow University students. The West End of Glasgow has a clear shortage of purpose built accommodation, which we expect to underpin demand

During the year we have also secured planning approvals on the remaining two schemes in our secured development pipeline. Stratford City is a 951 bed development adjacent to the Olympic Park and will provide budget accommodation in a high quality location. Camden is a 563 bed scheme to the north of the Kings Cross regeneration zone. Having originally planned to develop the Camden site for a 2013 opening, we decided to defer the scheme by a year in order to manage our balance sheet prudently during 2012. Both Stratford City and Camden will now open in 2014 and prospective returns are attractive.

Having obtained planning on all of the schemes in our secured development pipeline and with funding also in place for all projects with the exception of the Stratford City site (which is in progress), the major development risks in our pipeline have now been mitigated. Based on current rents and yields, the completion of these schemes will add £40 million (25 pps) to NAV over the next three years and increase our London weighting to over 50%.

While we have not secured any new developments since May 2011 we continue to pursue a number of prospective opportunities on a very selective basis. Our focus remains in London on sites that meet our objectives of offering a range of product and affordable price points, with excellent transport links a pre-requisite. There are signs that the planning environment is becoming more restrictive, particularly in a number of London boroughs and with the debt markets for development finance remaining constrained by a lack of capacity,

## Development pipeline

| | Secured beds No. | Total completed value £m | Total development cost £m | Capex in period £m | Capex remaining £m | Forecast NAV remaining £m | Forecast yield on cost |
|---|---|---|---|---|---|---|---|
| **2012** | | | | | | | |
| London | 1,345 | 172 | 124 | 62 | 24 | 3 | 9.3% |
| Glasgow | 477 | 35 | 27 | 13 | 13 | 1 | 9.0% |
| **2014** | | | | | | | |
| London | 1,514 | 166 | 123 | 15 | 108 | 36 | 9.1% |
| **Total** | **3,336** | **373** | **274** | **90** | **145** | **40** | **9.2%** |

we are continuing to see opportunities to secure off market sites in London at or above our target of 9% yield on cost. We are pursuing new development opportunities on a conditional basis to ensure we retain adequate flexibility to manage our balance sheet.

### Asset management

During 2011 we completed the refurbishment of seven rental properties, with our share of capital expenditure amounting to £3 million. By upgrading some of our older assets, we are able to enhance the experience for our customers as well as deliver valuation growth as a result of the increased rent levels following refurbishment. In 2011 our share of valuation uplift was £1 million, net of capex. This type of activity will be a continuing feature of our approach to asset management in the coming years.

### Asset disposals

We have now exchanged contracts or completed on the disposal of a total of £47 million of assets, of which £21 million was on behalf of UNITE UK Student Accommodation Fund (USAF), £8 million for our UNITE Capital Cities joint venture and £18 million related to wholly owned assets. Disposals were in Manchester, Edinburgh and London and were all non-core assets due to their size or location. A further £14 million of wholly owned assets are under offer with completion expected by 30 June. The disposals are supportive of valuations at 31 December 2011, with sales proceeds in line with book valuation and at an average yield of 6.5%.

Taking into account the balance sheet sales achieved to date and those currently under offer, a total of £35 million, we remain satisfied that we will achieve our target of £100 million to £150 million asset sales by December 2012. We expect approximately £25 million of these sales to be to USAF, following its successful sale of a small portfolio in early 2012, with the remainder being into the open market. As part of this, we are undertaking work on a number of other non-core assets to ready them for sale later in the year.

### Demand and supply outlook

Following the changes to Higher Education funding arrangements, Universities and Colleges Admissions Service (UCAS) announced application numbers in January 2012 from students aiming to begin University in September this year, the first cohort facing increased tuition fees of up to £9,000 a year. While the overall reduction in applications of 7.4% was widely anticipated, further analysis of the results shows strong support for UNITE's student demographic and business model.

- Applications from non-EU international students – who make up 31% of UNITE's direct let customer base, and 47% in London – increased by 14%, demonstrating the continued appeal of a UK University qualification and strong global reputation.
- The proportion of school-leavers applying to University has only reduced by 2%, revealing that the major decline in applications was from mature students who generally live at home while studying.
- The high demand for University is expected to leave over 160,000 students unable to secure a place, and student numbers are therefore likely to remain flat year-on-year.

Individual Universities have received their allocation of places, although these will not be published until the end of March 2012. Through our relationships with most of the UK's stronger Universities, we have been providing input and support at a local level to ensure that we are able to meet any changing accommodation requirements from our University partners.

- The number of first year and international students – the segments that are 'guaranteed' a bed by their University – continue to significantly outstrip the total number of University beds available by more than 2.5:1.
- When the students who are guaranteed accommodation by Universities and those that choose to live at home are removed from the total number of students, the addressable market for UNITE and other corporate accommodation providers in 2011 was 1,020,000 (2010: 976,000).
- Supply of student accommodation remains a key factor with many cities continuing to have a shortfall that leaves many Universities unable to house all their first year and international students.

The majority of future student accommodation construction activity is planned for London where the greatest supply/demand imbalance is to be found and where new stock will be best absorbed. While there remains significant headroom in some regional cities, a lack of capital among Universities and private providers and the challenging planning environment is likely to render more modest future supply activity outside London.

## UNITE Modular Solutions

The trading performance of UMS in 2011 was disappointing as it struggled with the complexity of new contracts during the final quarter of the year, thereby reducing factory throughput and consequently absorption rates and earnings performance. As a result, trading generated a £5.5 million loss (c.£3 million negative earnings before interest, tax, depreciation and amortisation (EBITDA) against our expectations of a £2.5 million loss and a neutral EBITDA performance) and we have made a provision for completing loss-making contracts in 2012 amounting to £5.6 million.

At the same time it has also become clear that the Group's need for modular capability is diminishing, with neither of the secured development projects beyond 2012 suitable for modular construction, and that the broader construction market is likely to remain demanding for a considerable time. This poor performance offsets the outperformance achieved in our core business and, together with the challenging market outlook for UMS, means that we cannot justify further investment into the business and are therefore ceasing operations. Production will continue until late March with site based operations continuing until the summer in order to complete remaining contracts.

A further provision has been made in the 2011 accounts as a result of the decision to cease operations, amounting to a £9.9 million charge. The provision covers future lease commitments (£5.4 million), and the write down of the carrying value of UMS assets (£4.5 million). The future cash impact, as at 31 December 2011, of closure and future contract costs is anticipated to be approximately £7 million.

The closure of UMS will not impact on UNITE's development programme. Production for the 2012 modular projects is substantially complete and neither of the 2014 completions are suitable for modular construction in any event. There will be a small negative impact on future NPC as a result of the closure with approximately £1 million of central Group costs previously allocated to UMS now to be absorbed by the Operations business.

## Financial review

### Earnings

Net Portfolio Contribution (NPC) is our measure of the underlying pre-tax profit of the Operations business, which we use to assess our income performance. It includes the pre-tax results of our joint ventures, but excludes capital, development and UMS. We also report on Adjusted Profit which includes costs associated with development activities that are incurred prior to securing a contract and also profits or losses on the sales of trading assets. We have also included one-off restructuring costs incurred as part of the organisational design changes in late 2011 and fair value movements of share options in Adjusted Profit.

A full reconciliation of NPC to Adjusted Profit and our International Financial Reporting Standards (IFRS) profit before tax is given in Section 2 of the financial statements.

**Profit**

| | 2011 £m | 2010 £m |
|---|---|---|
| Net portfolio contribution | 11.0 | 4.1 |
| Development pre-contract costs | (3.2) | (3.2) |
| Development trading profits/write-downs | 1.2 | 4.0 |
| Restructuring, share option and other costs | (3.6) | (0.6) |
| **Adjusted profit (pre UMS)** | **5.4** | **4.3** |
| UMS | (21.0) | (4.8) |
| Valuation gains on investment property | 18.4 | 33.5 |
| Changes in valuation of interest rate swaps | – | (8.0) |
| Minority interest and tax adjustments | 1.9 | (0.8) |
| **Profit before tax** | **4.7** | **24.2** |
| NPC per share | 6.9p | 2.6p |
| Adjusted earnings per share (pre UMS) | 3.4p | 2.7p |

## Cash flow

The Operations business has generated £13.8 million of net cash in 2011 (2010: £0.6 million). Cashflow generation is a key objective for the Group and Operations cash is expected to grow in line with NPC in 2012. At the Group level, our overall cash position reduced by £7 million as a result of the net investment into development activities and the cash impact of UMS's trading losses.

### Cash flow

| | 2011 £m | 2010 £m |
|---|---|---|
| Operations | 13.8 | 0.6 |
| **Property** | | |
| Capital expenditure | (137.1) | (81.5) |
| Disposals | 13.7 | 155.6 |
| Change in debt | 93.9 | (81.8) |
| Working capital movements | 20.1 | (13.5) |
| UMS | (7.8) | (4.7) |
| Corporate | (3.6) | 0.3 |
| **Net cash movement** | **(7.0)** | **(25.0)** |

## Dividend

The positive NPC and cash performance in 2011 and the encouraging outlook for the next few years enabled us to reinstate a dividend in 2011. We are recommending a final dividend payment of 1.25 pence per share. Taken together with the interim dividend of 0.5 pence per share, our full year dividend will be 1.75 pence per share (2010: nil), in line with our stated objective to pay a dividend at 25-50% of NPC. Subject to approval at UNITE's Annual General Meeting (AGM) on 17 May 2012, the recommended final dividend will be paid on 21 May 2012 to shareholders on the register at close of business on 20 April 2012.

## Debt financing

Throughout 2011 we have maintained our focus on controlling gearing levels and extending debt maturities and have had some important successes. This will remain a priority throughout 2012. In addition, we have been able to reduce the average cost of debt by taking advantage of the low interest rate swap environment and actively using surplus cash to reduce borrowing costs.

### Key debt statistics

| | 31 December 2011 | 31 December 2010 |
|---|---|---|
| Group net debt (adjusted) | £434m | £335m |
| Adjusted gearing | 84% | 71% |
| See through LTV | 54% | 54% |
| Weighted average debt maturity* | 3 years | 3 years |
| Weighted average cost of investment debt | 5.7% | 6.8% |
| Proportion of investment debt hedged | 69% | 97% |

* Including impact of extension to RBS facility.

Adjusted gearing has increased from 71% in December 2010 to 84% at December 2011. Capital expenditure on property in the year of £137 million was offset by the growth in the Group's adjusted NAV of £40 million and disposals of £14 million. We will continue to manage our gearing proactively and are seeking to ensure that the increase in Group net debt arising from capital expenditure and the USV acquisition is substantially offset by the proceeds of our planned disposal programme. As a result our objective is to maintain gearing at around its current level, although due to timing differences it is likely to rise in the first half of 2012 before falling back later in the year.

The weighted average cost of debt on a see through basis fell during the period from 6.8% at 31 December 2010 to 5.7% at 31 December 2011 as a result of the lower proportion of investment debt hedged, using surplus cash balances to manage interest costs, and entering into new swaps at lower rates. At 31 December, we had £35 million of cash being used to pay down revolving facilities that can be redrawn. Taken together with other cash balances, this provides an effective cash balance of £52 million. The proportion of investment debt hedged is likely to increase during 2012, which will contribute to a modest increase in the average cost of debt across the course of the year.

## Financial review cont.

We have continued to work closely with our banking partners and including debt secured since the year end, have arranged a total of £169 million of new or extended senior debt facilities for wholly owned assets and a further £147 million for funds and joint ventures since January 2011. The all-in cost of the facilities includes the cost of existing swaps which have been extended in line with the facility length. The details of the new facilities are outlined in the following table.

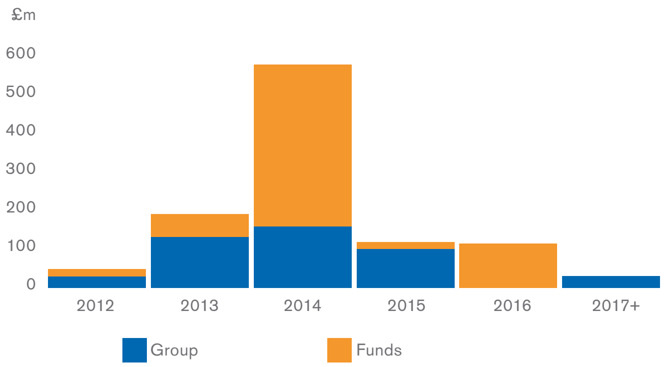
### New debt facilities

| Bank | Amount | Maturity | All-in cost | Purpose |
|---|---|---|---|---|
| **Wholly owned** | | | | |
| HSBC | £49m | 2016 | 5.0% | New development facility |
| HSBC | £38m | 2017 | 5.0% | New facility to acquire and refinance USV |
| RBS* | £82m | 2015 | 5.7% | Extension of investment and development facility |
| **Funds/JVs** | | | | |
| Lloyds | £115m | 2016 | 5.7% | Extension of investment facility |
| Nationwide | £32m | 2014 | 4.2% | New investment facility |

* Secured in 2012.

In addition to the new facilities, we continue to work closely with our funding partners to extend 2013 and 2014 debt maturities and in particular are making very good progress in discussions with insurance companies to secure a new facility that will provide capacity to refinance the Group's remaining debt that matures in 2013.

### Debt maturity profiles




We are also in early discussions with lenders about our strategy to extend maturities for debt in USAF and joint ventures, and expect to make further progress extending the maturity of these facilities through 2012.

Income growth

# Operational efficiencies

Our Operations business plays a significant role in maintaining the growth of our income and recurring profits. In 2011 we placed an emphasis on improving our maintenance service as it is a key factor in our residents' experience of living with us. Having brought our property maintenance teams in-house in 2010, we worked to improve procurement processes, provided training so we can resolve more problems ourselves, and created a smart phone application to make it easy for residents to log maintenance requests. These initiatives have resulted in significant efficiencies and cost savings.

### Funds and joint ventures

| Vehicle | Property assets £m | Net debt £m | Other assets £m | Adjusted NAV £m | UNITE share of adjusted net assets £m | UNITE share |
|---|---|---|---|---|---|---|
| USAF | 1,273 | (580) | (14) | 679 | 111 | 16% |
| UCC | 387 | (236) | (6) | 145 | 43 | 30% |
| OCB | 189 | (106) | (4) | 79 | 20 | 25% |

## Covenant headroom

We were in full compliance with all of our borrowing covenants at 31 December 2011. Our banking facilities include loan to value (LTV) and interest cover covenants that are measured at the portfolio level. We have maintained significant headroom against both measures with the weighted LTV across facilities, with LTV covenants, of 56% against a weighted covenant of 74% providing headroom for property values to fall by over 20% before a breach would occur. The interest cover ratio is 1.7 against the covenant level of 1.2, again providing significant headroom.

## Co-investment vehicles

UNITE acts as co-investing manager of three specialist student accommodation vehicles that we have established, as outlined in the table above.

### UNITE UK Student Accommodation Fund (USAF)

USAF has delivered another strong trading performance with a total return of 11.5%, placing it in the top quartile of IPD Specialist Funds. There has been a good level of demand for units traded in the secondary market with £62 million of units traded in the year at a small premium to the Fund's NAV.

Following a ruling of the Icelandic Supreme Court in October, USAF's status as a priority creditor of Landsbanki in respect of its £30 million deposit has been confirmed. The Resolution Committee of the bank has stated its expectation of a full recovery and has made an initial payment of £10 million in respect of USAF's deposit into an escrow account. We are following a legal process to facilitate its payment to USAF later this year, although the timing of this remains uncertain. The deposit, of which UNITE's effective share is £6 million, remains fully provided for.

During the year, USAF completed an extension to its £115 million facility with Lloyds Banking Group. The facility extended the maturity date to October 2016 and has reduced the cost of debt from 6.2% to 5.7%. USAF is now making plans to extend or replace a further £100 million facility that expires in December 2013 and the £285 million CMBS that matures in April 2014.

### Joint ventures

We have continued to make progress in our stated strategy to simplify, consolidate and extend our joint venture structures. In January 2012 we successfully acquired the remaining 49% stake in UNITE Student Village from our former joint venture partner, Lehman Brothers, at a 31% discount to NAV. The additional NPC and NAV arising from the transaction will be recognised in 2012.

We are also making progress in discussions regarding the future strategy for the UNITE Capital Cities (UCC) and Oasis Capital Bank (OCB) joint ventures. UCC and OCB are both London focused joint ventures due to mature in 2013 and 2014 respectively. Both ventures have performed well since inception and discussions with our partners regarding future strategy are proving constructive.

## Outlook

We expect the broader business environment to remain challenging and volatile in 2012 as the UK and Europe struggle to recover and the long process of deleveraging in the economy continues. Demand for student accommodation will remain robust and underpins our rental growth expectation of 3-4% for the year, but students are becoming increasingly demanding consumers and a clear understanding of their expectations and absolute focus on service delivery will be critical to success.

In the student accommodation investment market we expect lenders to become more proactive in tackling over-leveraged portfolios and this seems likely to be the principal driver of transaction volumes and yields in the sector over the next 12 to 18 months. Given that higher leverage is more concentrated in provincial markets we anticipate some yield expansion in these areas with London yields remaining more stable. With approximately half of our capital invested in London, UNITE is well placed in this regard.

Operationally our objective for 2012 is to continue to build on the successes of 2011. We are focused on achieving further substantial growth in profitability and cash generation based on continued high occupancy across the portfolio, rental growth, the impact of new openings and cost efficiencies. These improvements will be based on a firm commitment to customer service and deepening relationships with our University partners. Based on performance for the first two months of 2012, we are on track to achieve these targets.

Alongside the existing portfolio we are also committed to extending our development programme beyond its current level and see attractive opportunities to do so. However, these opportunities will only be pursued in a selective and controlled way with asset disposals and debt refinancing taking priority to ensure that the Group's balance sheet is not stretched in pursuit of growth. Based on our recent track record we are confident of making good progress with our financing initiatives during 2012 such that new development opportunities will be able to be pursued in good time.

In the medium term we remain focused on delivering sustainable balanced returns from a combination of income growth, rental growth and accretive development activity. Based on the positive progress of 2011 and with a clear strategy in place to build on this further in 2012 and beyond we look forward to the future with confidence.

# Risk management

Our approach to identifying, evaluating and avoiding or mitigating the impact of risks on UNITE is at the core of our business model. Risks – including a detailed assessment of health and safety – are standing items on Business Unit, Executive Team and Group Board agendas, and have been central to our business and strategic planning processes. Our principal risks are highlighted in white.

| Risk | Impact | Mitigation | Change | Commentary |
|---|---|---|---|---|
| **Property and asset management risks** | | | | |
| Risk arising from short-term nature of tenancies – occupancy and rents. | Revenues are uncertain. Reduced lettings as a result of economic downturn. | Alignment with strong Universities and geographic diversification. Supply/demand imbalance. Strong sales and marketing expertise. | → | High occupancy for 2011/12 driven by strong sales performance and University relationships. |
| General cost inflation, in particular on the cost of utilities. | Reduced return on investment portfolio. | Forward purchase of utilities. Annual opportunity to increase rent to recover additional costs. | → | Utilities remains a major consideration and UNITE is looking at several initiatives to drive down consumption and demand. |
| Risk of failure to collect rent in austere economic conditions. | Loss of cash revenue. | Focus on affluent customer base. Strong debt collection procedures. | ↓ | Changes to our ways of working have given responsibility for debt collection back to city teams, which has driven performance improvement on debt. |
| Major health and safety incident in property, development site or office. | Reputational damage and impact to students living with us. | Health and safety policies and frameworks in place. Group Risk Committee considers health and safety. External audit undertaken on all our properties every six months and internal audit undertaken monthly. | ↓ | We have brought in external consultants to review our health and safety processes and commenced a review of our business continuity management processes to conclude in H2 2012. |
| Adverse yield movement leading to a fall in asset values. | Falling NAV, increased gearing. | Yield movement offset by rental growth and mitigated by focus on strongest University markets. | → | London focus of portfolio, high occupancy and rental growth outlook support property yields. |

| Risk | Impact | Mitigation | Change | Commentary |
|---|---|---|---|---|
| **Development management risks** | | | | |
| Failure to secure sites, construction contracts and/or development debt at attractive prices. | Unable to generate returns in line with plans. | Skilled development team and strong reputation. Focus on off-market transactions. Strong relationships with financially robust lenders. | → | Development pipeline of 3,336 beds secured; good progress with planning and funding. |
| Failure or delays in obtaining planning consents. | Cost of aborted schemes. Delayed schemes impacting financial returns. | Established planning expertise and careful site selection. Low financial investment in schemes prior to grant of planning. Pursuing new opportunities on a conditional basis to ensure we retain adequate flexibility. | → | Strong relationships with planning authorities, particularly in London. Planning consent gained in six months for Stratford scheme. Focus on pre-application discussions with authorities. |
| Delays in completion of construction in time for the start of academic year or cost over-runs. | Reduced financial returns and cash tied up. Impact on reputation with customers. | Strong track record and focus on project delivery and strong relationships with construction partners with appropriate risk sharing. | → | All 2011/12 schemes delivered to time and cost and 2012/13 projects similarly on track.<br>Closure of UMS will not impact future deliveries. |
| Provision made for UMS is not sufficient to meet all future costs. | Reduced financial returns. | Careful management of future costs. Detailed planning gone into setting provision. | ↑ | Provision set to cover all future known liabilities. |

## Risk management cont.

| Risk | Impact | Mitigation | Change | Commentary |
|---|---|---|---|---|
| **Fund management** | | | | |
| Ability to determine strategy of Funds/JVs not in line with Group strategy and to manage potential conflicts of interest. | Loss of market position and asset management fees. | Established separate fund management function. Focus on investor relations and strong Fund level performance. | → | Strong performance by USAF and co-investment vehicles. |
| Joint ventures mature without agreement for a satisfactory exit. | Forced sales of properties potentially impacting price. Loss of management fees.<br>Loss of market position in affected cities. | Create infinite life joint ventures such as USAF. Work closely with joint venture partners to agree mutually beneficial exit/ extension strategies. | → | USV joint venture brought back on to balance sheet; good progress with UCC and OCB partners on future of these vehicles. |
| Risk of being forced to sell properties if redemption requests cannot be met. | Properties sold below valuation. | Contractual limits on redemption rate in USAF. Proactive management of fund investors, equity raising and alternative sources of finance. | ↓ | Valuation of portfolio continues to increase (NAV up 8% year-on-year). Emergence of secondary market with £62 million of units traded in 2011. |
| **Financing** | | | | |
| Adverse interest rate movements. | Reduced profitability. | Hedge exposure with interest rate swaps. | → | Average cost of debt reduced during 2011 from 6.8% to 5.7%. 69% of UNITE's investment debt is hedged using interest rate swaps. |
| Expiring debt facilities cannot be replaced or only at high cost. | Possible forced sale of assets potentially leading to sales below valuation. Slowdown of development activity. Reduced level of profitability. | Management of debt maturity. Control of future cash commitments in line with progress of disposals and refinancing. Plans to make asset disposals. | → | Good progress has been made in 2011 with over £300 million of debt arranged and extended.<br>Risk further managed through encouraging discussions with other lenders (eg insurance companies). |
| Breach of borrowing covenants. | Debt becomes immediately repayable. | Regular forecasting of covenant position. Proactive management of any potential issues and ability to use cash to manage covenants. | → | Significant level of headroom in both LTV and ICR covenants. |
| Filed tax position cannot be agreed. Time and cost of resolving disputes. | Potential loss of equity funds in tax payments. | Tax advice from leading professionals. | → | Progress being made to agree outstanding positions. |

| Risk | Impact | Mitigation | Change | Commentary |
|---|---|---|---|---|
| **Market risks** | | | | |
| Changes in Government policy may affect student numbers and behaviour. | May reduce demand and hence prices. | Supply/demand imbalance is significant at present and customer base focused on affluent groups including overseas students. Strong sales and marketing expertise. Development of affordable product. | → | Applications to study in 2012/13 among UNITE's core demographic largely unaffected by tuition fees increase. Reservation levels at end of February similar to previous year and in line with 2010. |
| Concentration of assets in student accommodation sector. | Reduced student numbers impacting financial performance. | Geographic diversification and in-depth market intelligence. | → | Student numbers expected to flatten out but not fall, and UNITE is aligned to potential 'winners' across Higher Education sector. |
| Property markets are cyclical and performance depends on general economic conditions. | Reduction in asset values reducing financial returns. | Forecast rental growth mitigates any yield movement. Clear and active asset management strategy. | → | Maximising portfolio value through programme of refurbishments and extensions. |
| Risk of further recession causing possible failure of construction contractor, competitor, University or bank. | Cost to the business of dealing with failure, damage to market. Potential impact on values in the sector. | Select financially robust construction partners. Focus on major University cities with at least two high quality institutions. Build strong relationships with banks with good credit ratings. | ↑ | Development pipeline still on track; no issues with construction partners while land and build prices remain attractive. |
| Impact of changes in legislation, particularly in respect of environmental legislation and planning regulations. | Increased cost of compliance leading to reduced returns or, in extremis, scheme cancellation. | Highly developed skill base for managing planning process and building design. Minimum investment made in schemes prior to securing planning. | → | Abortive costs remained low through 2011 and planning consent secured on two London sites in rapid order. |

# Corporate responsibility

We believe that UNITE should act professionally and responsibly at all times, and that we should have a positive impact on the communities in which we work, as well as society more broadly. We also understand that it is important that we limit the impact of our business activities on the environment, find ways to use resources more efficiently, and help educate customers, partners and suppliers to do the same.

We are involved in a variety of programmes which aim to ensure we are a good corporate citizen. We encourage our employees to understand and support these programmes, work with causes they are passionate about, engage with local community projects which are aligned with our Corporate Social Responsibility (CSR) policy, and benefit from and contribute to an exceptional working environment.

The five areas we consider within corporate responsibility are outlined below. Each has different objectives and all are aligned with our strategy.

### 1. Charitable donations and fundraising

At a corporate level our strategy is to support a small number of charitable causes which make a significant difference to two overarching objectives:

- widening access to higher education
- integrating students within local communities

We work closely with Students in Free Enterprise (SIFE), an international organisation that mobilises University students around the world to make a difference in their communities, while developing their skills to become socially responsible business leaders. This year we donated £15,000 (2010: £15,000) to SIFE and our employees offered practical support by providing business advice, and sitting on judging panels for SIFE's UK Region Award scheme.

At an individual level, we offer UNITE employees a charity match scheme in which up to £250 is paid to the individual's charity of choice to match the amount they raise. In 2011, UNITE contributed £5,848 (2010: £6,669) in matched donations to charities across the UK.

In January 2012 we launched the UNITE Foundation, through which we will channel our corporate donations, going forward. It will have two main areas of activity:

- UNITE Bursaries that cover living expenses and provide free accommodation for students from poorer backgrounds wishing to go to University. This scheme will replace the donations we made in previous years to the UNIAID Foundation
- donations to a small number of organisations that support the aims of the Foundation make up the other major strand of activity. Initial beneficiaries will be IntoUniversity and SIFE

**"Working with UNITE for the last two years across the UK has enriched the experience for students participating in SIFE programmes."**

**Jim Innes**
**Executive Director, SIFE UK**

## UNITE Foundation

In celebration of our 21st birthday, 21 students from the University of Bristol, the University of Edinburgh, King's College London and Sheffield Hallam University will benefit from bursaries in 2012/13 which include free accommodation in a UNITE property for the duration of their study and £3,000 per year towards living expenses (£4,000 in London). A number of the bursaries will give priority to students who have been looked after in local authority care, a group that is particularly under-represented in Higher Education.

## Recognising our stars

Every year students living in our properties leave behind unwanted items, ranging from pots and pans to televisions, which need to be removed or disposed of. The London South team collected the useful items and donated them to Cancer Research, raising over £8,000 for the charity. The team were recognised for their community-spirited solution at the UNITE Stars Awards, our annual staff achievement event.

### 2. Employee welfare and development

As a customer service organisation the engagement and development of our employees is a priority for UNITE. We are proud that in 2011 we achieved a silver award from Investors in People (IIP), placing us in the top 4% of the 27,000 UK organisations actively working with IIP. The reward reflects our continuing commitment to our employees and organisational improvement. The understanding and implementation of our mission, vision and values was commended by the assessor, indicating they are at the heart of our organisation.

Our offering to employees includes the following programmes:

**One UNITE Employee Forum:** An employee body which, through a group of elected representatives, allows staff to engage regularly with senior management and discuss issues of concern and interest.

UNITE is in the top 4% of the 27,000 UK organisations working with Investors in People

INVESTORS IN PEOPLE

UNITE's maintenance teams attended 553 training days in 2011

**Learning and development:** A comprehensive series of training courses and development techniques, focused on both technical skills and leadership/management competences. In 2011 we introduced a nine month supervisory development programme for Operations teams with a modular format that culminates in participants undertaking a community project.

**Professional skills development:** We worked with Leeds College of Building to design a bespoke technical programme to develop the technical abilities of our maintenance employees.

**Engagement processes:** We run annual employee engagement surveys and use the results to drive further change across the business. In 2011 we held a series of face-to-face sessions in every city to improve two-way communications and provide greater access to senior management.

**Code of ethics:** We seek to conduct our business in accordance with the highest standards of business and personal ethics at all times. An independent 'whistle-blowing' scheme enables employees to report any incidents of improper or illegal conduct that they may become aware of, maintaining their anonymity.

**Employee incentives:** All employees are eligible to participate in a save-as-you-earn share option scheme once they have completed a qualifying period of employment. A new Long-Term Incentive Plan (LTIP) was introduced in 2011 to help us structure remuneration packages in order to retain, motivate and reward selected senior employees.

**Employment policy:** We operate a non-discriminatory employment policy with full and fair consideration given to all applicants.

**Working environment:** UNITE provides a variety of benefits and services to ensure employees are productive and motivated at work, and are able to achieve a healthy work/life balance.

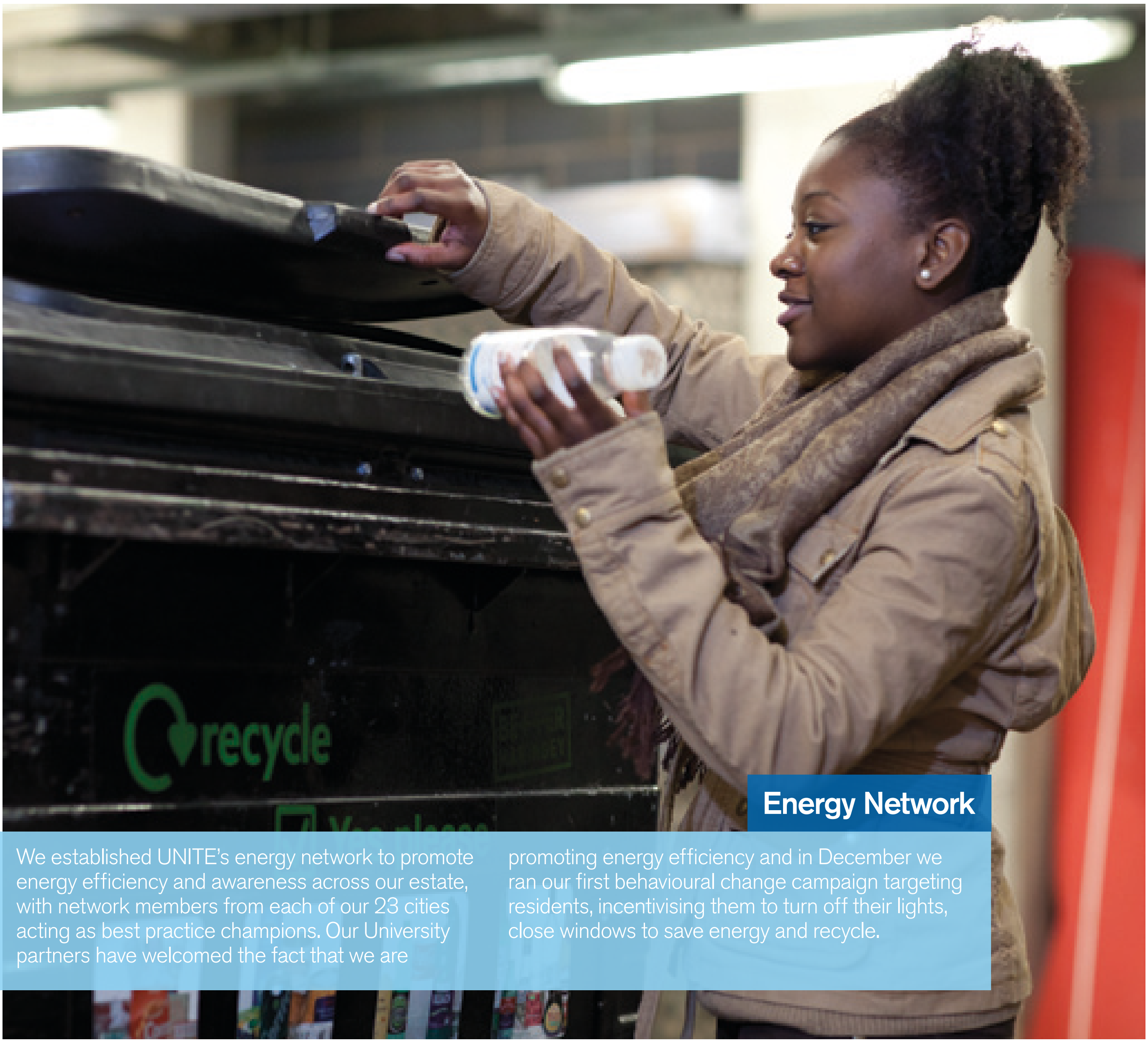
### 3. Environmental impact and energy use

We are committed to effective environmental management to support sustainable communities in which we operate. As a major user of utilities with over 130 buildings, we take our responsibility for sustainable living and our impact on the community very seriously. The Group measures and manages its emissions by following the principles set out in the Green House Gas protocol. We are also monitoring and recording our emissions for compliance with the Carbon Reduction Commitment scheme.

In 2011, we saw the benefit of several projects initiated in 2010 to improve our energy efficiency. These focused on better management of heating and lighting systems, and a comprehensive smart metering project that now sees our electricity, gas and water consumption collected on a daily basis. This is enabling us to understand our customers' consumption better and our focus for 2012 is to use this information to further reduce the Group's impact on the environment and reduce costs, by targeting the areas of our operations that are least efficient.

We established an Energy Network to promote energy efficiency and awareness across our estate among employees and customers, with employees in the network acting as best practice champions.

Our new properties continue to use a variety of technologies designed to reduce carbon emissions per bed, with schemes completed in 2011 using biomass boilers and combined heat and power to generate electricity on-site and make use of surplus heat to provide hot water.




**Energy Network**

We established UNITE's energy network to promote energy efficiency and awareness across our estate, with network members from each of our 23 cities acting as best practice champions. Our University partners have welcomed the fact that we are promoting energy efficiency and in December we ran our first behavioural change campaign targeting residents, incentivising them to turn off their lights, close windows to save energy and recycle.

## Carbon emission summary 2011

We measure and report our carbon emissions using the latest Green House Gas conversion factors sourced from the Department for Energy the Environment, Food and Rural Affairs. In 2011, we are pleased to have reduced our carbon emissions in all three of the areas we measure and have achieved our target of reducing our overall levels of energy consumption by 5% of $CO_2$ per bed.

### KPI table

| | Measures (beds, modules, 000km) | $CO_2$ kg | KPI (kg of $CO_2$ per bed) | % changes in $CO_2$ compared with 2010 |
|---|---|---|---|---|
| Residential $CO_2$/bed | 41,137 | 64,287,576 | 1,562.77 | -6.7% |
| Manufacturing $CO_2$/module | 1,561 | 675,378 | 432.66 | -18.0% |
| Business travel $CO_2$/000km | 1,442 | 196,000 | 135.92 | -161.0%* |

* The significant reduction is due to the fact that we changed the basis on which we calculated our figures in 2011.

### Residential and manufacturing

| Residences consumption (kWh) | 2011 | 2010 |
|---|---|---|
| Residences gas | 31,674,487 | 17,990,821 |
| Residences electricity | 107,144,682 | 113,566,047 |
| Residences gas per room | 770 | 486 |
| Residences electricity per room | 2,605 | 3,069 |

| Residences carbon (tonnes) | % change compared with 2010 | 2011 | 2010 |
|---|---|---|---|
| Residences gas | 76.06%* | 6,498.02 | 3,690.82 |
| Residences electricity | -5.65% | 57,789.56 | 61,252.98 |
| Residences gas per room | 58.38% | 0.16 | 0.10 |
| Residences electricity per room | -15.13% | 1.40 | 1.66 |
| Overall residential carbon per room | -10.95% | 1.58 | 1.75 |

* The increase in our residential gas consumption is due to the inclusion of meters in properties that we were not aware of previously.

| Internal consumption (kWh) | 2011 | 2010 |
|---|---|---|
| Office gas | 423,729 | 490,761 |
| Office electricity | 312,083 | 275,870 |
| Manufacturing gas | 417,555 | 1,491,784 |
| Manufacturing electricity | 1,093,363 | 824,158 |

| Internal carbon (tonnes) | % change compared with 2010 | 2011 | 2010 |
|---|---|---|---|
| Office gas | -14% | 87 | 101 |
| Office electricity | 13% | 168 | 149 |
| Manufacturing gas | -72% | 86 | 306 |
| Manufacturing electricity | 33% | 590 | 445 |

### 2011 business travel

| Business travel | GHG scope | Distance km | Total $CO_2$ (tonnes) | % change in $CO_2$ compared to 2010 |
|---|---|---|---|---|
| Company cars | 1* | 844,031 | 166 | 11.19% |
| Private cars | 3** | 597,823 | 30 | -172.46% |
| Total | | 1,441,853 | 196 | -161.27% |

* GHG Scope 1 – refers to direct emission which must be reported to comply with the GHG protocol.
** GHG Scope 3 – refers to indirect emission which must be reported to comply with the GHG protocol.

### Conversion factors comparison (kg/kWh)

| | 2011 | 2010 |
|---|---|---|
| Electricity | 0.54 | 0.54 |
| Gas | 0.21 | 0.21 |

# Corporate responsibility cont.

### 4. Community impact and involvement

Our Community Plan focuses on a number of areas which address UNITE's impact on the communities in which we operate. At a national level this includes complying with Government legislation and providing secretariat support for the All Party Parliamentary Group into Balanced and Sustainable Communities, which focuses on student integration within communities.

At a local level, we place an emphasis on developing better relationships with local communities across all our sites, in particular:

- **Emergency services:** We share information and best practice, meet regularly to minimise the impact of daily site operations on these services, for example, reducing fire alarms, calls to police and ambulance.
- **Local authorities:** We work with environmental health and other teams to ensure compliance with local targets and to minimise impact on residents.
- **Community groups:** We hold regular meetings with residents, associations and other groups to maintain dialogue and resolve issues should they arise.
- **Student integration:** Working with our customers to find ways of ensuring they contribute positively to the local community, including our relationship with SIFE.
- **Local businesses:** We develop our relationships with local businesses, ensuring their needs and concerns are reflected in the way we plan, build and operate our buildings.
- **Planning authorities:** We work with city planners to ensure our developments have a positive impact on the communities in which they are located and to manage the construction process in line with best in class sustainability and noise reduction principles including BREEAM assessments.

### 5. Health and safety

The health and safety of our residents, employees and visitors is our utmost priority. UNITE's policy is to provide and maintain safe and healthy working conditions, equipment and systems of work for all our employees and to provide the information, training and supervision they need. Monthly external audits are undertaken on all our properties and health and safety is a component of the Executive Team Risk Committee. In 2011 we began a programme of work to review our business continuity management and we continue to advance our transparent, scalable and robust safety management system.

Within our properties, all students are briefed on fire and accident procedures, and we hold regular fire drills in partnership with the emergency services. We provide lone worker devices for our operations employees to help provide a safe working and a secure home for our customers.

We measure our health and safety performance using the number of reportable accidents that take place in our properties and also monitor health and safety in all other parts of the Group. We strive to have no reportable accidents and in 2011 had one (2010: four).

## Safeguarding lone workers

With 24-hour security staff and customer service staff required to visit students in their flats, we are conscious that the nature of our operations means employees have to work alone at times. We have provided all our operations teams with lone worker devices that link back to a central security centre.

Kendrick Hall, Reading

# Board of Directors

**Phil White CBE**
**Chairman**
Age 62

**Committees**
Remuneration Committee
Nomination Committee

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

**Mark Allan**
**Chief Executive**
Age 39

**Experience**
Mark was appointed Chief Executive in 2006 having previously served as Chief Financial Officer for three years. He joined the Group in 1999 and held a variety of roles in the business. Prior to that he worked at KPMG where he qualified as a Chartered Accountant and spent five years specialising in corporate finance.

**Joe Lister**
**Chief Financial Officer**
Age 40

**Experience**
Joe joined UNITE in 2002. He was appointed as Chief Financial Officer in January 2008 having held a variety of roles within UNITE before that, including Investment Director. Joe is responsible for the Group's finances and investment strategy. Prior to joining UNITE, Joe qualified as a Chartered Accountant with PricewaterhouseCoopers.

**Richard Simpson**
**Managing Director of Property**
Age 36

**Experience**
Richard's role includes determining the strategic direction of the Group's nationwide property portfolio, and the acquisition and development of new property. He joined UNITE in 2005 and previously held the role of Managing Director Property Development for the London Business. Prior to property development, Richard had a six year career in the army.

**Richard Smith**
**Managing Director of Operations**
Age 37

**Experience**
Richard was appointed as Managing Director of Operations for UNITE in 2011. He joined UNITE as Deputy Chief Financial Officer in 2010. Prior to this Richard spent 18 years in the transport industry, including 13 years with National Express Group, where he held a range of senior finance, strategy and operations roles in the UK and overseas, including Group Development Director and Chief Financial Officer North America.

**Stuart Beevor**
**Non-Executive Director and Senior Independent Director**
Age 55

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

**Experience**
Stuart was Managing Director of Grosvenor Fund Management Limited and a member of the Board of Grosvenor Group Limited, the international property group until 2011, which he joined in 2002. Prior to this, Stuart was Managing Director at Legal and General Property Limited, having previously held a number of roles dealing with development, investment, property management and unitised funds at Norwich Union.

**Nigel Hall**
**Non-Executive Director**
Age 56

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

**Experience**
Nigel was Group Finance Director of Arcadia Group plc (formerly The Burton Group plc) until February 2003. He joined the Burton Group in 1984 and was appointed to its Board in 1997. Nigel is also Chairman of Countrywide Farmers plc and a Non-Executive Director of Pinewood Shepperton plc and C&J Clark Limited. He qualified as a Chartered Accountant in 1980 with Price Waterhouse.

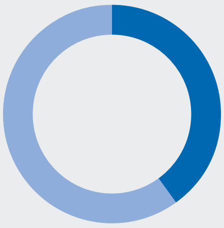
**Richard Walker**
**Non-Executive Director**
Age 46

**Committees**
Audit Committee
Remuneration Committee
Nomination Committee

**Experience**
Richard was Senior Director at TalkTalk, responsible for the customer experience change programme. Prior to this, he was COO of Carphone Warehouse UK, with responsibility for 750 stores, websites, direct sales and insurance services. Richard was previously Managing Director of Carphone Warehouse's European retail business and UK Sales Director. He holds a law degree from Nottingham University and trained as an Accountant with Coopers & Lybrand.

**Composition of the Board**

| Directors | No. |
|---|---|
| Executive | 4 |
| Non-Executive | 6 |



**Professor Sir Tim Wilson**
**Non-Executive Director**
Age 62

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

**Experience**
Tim was Vice-Chancellor of the University of Hertfordshire until 2010, preceded by an academic career with Leeds Metropolitan, Cranfield and De Montfort Universities. As well as serving on the Board of the Higher Education Funding Council for England (HEFCE), Tim was a Board member of East of England Development Agency for six years and Deputy Chair of the CBI Innovation, Science and Technology Committee. He has just published the Wilson Review, a government-commissioned review of UK University-industry collaboration.

**Manjit Wolstenholme**
**Non-Executive Director**
Age 49

**Committees**
Audit Committee
Remuneration Committee
Nomination Committee

**Experience**
Manjit qualified as a Chartered Accountant with Coopers & Lybrand and her background includes roles as Director and Co-Head of Investment Banking at Dresdner Kleinwort Wasserstein, and Partner at Gleacher Shacklock. She is Chairman for Albany Investment Trust and Senior Independent Director and Chair of the Remuneration Committee of Future Publishing. She is a Non-Executive Director and Chair of Audit Committee for Capital & Regional and Provident Financial, as well as Governor of Manchester Academic Health Science Centre.

Sky Plaza, Leeds

# Corporate governance

## Dear shareholder

UNITE takes corporate governance very seriously and, during the course of 2011, the Board complied with the principles of best practice set out in the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 (the Code).

On the following pages we set out UNITE's Corporate Governance Report, which comprises the following sections:

- Leadership
- How the Board operates
- Effectiveness
- Investor relations
- Audit Committee Report
- Remuneration Report

In 2011, a formal and independent evaluation of the Board's (and its Committees) effectiveness was carried out and I am pleased to report that the results of such evaluation were largely positive. However, we are not complacent and we have acted on the recommendations that were made. Our aim now is to give shareholders the information they require in order to decide whether management and the Board are being effective.

We will continue to comply with the requirements of the Code during 2012.

**Phil White**
**Chairman of the Board**
**1 March 2011**

## Leadership

### Composition and appointments

The composition of the Board during 2011 is set out in the table on page 49.

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

Manjit Wolstenholme was appointed to the Board as a Non-Executive Director with effect from 1 December 2011. Manjit will become Chair of the Audit Committee following the annual general meeting (the AGM) of the Company, which has been convened for 17 May 2012, when Nigel Hall (currently chair of the Audit Committee), will step down from the Board having, by then, served nine years in office.

John Tonkiss resigned from the Board with effect from 31 December 2011 following his role as Chief Operating Officer having been made redundant.

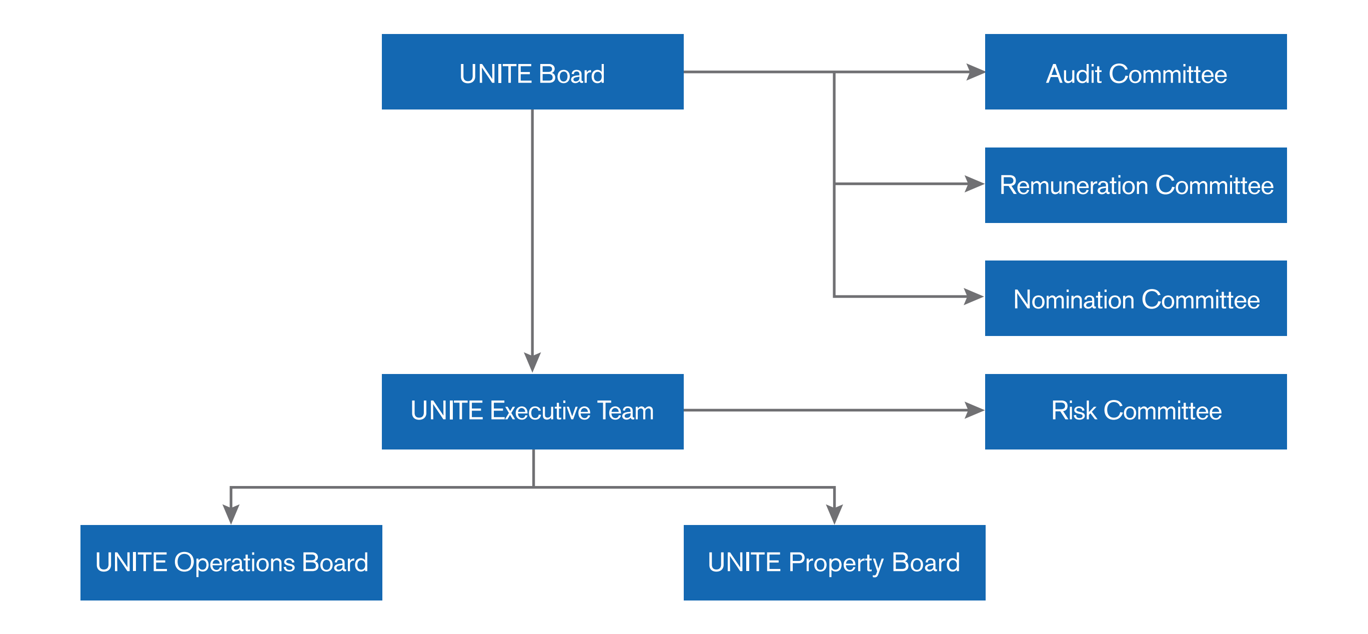
With effect from the beginning of January 2012 Richard Simpson and Richard Smith were appointed as Executive Directors with the roles of Managing Director (Property) and Managing Director (Operations) respectively.

In accordance with the requirements of the Code, each of the current Directors, other than Nigel Hall, offers himself/herself for re-election at the AGM. Brief biographies of all the Directors are set out on pages 42 and 43.

## Corporate governance continued

### Board structure

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




### Roles

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

| Role | Description |
|---|---|
| Chairman | Phil White's principal responsibilities are:<br>▪ to establish, in conjunction with the Chief Executive, the strategic objectives of the Group for approval by the Board<br>▪ to organise the business of the Board<br>▪ to enhance the standing of the Company by communicating with shareholders, the financial community and the Group's stakeholders generally |
| Chief Executive | Mark Allan has responsibility for:<br>▪ establishing, in conjunction with the Chairman, the strategic objectives of the Group, for approval by the Board<br>▪ implementing the Group's business plan and annual budget<br>▪ the overall operational and financial performance of the Group |
| Senior Independent Director | Stuart Beevor was appointed as Senior Independent Director on 1 June 2011 in succession to Nigel Hall. His principal responsibilities are to:<br>▪ act as Chairman of the Board if the Chairman is conflicted<br>▪ act as a conduit to the Board for the communication of shareholder concerns if other channels of communication are inappropriate<br>▪ ensure that the Chairman is provided with effective feedback on his performance |

# How the Board operates

## Meetings

Details of the number of meetings of the Board and its Committees held during the year and attendance of Directors at those meetings are set out in the table on page 49.

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

Board meetings are structured around the following areas:

- operational, property and functional updates
- financial updates
- strategy and risk
- other reporting

Senior executives are regularly invited to attend meetings for specific items. Some of the matters scheduled for consideration in 2012 include:

- a 'people plan' review
- approach to 'brand'
- the Operations Business Unit's 'service improvement plan'
- University engagement
- the Group's five year strategic plan

## Responsibility and delegation

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

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

## Board Committees

The Board has delegated certain responsibilities to its Committees, as detailed on the following pages. The terms of reference for each Committee are reviewed annually and the current versions are available on the Company's website at www.unite-group.co.uk. The current membership of each Committee of the Board is set out below and full details of attendance at Committee meetings can be found in the table on page 49.

| | Audit | Remuneration | Nomination |
|---|---|---|---|
| Phil White | | ✓ | ✓ |
| Stuart Beevor | ✓ | ✓* | ✓ |
| Nigel Hall | ✓* | ✓ | ✓ |
| Sir Tim Wilson | ✓ | ✓ | ✓* |
| Richard Walker | ✓ | ✓ | ✓ |
| Manjit Wolstenholme | ✓** | ✓ | ✓ |

* Denotes Chairman.
** Will become Chair of the Audit Committee following the AGM.

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

**Audit Committee:** see the Audit Committee Report on page 50

**Remuneration Committee:** see the Directors' Remuneration Report on page 53

**Nomination Committee:** Sir Tim Wilson became Chairman of the Committee on 1 January 2012. The other members of the Committee are Phil White, (Chairman of the Board) and each of the other Non-Executive Directors.

The role of the Nomination Committee is to:

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

# Corporate governance continued

## Internal control

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

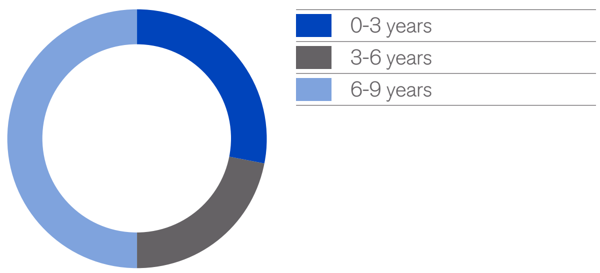
The provisions of the Code in respect of internal controls require that Directors review all controls including operational, compliance and risk management, as well as financial control. Through reports from the Group's Risk Committee and Business Units, the Board has reviewed the effectiveness of the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

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

## Board tenure

Each of the Executive Directors has a rolling contract of employment with a 12 month notice period, whilst Non-Executive Directors are, subject to re-election by shareholders, appointed to the Board for a term of approximately three years. In accordance with the recommendations of the Code, the Directors have resolved, as they did in 2011, that they will all retire at the AGM and (other than Nigel Hall who, after serving for nine years, will step down from Board at the AGM), will submit themselves for re-election by shareholders.

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




## Chairman and Non-Executive Directors

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

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

## Professional advice and Board support

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

## Insurance

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

# Effectiveness

## Induction

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

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

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

## Performance evaluation

During 2011, a formal independent Board evaluation exercise was undertaken. The results of that evaluation indicated that the Board, generally, operates effectively. However, certain recommendations were made and set out below is a summary of the main recommendations made and actions taken:

| Recommendations | Actions |
|---|---|
| To regularise the membership of the Nominations Committee, with a greater focus on succession planning. | Sir Tim Wilson has been appointed Chairman of the Nominations Committee. New terms of reference for the Committee have been adopted. |
| To enhance the risk management processes of the Group. | An external review of the Group's risk management procedures was undertaken, following which relevant processes and procedures have been enhanced. |
| To diversify the Board's profile and to increase its breadth and experience. | Three new appointments to the Board have been made since December 2011. |

## Board and Committee membership and attendance at meetings in 2011

| Current Directors | Status | Date of appointment to the Board | Board | Audit Committee | Remuneration Committee |
|---|---|---|---|---|---|
| Phil White | Chairman | 21.01.09 | 11 | – | 6 |
| Stuart Beevor | Senior Independent Director | 01.03.04 | 11 | 4 | 6 |
| Nigel Hall | Independent | 06.03.03 | 11 | 4 | 6 |
| Sir Tim Wilson | Independent | 01.12.10 | 10* | 4 | 6 |
| Richard Walker | Independent | 03.11.05 | 10* | 4 | 6 |
| Manjit Wolstenholme | Independent | 01.12.11 | 1** | – | – |
| Mark Allan | Executive | 17.11.03 | 11 | – | – |
| Joe Lister | Executive | 02.01.08 | 10*** | – | – |
| John Tonkiss | Executive | 25.01.07 (resigned 31.12.11) | 11 | – | – |

* Unable to attend one meeting due to overseas travel.
** Attended all meetings since appointment.
*** Unable to attend one meeting due to family bereavement.

## Investor relations

The Board attaches a high priority to effective communication with shareholders. In addition to the final and interim presentations, a series of meetings between institutional shareholders and senior management was held throughout 2011. That process will continue throughout 2012.

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

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

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

Notice of the AGM is set out on page 103.

# Audit Committee report

### Dear shareholder

On the following pages are set out the Audit Committee's Report for 2011. The Report comprises four sections:

- Committee overview
- Activities in 2011
- Auditors
- Internal control

Throughout 2011, the Audit Committee continued to monitor the integrity of the Group's financial statements; to assist the Board in reviewing the effectiveness of the Company's internal control and risk management systems; and to review arrangements for its employees to raise concerns in confidence. During the year, the Committee also adopted policies and reviewed the procedures put in place designed to ensure the Group's compliance with the Bribery Act 2010.

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

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

Nigel Hall
**Chairman Audit Committee**
**1 March 2012**

## Committee overview

### Composition

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

- Nigel Hall (Chairman)
- Stuart Beevor
- Richard Walker
- Sir Tim Wilson
- Manjit Wolstenholme (appointed 1 December 2011)

Nigel Hall is a Chartered Accountant and was, until February 2003, Finance Director of Arcadia Group plc (formerly The Burton Group plc). Nigel will, by the time of the AGM, have served nine years in office and will then step down from the Board. At that time, Manjit Wolstenholme will take on the role of Chair of the Audit Committee. Manjit is also a Chartered Accountant, having qualified with Coopers & Lybrand (now PriceWaterhouseCoopers). She was formally a Director and Co-Head of Investment Banking at Dresdner Kleinwort Wasserstein.

Biographical details of the members of the Committee, including their qualifications, are set out on page 43. Full details of attendance at meetings of the Committee can be found in the table on page 49.

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

## Role

The role of the Committee is to:

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

## Activities in 2011

In 2011, the activities of the Committee during the year included:

- reviewing the Group's financial statements (including the format and layout of the detailed disclosures)
- reviewing the appropriateness of the Group's accounting policies
- reviewing the Group's cash flow forecasts and facilities to support the going concern statement in the Annual Report
- reviewing and approving the annual external audit process, the external auditor's strategy and plan for the audit, considering the findings of that work and confirming that all significant matters had been satisfactorily resolved
- reviewing the management letter arising from the 2010 year-end external audit and monitoring implementation of recommended improvements
- monitoring the non-audit services provided to the Group by the external auditor
- reviewing the results of the review undertaken of the Group's risk management processes
- reviewing the effectiveness of the Group's whistle blowing process
- reviewing processes for the prevention of bribery and fraud
- considering the performance and effectiveness of the external auditor
- considering the performance and effectiveness of the Committee itself

Having reviewed the Group's existing internal control systems (including an operational compliance audit regime), it was not considered necessary to establish an internal audit function. However, that position is being reviewed.

## Auditors

### Independence and objectivity

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

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

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

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

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

| | 2011 £m | 2010 £m |
|---|---|---|
| Auditors remuneration | | |
| Fees payable to the Company's auditor for the audit of the Company's financial statements | 0.1 | 0.2 |
| Fees payable to the Company's auditors for other services | | |
| – The audit of the Company's subsidiaries | 0.1 | 0.1 |
| – Taxation | 0.4 | 0.3 |

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

## Audit Committee report continued

### Performance

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

### Re-appointment

During the year, the Committee reviewed the tenure of the external auditor (KPMG Audit Plc has been UNITE's auditor since 1999), its performance, the level of audit fees paid to the external auditor and the level of non-audit work undertaken by the external auditor. Following that review, the Committee recommended to the Board that a resolution for the re-appointment of KPMG Audit Plc for a further year as the Company's auditor be proposed to shareholders at the 2011 AGM. The resolution was passed and KPMG Audit Plc was re-appointed for a further year. A resolution for the re-appointment of KPMG Audit Plc for a further year is to be proposed at this year's AGM.

## Internal control

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

### Financial reporting

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

### Investment appraisal

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

### Risk management

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

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

Through the work of the Risk Committee, the Board is satisfied with the high level risk management controls in place, although all areas of the business are kept under review and new controls introduced as appropriate. An analysis of the more important risks and uncertainties faced by the Group is set out on pages 32 to 35. The Group's objectives and policies with regard to the management of financial risks are set out in note 4.5 to the financial statements.

## Approval

The Audit Committee Report was approved by the Board on 1 March 2012 and signed on its behalf by Nigel Hall.

# Directors' remuneration report

## Dear shareholder

The Directors' Remuneration Report for the year ended 31 December 2011 is set out on the following pages. The Report comprises five sections:

- Committee overview
- Remuneration policy
- Delivering remuneration policy
- Non-Executive Directors
- Detailed audited disclosures

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

During 2011, a significant element of the Committee's work involved a full review of the Group's incentive arrangements. Following that review, a new long-term incentive structure was developed (and approved by shareholders in May 2011), that is designed to ensure that the Group's incentives are aligned to its business strategy and shareholders' interests. At the same time, the structure is designed to incentivise long-term sustainable profit growth and the creation of long-term value for shareholders.

In considering this Report, the Committee would highlight the following:

- a significant proportion of Executive Directors' and other senior executives' remuneration is dependent on the achievement of stretching performance conditions that support the creation of shareholder value
- 2011 bonus payments at 109% of base salary (76% of maximum) for each of the Executive Directors who held office during the year are a result of the significant progress that was made during the year towards the Company achieving its strategic objectives
- the share ownership guideline for Executive Directors, other than the Chief Executive, has increased from 100% to 150% of base salary (the guideline for the Chief Executive remains unchanged at 200% of base salary)

A resolution to approve the Remuneration Report will be put to shareholders at the AGM.

**Stuart Beevor**
**Chairman Remuneration Committee**
**1 March 2012**

## Committee overview

### Composition

The current members of the Committee are:

- Stuart Beevor (Chairman)
- Phil White
- Nigel Hall
- Richard Walker
- Sir Tim Wilson
- Manjit Wolstenholme (from 1 December 2011)

All of the above are independent Non-Executive Directors (other than Phil White, who is Chairman of the Board). Nigel Hall will retire from the Committee at the AGM.

Full details of attendance at Committee meetings can be found in the table on page 49.

## Directors' remuneration report continued

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

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

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

### Role
The primary role of the Committee is to:

- review, recommend and monitor the level and structure of remuneration for the Executive Directors and other senior executives
- approve the remuneration packages for the Executive Directors
- determine the balance between base pay and performance related elements of the package so as to align Directors' interests with those of shareholders
- approve the annual bonus payments to Executive Directors

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

### Activities in 2011
The Committee's activities during the year included:

- finalising 2010 bonus payments
- reviewing the base salaries of the Executive Directors for 2011
- developing and agreeing, in dialogue with shareholders, a new long-term incentive plan (LTIP) for the Executive Directors and other senior executives
- setting LTIP performance targets in line with the Company's strategic plan
- setting annual performance targets in line with the Company's strategic plan for the 2011 bonus plan and determining the amounts potentially payable
- agreeing remuneration packages for new Executive Directors and termination arrangements for those individuals within the senior executive group whose employment ceased

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

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

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

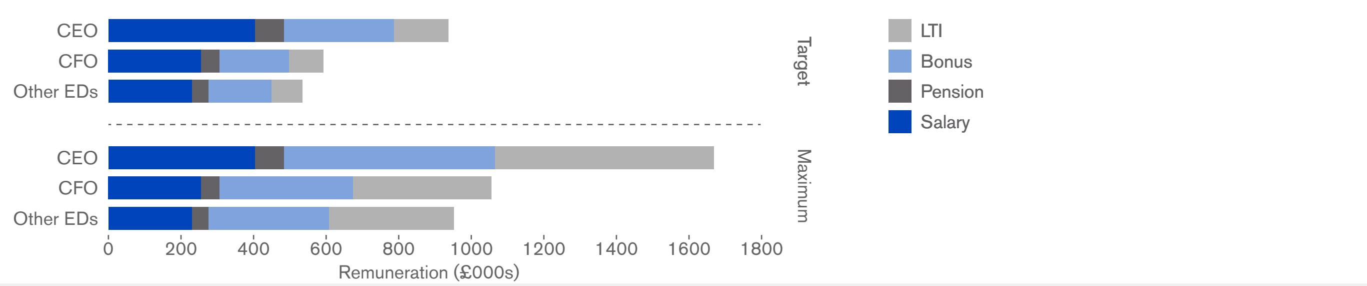
### Components of reward
The reward package for Executive Directors and other senior executives consists of a combination of fixed and variable elements intended to provide motivation and reward for short, medium and long-term performance and to retain key executives over the longer term. Each component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

| Component | Function |
|---|---|
| **Fixed** | |
| Base Salary | To recognise the individual's skills and experience and to provide a competitive base reward |
| Pension/Pension Cash Allowance | To provide an opportunity for executives to build up income on retirement |
| **Variable** | |
| Performance Related Annual Bonus | To incentivise and reward strong performance against financial and non-financial annual targets, thus delivering value to shareholders and contributing to the strategic plan |
| Long-Term Incentives | To drive sustained long-term performance that supports the creation of shareholder value |

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

## Delivering remuneration policy

By way of illustration, the balance between the various elements of the total remuneration package for Executive Directors is shown in the charts below.




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

### Shareholder alignment

The Committee continues to recognise the importance of Executive Directors aligning their interests with shareholders through building up a significant shareholding in the Company. Shareholding guidelines are in place that require Executive Directors to acquire a holding (excluding shares held conditionally pursuant to LTIP awards), equivalent to 200% of base salary for the Chief Executive and (since the adoption of the New LTIP – see below), 150% of base salary for each of the other Executive Directors (increased from the previous guideline of 100% of base salary). Until the relevant shareholding levels are acquired, 50% of the annual bonus payable to the relevant Director is satisfied by an allocation of shares in the Company, which are held in its Employee Share Ownership Trust. Subject to the Directors' continued employment within the Group, such shares are transferred to the Director on the third anniversary of the original allocation. Details of the Executive Directors' current personal shareholdings are shown in the table on page 60.

### Base salary

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

The Committee approved the following base salary increases with effect from 1 March 2012:

| | Base salary from 1 March 2011 to 29 February 2012 | Base salary from 1 March 2012 to 28 February 2013 | Percentage increase |
|---|---|---|---|
| Mark Allan | £393,000 | £403,000 | 2.5% |
| Joe Lister | £230,000 | £255,000 | 10.9% |

The Committee is conscious that the percentage increase in salary for Joe Lister is significantly above the 2.5% increase across the Group. However, Joe Lister has continued to develop into his role and, as highlighted in last year's report, his salary was positioned significantly below comparable market levels. The salary increase awarded reflects a strong individual performance in 2011 and brings him broadly in line with the market.

The salaries of Richard Simpson and Richard Smith were each set at £230,000 with effect from 1 January 2012 (on appointment to the Board) and will not be subject to further review until 1 March 2013.

### Pension benefits

The Executive Directors are either members of The UNITE Group Personal Pension scheme or receive a cash pension allowance. With effect from January 2012, Executive Directors receive a pension contribution of 20% of salary or an equivalent cash allowance (previously the contribution was 12.5% of salary). The Executive Directors' pension arrangements are set out on page 58.

### Performance related annual bonus

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

Under the corporate element of the scheme, Executive Directors' bonuses for 2011 have been calculated by reference to performance criteria set in relation to net portfolio contribution (NPC) (which is defined as net operating income (NOI) plus management fees, less financing costs, operational overheads and corporate costs, including share of joint venture overheads) (NPC); increases in adjusted diluted net asset value (NAV); operating cash flow; customer satisfaction and employee satisfaction. These reflect the Group's main KPIs for the year. NPC, NAV and operating cash flow each have a weighting of 25%, whilst customer satisfaction and employee satisfaction each have weightings of 12.5%.

The corporate element of the bonus has been calculated on a sliding scale of amounts equivalent to between 50% and 120% of base salary, in accordance with which 'on target' performance by the Group would have resulted in a corporate bonus of an amount equivalent to 75% of base salary.

## Directors' remuneration report continued

To determine the actual bonus payment to an Executive Director, a multiplier (being the 'individual' element of the scheme), ranging between 0.5 and 1.2 is applied against the corporate bonus. That multiplier is determined following the Performance Development Programme review of each Executive Director (which is carried out at the start and end of the year), and reflects the strength of that Director's individual performance over the course of the bonus plan year.

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

The performance related bonuses awarded in respect of 2011 reflect corporate bonuses (calculated in accordance with the sliding scale referred to above), of 102% of base salary. That percentage was arrived at as a result of the Group having been close to achieving its stretch targets in relation to NPC, operating cash flow and employee satisfaction; having modestly outperformed its NAV target; and having been marginally above its customer satisfaction target.

After applying their individual multipliers, actual performance related bonus payments awarded to each of Mark Allan, John Tonkiss and Joe Lister are 109% of their respective base salaries.

Mark Allan and Joe Lister, having reached their share ownership guidelines (including the shares that will vest unconditionally in April 2012 pursuant to the NAV element of their 2009 LTIP awards, as shown below), will receive 100% of their bonus awards in cash. As John Tonkiss has now left the employment of the Company, 100% of his bonus will also be paid in cash.

For the 2012 bonus scheme, performance targets have been set in relation to the same measures as applied in 2011, save that the weighting on operating cash flow (which related to 25% of the 2011 corporate bonus), will be reduced to a 12.5% weighting, with the remaining 12.5% being based on an additional measure of NAV gearing (net debt over equity).

### Long-Term Incentives

Following the Committee's review of the Group's incentive structure, a new LTIP was adopted by shareholders in May 2011 (the New LTIP). The New LTIP replaces the LTIP adopted in 2005 (the 2005 LTIP) and is designed to better support delivery of the Group's strategic plan. Key changes are as follows:

- the New LTIP is delivered through two new share plans – The UNITE Group plc 2011 Performance Share Plan (the PSP) and The UNITE Group plc 2011 Approved Employee Share Option Scheme (the ESOS)
- the individual limit under the New LTIP is 150% of annual base salary although, in exceptional circumstance (for example for new hires), awards of up to 200% of annual base salary may be made. Awards for participants below Board level will not exceed 100% of annual base salary
- although the individual limit on awards under the New LTIP is an increase on the 100% of annual base salary under the 2005 LTIP, the increase has been accompanied by more demanding performance targets, resulting in an increase in the fair value of approximately 4% of the overall long-term incentive opportunity. However, the New LTIP offers a greater incentive to management by paying a greater amount for achieving more stretching performance conditions and is fully aligned with the Group's strategic objectives
- awards made under the PSP will have a performance period of at least three years and a minimum vesting period of three years. Vesting of awards may, at the discretion of the Committee, be deferred in whole or in part for a period of up to two years following the end of a three year vesting period. The awards made to the Executive Directors in 2011 will vest as to two thirds after three years and one third after four years (to the extent the performance conditions have been achieved over the three year performance period). Awards made to participants other than the Executive Directors will vest as to 100% after three years to the extent the performance conditions have been achieved. The number of shares vesting at the end of the deferral period may be adjusted by the Committee in the instance of a misstatement of results relating to the performance period
- the performance measures under the New LTIP are NPC, NAV and Total Shareholder Return (TSR). NPC is an additional measure (compared to the 2005 LTIP) and is an important measure of the long term success and profitability of the Group. It also reduces the emphasis on NAV performance, which can be affected by external market factors and gearing levels. However, NAV per share remains a relevant performance measure for the Group as the key balance sheet metric. Relative TSR is also considered to remain the best measure to capture creation of shareholder value and reward management performance in comparison with the Company's peers. TSR is measured on an outperformance (rather than a ranking) basis
- the ESOS, which operates as a HMRC approved Company Share Option Plan, is used in conjunction with the PSP to deliver a proportion of an award under the New LTIP in a tax efficient manner (on a fair value exchange basis). Awards made under the ESOS are subject to the same performance conditions as those of the PSP

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

- one third on NPC performance in 2013. None of the NPC element of the award will vest if NPC in 2013 is below £9 million; 25% will vest for achieving NPC of £9 million; and 100% will vest for NPC of £20 million or greater
- one third on NAV per share growth between 2011 and 2013. None of the NAV element of the award will vest if NAV per share growth (measured as a constant annualised growth rate), is below 7% per annum; 25% will vest for growth of 7% per annum; and 100% will vest for achieving NAV growth of 13% per annum or greater
- one third on three year relative TSR outperformance of the FTSE 350 Real Estate (Super Sector) Index. None of the TSR element of the award will vest if the Group underperforms the Index; 25% will vest for performance in line with the Index and 100% will vest for average 9% per annum TSR outperformance of the Index. Average outperformance of 9% per annum is consistent with historical TSR outperformance at upper quintile of the peer group

Awards vest on a straight line basis between threshold and maximum targets.

The Committee will review the appropriateness of the performance conditions before each award cycle and will ensure that the performance targets set are no less stretching than in the first cycle.

The incentive plans under which awards were made prior to 2011 are:

- the 2005 LTIP: this was the only long-term incentive used for awards between 2006 and 2010. To date, none of the awards made to Executive Directors under that scheme have vested. However, with the Group having achieved NAV of 318pps in 2011, that will result in 64.7% of that element of the award made in 2009 (being 50% of the overall award) vesting in April 2012. The extent to which the TSR element of the 2009 awards will vest will not be known until April 2012
- share options: no options have been granted to Directors under The UNITE Group plc Unapproved Share Option Scheme (the Unapproved Scheme) since 2004

The tables on page 59 sets out the awards granted to Executive Directors under the New LTIP, the 2005 LTIP and the Unapproved Scheme.

## Performance graph

The following graph charts the TSR of the Company and the FTSE 350 Real Estate 'Super Sector' Index over the five year period from 1 January 2007 to 31 December 2011.


Source: Datastream

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

## Service contracts

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

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

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

## Payment to outgoing Executive Director

John Tonkiss ceased to be an employee and a Director of the Company by reason of redundancy on 31 December 2011. He received a payment of £238,305 (being payment in lieu of notice equivalent to nine months' salary/benefits and accrued but unused holidays), and a termination payment of £86,067 as compensation for loss of employment, including statutory redundancy.

All outstanding share awards made to John Tonkiss will be treated in accordance with the terms of the relevant schemes. LTIP awards will be pro-rated for the period of employment, with performance measured at the end of the normal vesting period. In accordance with the terms of his compromise agreement, John Tonkiss will also be eligible to receive a cash amount in respect of the award made to him in 2009 under the 2005 LTIP, subject to normal performance testing at the end of the period. The cash amount covers the pro-rata amount of the 2009 LTIP award foregone by Mr Tonkiss by reason of his redundancy (on 31 December 2011), before the end of the vesting period (on 9 April 2012).

In addition, John Tonkiss has agreed to act as a consultant until 31 March 2012 in relation to the Group's plans for UNITE Modular Solutions Limited. The maximum amount payable under that consultancy is £45,500.

## Directors’ remuneration report continued

### Non-Executive Directors

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

| | |
|---|---|
| P M White | 10 January 2009 |
| N P Hall | 6 March 2003 |
| S R H Beevor | 20 February 2004 |
| R S Walker | 3 November 2005 |
| R J T Wilson | 1 December 2010 |
| M J Wolstenholme | 1 December 2011 |

Subject to annual re-election by shareholders, Non-Executive Directors are appointed for an initial term of approximately three years. Subsequent terms of three years may be awarded. Current appointments will expire at the AGM in 2012 in the case of Nigel Hall; at the AGM in 2013 in the case of Stuart Beevor; at the AGM in 2014 in the cases of Richard Walker and Sir Tim Wilson; and at the AGM in 2015 in the cases of Phil White and Manjit Wolstenholme. The appointment and re-appointment and the remuneration of Non-Executive Directors are matters reserved for the full Board.

Having not been reviewed since 1 January 2010, the Board agreed, with effect from 1 January 2012 to increase the fee payable to the Chairman of the Board from £112,500 per annum to £118,000 per annum and to increase the basic fee payable to each Non-Executive Director from £39,000 per annum to £41,000. It was also agreed to pay a fee of £6,000 per annum for chairing the Nominations Committee (previously no fee was payable for chairing that Committee as the role was undertaken by the Chairman of the Board). The fees payable for chairing the Audit and Remuneration Committees were (again with effect from 1 January 2012) increased from £8,000 and £6,500 respectively to £8,500 and £6,850 respectively, whilst the fee for being Senior Independent Director was increased from £4,500 to £4,750.

The Non-Executive Directors are not eligible to participate in the Company’s performance related bonus plan, LTIPs or pension arrangements.

### Detailed audited disclosures

The following tables provide details of emoluments, pension entitlements, rights to share options and long-term incentive awards made to Directors who served in 2011. These tables have been audited by KPMG Audit Plc.

#### Remuneration summary

| | Fees £'s | Base Salaries £'s | Performance Bonus* £'s | Other Benefits** £'s | Total Remuneration 2011 £'s | Total Remuneration 2010 £'s |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| M C Allan | – | 391,167 | 391,000 | 31,452 | 813,619 | 646,996 |
| J M Tonkiss | – | 244,167 | 267,393 | 337,348 | 848,908 | 398,089 |
| J J Lister | – | 228,333 | 251,022 | 14,675 | 494,030 | 343,189 |
| **Non-Executive Directors (Fees)** | | | | | | |
| P M White | 112,500 | – | – | – | 112,500 | 112,500 |
| N P Hall | 48,875 | – | – | – | 48,875 | 51,500 |
| S R H Beevor[1] | 48,061 | – | – | – | 48,061 | 45,500 |
| R S Walker | 39,000 | – | – | – | 39,000 | 39,000 |
| R J T Wilson[2] | 39,000 | – | – | – | 39,000 | 3,250 |
| M K Wolstenholme[3] | 3,250 | – | – | – | 3,250 | – |

* Payable in cash. Mark Allan waived £38,000 of his bonus with the amount waived being used to help fund a donation by the Company to the Penny Brohn charity, a charity offering specialist support for people living with cancer.

** Benefits receivable consist primarily of company car or car allowance and private health care insurance. However, ‘Other Benefits’ paid to John Tonkiss in 2011 include the £238,305 paid in lieu of notice equivalent to nine months’ salary/benefits and unused holidays and the £86,067 termination payment, both as referred to above under the heading ‘Payment to Outgoing Executive Director’.

1 £9,663 of the fees paid in respect of Stuart Beevor were paid to Grosvenor Investments Limited, who made available the services of Mr Beevor until 17 March 2011, when he ceased to be employed by that company.

2 The fees paid to Sir Tim Wilson in 2010 relate to the period 1 December 2010 (when he joined the Board) to 31 December 2010.

3 The fees paid to Manjit Wolstenholme relate to the period 1 December 2011 (when she joined the Board), to 31 December 2011.

#### Pensions

During the year John Tonkiss and Joe Lister participated in The UNITE Group Personal Pension Scheme, which is a money purchase scheme, in relation to whom the Company contributed respectively the sums of £30,521 and £28,542 in the year. The Company also paid Mark Allan a cash pension allowance of £43,116.

## Share options

| Director | As at 31.12.10 | Granted during the year | Exercised during the year* | Lapsed during the year | As at 31.12.11 | Exercise price | Normal exercise dates |
|---|---|---|---|---|---|---|---|
| M C Allan | 11,823 | – | – | – | 11,823 | 323.5p | 21.03.2005-20.03.2012 |
| J M Tonkiss | 1,545 | – | – | – | 1,545 | 323.5p | 21.03.2005-20.03.2012 |
| | 5,235 | – | – | – | 5,235 | 191p | 04.05.2007-03.05.2014 |
| | 50,000 | – | – | – | 50,000 | 232.5p | 16.09.2007-15.09.2014 |
| J J Lister | 8,255 | – | – | – | 8,255 | 129p | 11.10.2005-10.10.2012 |
| | 3,154 | – | – | – | 3,154 | 158.5p | 25.09.2006-24.09.2013 |
| | 5,235 | – | – | – | 5,235 | 191p | 04.05.2007-03.05.2014 |
| | 58,662 | – | – | – | 58,662 | 232.5p | 16.09.2007-15.09.2014 |

The highest, lowest and closing share prices for 2011 are shown on page 60.

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

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

## LTIP awards

| Director | Interests held at 01.01.11 | Interests awarded during year (ordinary shares of 25p each in the Company) | Market price per share when awarded | Interests vested during the year | Interests lapsed in the year | Interests held at 31.12.11 (ordinary shares of 25p each in the Company) | Period of qualifying conditions |
|---|---|---|---|---|---|---|---|
| M C Allan | 124,294 | | 309.75p | – | 124,294 | – | 15.04.08-15.04.11 |
| | 415,094 | | 92.75p | – | – | 415,094 | 09.04.09-09.04.12 |
| | 158,436 | | 243p | – | – | 158,436 | 14.04.10-14.04.13 |
| | | 275,725 | 213.8p | – | – | 275,725 | 22.06.11-22.06.14 |
| J M Tonkiss | 67,796 | | 309.75p | – | 67,796 | – | 15.04.08-15.04.11 |
| | 226,415 | | 92.7p | – | – | 226,415 | 09.04.09-09.04.13 |
| | 98,765 | | 243p | – | – | 98,765 | 14.04.10-14.04.13 |
| | | 171,890 | 213.8p | – | – | 171,890 | 22.06.11-22.06.14 |
| J J Lister | 64,568 | | 309.75p | – | 64,568 | – | 15.04.08-15.04.11 |
| | 215,633 | | 92.75p | – | – | 215,633 | 09.04.09-09.04.12 |
| | 90,534 | | 243p | – | – | 90,534 | 14.04.10-14.04.13 |
| | | 161,366 | 213.8p | – | – | 161,366 | 22.06.11-22.06.14 |

Details of the qualifying performance conditions in relation to the above referred to awards made in 2011 (under the New LTIP) are set out above under the heading Long Term Incentives. Those details should also be taken as forming part of the 'auditable part' of this Report. The awards made under the New LTIP took the form of nil cost options.

All other awards referred to above were made under the 2005 LTIP and took the form of restricted share awards. No awards were made to or vested in Executive Directors' under the 2005 LTIP during the year.

No variations have been made to the terms or conditions of any awards.

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

| | 2011 £ | 2010 £ |
|---|---|---|
| M C Allan | 278,133 | 207,603 |
| J M Tonkiss | 163,797 | 118,484 |
| J J Lister | 133,929 | 111,382 |
| | **575,859** | **437,469** |

# Directors' remuneration report continued

## Directors' interests

A table setting out the beneficial interests of the Directors and their families in the share capital of the Company as at 31 December 2011 is set out below.

| Directors | Ordinary shares of 25p each 31 December 2011 | Ordinary shares of 25p each 31 December 2010 |
|---|---|---|
| M C Allan[1] | 966,483 | 1,090,777 |
| J Tonkiss[2] | 452,553 | 520,349 |
| J J Lister[3] | 474,408 | 538,976 |
| P M White | 10,000 | 10,000 |
| N P Hall | 17,849 | 17,849 |
| S R H Beevor | 9,986 | – |
| R Walker | 10,000 | 10,000 |
| R J T Wilson | 5,730 | – |
| M K Wolstenholme | – | – |

1 Mr Allan's interests include 573,530 ordinary shares conditionally awarded to him pursuant to the terms of the 2005 LTIP. The number of such shares that will unconditionally vest in Mr Allan pursuant to those awards will be determined following the end of the relevant three year measurement periods.

2 Mr Tonkiss's interests include 325,180 ordinary shares conditionally awarded to him pursuant to the 2005 LTIP. The number of such shares that will unconditionally vest in Mr Tonkiss pursuant to those awards will be determined following the end of the relevant three year measurement periods.

3 Mr Lister's interests include 306,167 ordinary shares conditionally awarded to him pursuant to the 2005 LTIP. The number of such shares that will unconditionally vest in Mr Lister pursuant to those awards will be determined following the end of the relevant three year measurement periods.

None of the Directors has a beneficial interest in the shares of any other Group company. Since 31 December 2011, there have been no changes in the Directors' interests in shares.

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

## Share price information

As at 30 December 2011 (being the last business day of the year), the middle market price for ordinary shares in the Company was 168p per share. During the course of the year, the market price of the Company's shares ranged from 152.9p to 224.1p per ordinary share.

## Approval

The Remuneration Report was approved by the Board on 1 March 2012 and signed on its behalf by Stuart Beevor.

# Other governance and statutory disclosures

## Principal activities
The principal activities of the Group during the year were the development and management of student residential accommodation in the United Kingdom. Details of the Company and its principal subsidiaries are set out on pages 89 and 90.

## Substantial shareholdings
As at 1 March 2012 the Company had received notifications from the following companies and institutions of the voting interests of themselves and their clients in 3% or more of the issued ordinary share capital of the Company.

| Shareholder | Percentage of share capital |
|---|---|
| FMR LLL | 9.74 |
| Fortis Investment Management SA | 5.18 |
| APG European Pensioen Groep NV | 5.17 |
| J P Morgan Asset Management Holdings Inc | 4.92 |
| Morgan Stanley Investment Management Ltd | 4.80 |
| Perennial Investment Partners (Australia) Limited | 4.75 |
| Royal London Asset Management Limited | 4.11 |
| BNP Paribas Investment Partners SA | 3.97 |
| Legal & General Group plc | 3.95 |
| FIL Limited | 3.66 |
| Orange European Property Fund NV | 3.62 |
| Allianz SE | 3.22 |

## Share capital
At the date of this report, there are 160,271,460 ordinary shares of 25p each in issue, all of which are fully paid-up and quoted on the London Stock Exchange.

During the year, 3,117 ordinary shares of 25p each were allotted and issued pursuant to the exercise of options under The UNITE Group plc Savings Related Share Option Scheme at a price of 188p per share.

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

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

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

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

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

## Purchase of own shares
The Directors have no authority to buy-back the Company's shares.

Details of proposals to be put to the AGM in relation to the power of Directors to issue shares in the Company are set out under the heading 'Annual General Meeting'.

## Creditor payment policy
During the year, the Company maintained its policy of agreeing and abiding by supplier payment terms. The Group has not followed any recognised code for payment practice. As at 31 December 2011, the Group's trade creditors were equivalent to 31 days purchases (2010: 30 days). The Company does not have any trade creditors (2010: Nil).

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

# Other governance and statutory disclosures continued

## Disclosure of information to auditors

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

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

## Annual General Meeting

The Annual General Meeting of the Company will be held at The Core, 40 St Thomas Street, Bristol BS1 6JX at 9.30am on 17 May 2012. Formal notice of the meeting is given on pages 103 to 105.

In addition to the ordinary business of the meeting, Resolution 14 will be proposed as an Ordinary Resolution to grant the Directors authority to allot shares in the Company, and grant rights to subscribe for or to convert any security into shares of the Company, up to an aggregate of nominal value of £13,355,955 (representing approximately one third of the issued share capital of the Company as at 1 March 2012). In accordance with guidelines issued by the Association of British Insurers, this resolution also grants the Directors authority to allot further equity securities up to an aggregate nominal value of £13,355,955, again representing approximately one third of the nominal value of the issued ordinary share capital of the Company as at 1 March 2012. This additional authority may only be applied to fully pre-emptive rights issues.

Resolution 15 will be proposed as a Special Resolution to authorise the Directors to allot equity securities for cash other than in accordance with statutory pre-emption rights (which require a company to offer all allotments for cash first to existing shareholders in proportion to their holdings), in respect of the allotment of shares in connection with any rights issue or other issue by way of rights and otherwise up to an aggregate nominal amount of £2,003,393 (representing approximately 5% of the issued share capital of the Company as at 1 March 2012).

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

The Companies (Shareholders' Rights) Regulations 2009 (the Shareholders' Rights Regulations), increased the notice period for general meetings of the Company to 21 days unless shareholders approve a shorter notice period, which cannot be less than 14 clear days. At the AGM of the Company held in 2011, shareholders authorised the calling of general meetings, other than an AGM, on not less than 14 clear days' notice. Resolution 16 seeks the approval of shareholders to renew the authority to be able to call general meetings (other than an AGM), on 14 clear days' notice. The flexibility offered by Resolution 16 will be used where, taking into account the circumstances, the Directors consider this appropriate in relation to the business of the meeting and in the interests of the Company and shareholders as a whole. The Company undertakes to meet the requirements for electronic voting under the Shareholders' Rights Regulations before calling a general meeting on 14 clear days' notice. If given, the approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed.

By order of the Board

A D Reid
**Secretary**
**1 March 2012**

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

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

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

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

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

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

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

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

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

Each of the Directors, the names of whom are set out on pages 42 and 43, confirms that to the best of his or her knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Company and the undertakings included in the consolidation taken as a whole
- the Directors' Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

| | |
|---|---|
| **M C Allan** | **J J Lister** |
| Director | Director |

1 March 2012

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

We have audited the financial statements of The UNITE Group plc for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statement of Changes in Shareholders' Equity, the Group and Company Statements of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 63, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

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

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's profit for the year then ended
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

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

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements
- information given in the Corporate Governance Statement set out on page 48 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements

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

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 61, in relation to going concern
- the part of the Corporate Governance Statement on pages 45 to 49 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review
- certain elements of the report to shareholders by the Board on Directors' remuneration

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

1 March 2012

# Introduction and table of contents

In preparing these financial statements we have changed the format and layout following the principles outlined in the Financial Reporting Council's publication 'Cutting Clutter'. We have made these changes to make UNITE's financial statements easier to follow and more relevant to shareholders. The purpose of these changes is to provide readers with a clearer understanding of what drives the financial performance of the Group. Whilst these financial statements are prepared in accordance with IFRS, the Board of Directors manage the business based on the adjusted results being net portfolio contribution (NPC) and adjusted net asset value (NAV) which can be found in section 2.

We have grouped the notes to the financial statements under five main headings:
- Results for the year, including segmental information, adjusted profits and adjusted NAV
- Funding
- Asset management
- Working capital
- Key management and employee benefits

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

# Consolidated income statement

For the year ended 31 December 2011

| | Note | 2011 Excluding UMS £m | 2011 UMS £m | 2011 Total £m | 2010 Excluding UMS £m | 2010 UMS £m | 2010 Total £m |
|---|---|---|---|---|---|---|---|
| **Revenue** | 2.1 | **83.5** | **11.4** | **94.9** | **186.2** | **7.2** | **193.4** |
| Cost of sales | | (42.2) | (20.5) | (62.7) | (139.8) | (7.2) | (147.0) |
| Operating expenses | | (27.2) | (11.9) | (39.1) | (23.7) | (4.8) | (28.5) |
| Results from operating activities | | 14.1 | (21.0) | (6.9) | 22.7 | (4.8) | 17.9 |
| Loss on disposal of property | | (0.2) | – | (0.2) | (2.9) | – | (2.9) |
| Net valuation gains on property | 3.1 | 7.7 | – | 7.7 | 15.4 | – | 15.4 |
| **Profit before net financing costs** | | **21.6** | **(21.0)** | **0.6** | **35.2** | **(4.8)** | **30.4** |
| Loan interest and similar charges | 4.3 | (8.7) | – | (8.7) | (13.8) | – | (13.8) |
| Mark to market changes in interest rate swaps | 4.3 | (10.6) | – | (10.6) | (18.6) | – | (18.6) |
| Finance costs | 4.3 | (19.3) | – | (19.3) | (32.4) | – | (32.4) |
| Finance income | 4.3 | 0.8 | – | 0.8 | 0.9 | – | 0.9 |
| **Net financing costs** | 4.3 | **(18.5)** | **–** | **(18.5)** | **(31.5)** | **–** | **(31.5)** |
| Share of joint venture profit | 3.4b | 22.6 | – | 22.6 | 25.3 | – | 25.3 |
| **Profit before tax** | 2.3a | **25.7** | **(21.0)** | **4.7** | **29.0** | **(4.8)** | **24.2** |
| Tax | 2.6 | (0.8) | – | (0.8) | (2.9) | – | (2.9) |
| **Profit for the year** | | **24.9** | **(21.0)** | **3.9** | **26.1** | **(4.8)** | **21.3** |
| **Profit for the period attributable to** | | | | | | | |
| Owners of the parent company | 2.3b | 23.1 | (21.0) | 2.1 | 24.4 | (4.8) | 19.6 |
| Minority interest | | 1.8 | – | 1.8 | 1.7 | – | 1.7 |
| | | 24.9 | (21.0) | 3.9 | 26.1 | (4.8) | 21.3 |
| **Earnings per share** | | | | | | | |
| Basic | 2.3b | 14.4p | (13.1p) | 1.3p | 15.2p | (3.0p) | 12.2p |
| Diluted | 2.3b | 14.4p | (13.1p) | 1.3p | 15.2p | (3.0p) | 12.2p |

The results have been presented in a columnar format to show the significant impact of UMS trading losses and the decision to cease trading at UMS, as discussed in note 2.2b. The comparatives have been restated in columnar format for consistency.

# Consolidated statement of comprehensive income

For the year ended 31 December 2011

| | 2011 £m | 2010 £m |
|---|---|---|
| **Profit for the period** | **3.9** | **21.3** |
| Movements in effective hedges | (2.6) | 0.5 |
| Share of joint venture movements in effective hedges | 0.1 | 0.1 |
| Other comprehensive income for the period | (2.5) | 0.6 |
| **Total comprehensive income for the period** | **1.4** | **21.9** |
| **Attributable to** | | |
| Owners of the parent company | (0.2) | 20.2 |
| Minority interest | 1.6 | 1.7 |
| | 1.4 | 21.9 |

All movements above are shown net of deferred tax.

# Consolidated balance sheet

At 31 December 2011

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| **Assets** | | | |
| Investment property | 3.1 | 396.2 | 375.7 |
| Property, plant and equipment | 3.3 | 2.3 | 6.9 |
| Investment in joint ventures | 3.4b | 173.0 | 161.6 |
| Joint venture investment loans | 3.4b | 14.1 | 13.2 |
| Intangible assets | 3.3 | 4.5 | 5.8 |
| **Total non-current assets** | | **590.1** | **563.2** |
| Completed property | 3.1 | 198.7 | 105.1 |
| Properties under development | 3.1 | 135.2 | 113.0 |
| Inventories | 3.2 | 8.4 | 2.7 |
| Trade and other receivables | 5.2 | 41.0 | 44.6 |
| Cash and cash equivalents | 5.1 | 16.8 | 23.8 |
| **Total current assets** | | **400.1** | **289.2** |
| **Total assets** | | **990.2** | **852.4** |
| **Liabilities** | | | |
| Borrowings | 4.1 | (29.2) | (0.3) |
| Interest rate swaps | 4.2 | – | (0.2) |
| Trade and other payables | 5.4 | (84.4) | (52.8) |
| Provisions | 2.5 | (6.3) | – |
| Current tax creditor | | (0.4) | (0.5) |
| **Total current liabilities** | | **(120.3)** | **(53.8)** |
| Borrowings | 4.1 | (421.5) | (357.8) |
| Interest rate swaps | 4.2 | (39.0) | (37.1) |
| Provisions | 2.5 | (4.7) | – |
| **Total non-current liabilities** | | **(465.2)** | **(394.9)** |
| **Total liabilities** | | **(585.5)** | **(448.7)** |
| **Net assets** | | **404.7** | **403.7** |
| **Equity** | | | |
| Issued share capital | | 40.1 | 40.1 |
| Share premium | | 249.0 | 249.0 |
| Merger reserve | | 40.2 | 40.2 |
| Retained earnings | | 72.8 | 70.4 |
| Hedging reserve | | (14.5) | (12.2) |
| **Equity attributable to the owners of the parent company** | | **387.6** | **387.5** |
| Minority interest | | 17.1 | 16.2 |
| **Total equity** | | **404.7** | **403.7** |

These financial statements were approved by the Board of Directors on 1 March 2012 and were signed on its behalf by:

**M C Allan**
Director

**J J Lister**
Director

# Company balance sheet

**At 31 December 2011**

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| **Assets** | | | |
| Investments in subsidiaries | 3.5a | 112.0 | 106.8 |
| Investments in joint ventures | 3.5a | 2.5 | 3.7 |
| Total investments | | 114.5 | 110.5 |
| Joint venture investment loan | 3.5a | 3.9 | 3.9 |
| **Total non-current assets** | | **118.4** | **114.4** |
| Amounts due from group undertakings | 5.2 | 317.7 | 318.3 |
| Cash and cash equivalents | 5.1 | 0.1 | 0.5 |
| **Total current assets** | | **317.8** | **318.8** |
| **Total assets** | | **436.2** | **433.2** |
| **Current liabilities** | | | |
| Amounts due to group undertakings | 5.4 | (29.7) | (29.7) |
| Other payables | 5.4 | (3.0) | (2.3) |
| **Total current liabilities** | | **(32.7)** | **(32.0)** |
| **Net assets** | | **403.5** | **401.2** |
| **Equity** | | | |
| Issued share capital | | 40.1 | 40.1 |
| Share premium | | 249.0 | 249.0 |
| Merger reserve | | 40.2 | 40.2 |
| Retained earnings | | 25.4 | 27.1 |
| Revaluation reserve | | 48.8 | 44.8 |
| **Total equity** | | **403.5** | **401.2** |

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

These financial statements were approved by the Board of Directors on 1 March 2012 and were signed on its behalf by:

**M C Allan**
Director

**J J Lister**
Director

# Consolidated statement of changes in shareholders' equity

For the year ended 31 December 2011

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

| | Issued share capital £m | Share premium £m | Merger reserve £m | Retained earnings £m | Hedging reserve £m | Attributable to owners of the parent £m | Minority interest £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| **At 1 January 2010** | **39.9** | **247.5** | **40.2** | **51.0** | **(12.8)** | **365.8** | **15.2** | **381.0** |
| Profit for the period | – | – | – | 19.6 | – | 19.6 | 1.7 | 21.3 |
| Other comprehensive income for the period | – | – | – | – | 0.6 | 0.6 | – | 0.6 |
| Total comprehensive income for the period | – | – | – | 19.6 | 0.6 | 20.2 | 1.7 | 21.9 |
| Shares issued | 0.2 | 1.5 | – | – | – | 1.7 | – | 1.7 |
| Fair value of share based payments | – | – | – | 1.3 | – | 1.3 | – | 1.3 |
| Own shares acquired | – | – | – | (1.5) | – | (1.5) | – | (1.5) |
| Dividends to minority interest | – | – | – | – | – | – | (0.7) | (0.7) |
| **At 31 December 2010** | **40.1** | **249.0** | **40.2** | **70.4** | **(12.2)** | **387.5** | **16.2** | **403.7** |

# Company statement of changes in shareholders' equity

For the year ended 31 December 2011

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

| | Issued share capital £m | Share premium £m | Merger reserve £m | Retained earnings £m | Revaluation reserve £m | Total £m |
|---|---|---|---|---|---|---|
| **At 1 January 2010** | **39.9** | **247.5** | **40.2** | **29.7** | **18.2** | **375.5** |
| Loss for the period | – | – | – | (2.6) | – | (2.6) |
| Revaluation of investments in subsidiaries and joint ventures | – | – | – | – | 26.6 | 26.6 |
| Shares issued | 0.2 | 1.5 | – | – | – | 1.7 |
| **At 31 December 2010** | **40.1** | **249.0** | **40.2** | **27.1** | **44.8** | **401.2** |

# Statements of cash flows

For the year ended 31 December 2011

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | 2011 £m | 2010 £m | 2011 £m | 2010 £m |
| **Cash flows from operating activities** | 5.1 | **(74.0)** | **40.1** | **(2.4)** | **(2.9)** |
| **Cash flows from taxation** | | **(0.6)** | **0.8** | **–** | **–** |
| **Investing activities** | | | | | |
| Proceeds from sale of investment property | | 8.3 | 42.7 | – | – |
| Payments to/on behalf of subsidiaries | | – | – | (42.0) | (34.8) |
| Payments from subsidiaries | | – | – | 42.6 | 35.7 |
| Dividends received | | 8.9 | 5.4 | 2.3 | – |
| Interest received | | 0.1 | 0.2 | – | – |
| Acquisition of intangible assets | | (1.5) | (1.5) | – | – |
| Acquisition of property | | (18.3) | (5.6) | – | – |
| Acquisition of plant and equipment | | (0.6) | (0.6) | – | – |
| **Cash flows from investing activities** | | **(3.1)** | **40.6** | **2.9** | **0.9** |
| **Financing activities** | | | | | |
| Total interest paid | | (15.0) | (15.5) | (0.1) | (0.2) |
| Interest capitalised into inventory and property under development included in cash flows from operating activities | | 7.1 | 2.5 | – | – |
| Interest paid in respect of financing activities | | (7.9) | (13.0) | (0.1) | (0.2) |
| Ineffective swap payments | | (11.7) | (11.2) | – | – |
| Proceeds from the issue of share capital | | – | 1.7 | – | 1.7 |
| Payments to acquire own shares | | (0.1) | (1.5) | – | – |
| Proceeds from non-current borrowings | | 113.6 | 45.4 | – | – |
| Repayment of borrowings | | (21.7) | (127.2) | – | – |
| Dividends paid to the owners of the parent company | | (0.8) | – | (0.8) | – |
| Dividends paid to minority interest | | (0.7) | (0.7) | – | – |
| **Cash flows from financing activities** | | **70.7** | **(106.5)** | **(0.9)** | **1.5** |
| **Net decrease in cash and cash equivalents** | | **(7.0)** | **(25.0)** | **(0.4)** | **(0.5)** |
| Cash and cash equivalents at start of year | | 23.8 | 48.8 | 0.5 | 1.0 |
| **Cash and cash equivalents at end of year** | 5.1 | **16.8** | **23.8** | **0.1** | **0.5** |

# Notes to the financial statements

## Section 1: Basis of preparation

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

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

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

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

The Company is domiciled in the United Kingdom.

### Going concern

The Group's business activities, together with the factors likely to affect its future development and position are set on in the Business Review on pages 18 to 31. In addition, section 4 of these Notes to the financial statements includes the Group's objectives, policies and processes for managing its capital; details of its borrowings and interest rate swaps; and in note 5.3 its exposure to credit risk.

The Group has prepared cash flow projections with appropriate sensitivities until the end of 2013. The group has borrowing facilities expiring in 2012 and 2013, but it has already refinanced one of these facilities for a further three years and is making good progress with another new facility. While the Group will continue to extend future debt maturities, it expects to have sufficient headroom in existing banking facilities and its forecast cash balances to repay any facilities expiring and to meet its funding requirements until at least the end of 2013, while remaining within its banking covenants. The Group is in full compliance with its borrowing covenants at 31 December 2011 as set out in note 4.5c.

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

### Measurement convention

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

### Basis of consolidation

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

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

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

A number of new standards, amendments to standards and interpretations became effective for the year ended 31 December 2011, but none of these had a material effect on the consolidated financial statements of the Group.

The Group has not adopted early any standard, amendment or interpretation. A number of new standards, amendments to standards and interpretations have been announced but are not yet effective for the year ended 31 December 2011. None of these are expected to have a material effect on the consolidated financial statements of the Group.

## Section 1: Basis of preparation continued

### Accounting estimates and judgements

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

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

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

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

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

- classification of properties (note 3.1)
- classification of joint venture vehicles (note 3.4)

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

- valuation of investment property, completed property and properties under development (note 3.1)
- onerous contract provisions (note 2.5)
- taxation (note 2.6)
- valuation of interest rate swaps (note 4.2)
- impairment of trade receivables (note 5.2)

# Notes to the financial statements continued

## Section 2: Results for the year

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

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

### 2.1. Revenue

The Group earns revenue from the following activities:

| | | Note | 2011 £m | 2010 £m |
|---|---|---|---|---|
| Rental income | Operations segment | 2.2a | 63.6 | 63.5 |
| Property sales | Property segment | | 8.2 | 111.9 |
| Manufacturing revenue | Property segment | | 11.4 | 7.2 |
| Management fees | Operations segment | 2.2a | 10.6 | 8.9 |
| Management fees | Property segment | | 1.3 | 2.1 |
| | | | 95.1 | 193.6 |
| Impact of minority interest on management fees | | | (0.2) | (0.2) |
| **Total revenue** | | | **94.9** | **193.4** |

Revenue has reduced to £94.9 million (2010: £193.4 million) due to a planned reduction in the volume of property sales to the UNITE UK Student Accommodation Fund (USAF). Revenue from property sales includes £nil (2010: £103.5 million) to USAF, a joint venture, and represents 0% (2010: 54%) of total revenue.

**Accounting policies**

Revenue is recognised on the following bases:

**Rental income**

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

**Property sales**

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

**Manufacturing revenue**

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

**Management and promote fees**

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

## Section 2: Results for the year continued

### 2.2 Segmental information

The Board of Directors monitor the business along two activity lines. The reportable segments for the years ended 31 December 2011 and 31 December 2010 are Operations and Property (in prior years, the same segments were referred to as Investment and Development, however the names have been changed in the current year to be consistent with the Group's new internal terminology).

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

The Group's properties are located exclusively in the United Kingdom. The Board therefore does not consider that the Group has meaningful geographical segments.

#### a) Operations Segment result

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. NPC is the key indicator which is used by the Board to manage the Operations business.

2011

| | UNITE | Share of joint ventures | | | | | Group on see through basis |
|---|---|---|---|---|---|---|---|
| | Total £m | USAF £m | UCC £m | USV £m | OCB £m | Total £m | Total £m |
| Rental income | 63.6 | 17.8 | 8.1 | 3.0 | 3.1 | 32.0 | 95.6 |
| Property operating expenses | (21.7) | (5.0) | (1.2) | (1.0) | (0.5) | (7.7) | (29.4) |
| **Net operating income** | **41.9** | **12.8** | **6.9** | **2.0** | **2.6** | **24.3** | **66.2** |
| Management fees | 10.6 | – | (0.5) | – | – | (0.5) | 10.1 |
| Operating expenses | (21.2) | (0.2) | (0.1) | – | (0.1) | (0.4) | (21.6) |
| | 31.3 | 12.6 | 6.3 | 2.0 | 2.5 | 23.4 | 54.7 |
| Operating lease rentals* | (12.6) | – | – | – | – | – | (12.6) |
| Net financing costs | (18.8) | (5.3) | (4.0) | (1.3) | (1.7) | (12.3) | (31.1) |
| **Net portfolio contribution** | **(0.1)** | **7.3** | **2.3** | **0.7** | **0.8** | **11.1** | **11.0** |

2010

| | UNITE | Share of joint ventures | | | | | Group on see through basis |
|---|---|---|---|---|---|---|---|
| | Total £m | USAF £m | UCC £m | USV £m | OCB £m | Total £m | Total £m |
| Rental income | 63.5 | 14.9 | 7.1 | 2.7 | 0.8 | 25.5 | 89.0 |
| Property operating expenses | (20.3) | (4.2) | (1.4) | (0.8) | (0.2) | (6.6) | (26.9) |
| **Net operating income** | **43.2** | **10.7** | **5.7** | **1.9** | **0.6** | **18.9** | **62.1** |
| Management fees | 8.9 | – | (0.5) | – | – | (0.5) | 8.4 |
| Operating expenses | (19.2) | (0.1) | (0.2) | – | (0.1) | (0.4) | (19.6) |
| | 32.9 | 10.6 | 5.0 | 1.9 | 0.5 | 18.0 | 50.9 |
| Operating lease rentals* | (12.1) | – | – | – | – | – | (12.1) |
| Net financing costs | (24.4) | (4.4) | (4.1) | (1.3) | (0.5) | (10.3) | (34.7) |
| **Net portfolio contribution** | **(3.6)** | **6.2** | **0.9** | **0.6** | **–** | **7.7** | **4.1** |

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

# Notes to the financial statements continued

## Section 2: Results for the year continued

### 2.2 Segmental information continued

**b) Property Segment result**

The Group's Property Segment undertakes the acquisition and development of properties. This includes the manufacture and sale of modular building components, through UNITE Modular Solutions Limited, 'UMS'. The Property Segment's revenue predominantly comprises the sales proceeds from properties, including those sold to the UNITE UK Student Accommodation Fund; revenue from the sale of modules to third parties and joint ventures, and development management fees earned from joint ventures.

| | 2011 £m | 2010 £m |
|---|---|---|
| Pre-contract and abortive costs | (3.2) | (3.2) |
| Property disposals and write downs | 1.3 | 4.0 |
| Other | (0.1) | (0.2) |
| Property segment result pre UMS losses | (2.0) | 0.6 |
| UMS losses | (21.0) | (4.8) |
| **Property segment result** | **(23.0)** | **(4.2)** |

The property segment derives its revenue from property sales, manufacturing revenue and management fees as set out in note 2.1.

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

**c) Segmental contribution to NAV**

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

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

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| **Operations** | | | |
| Net portfolio contribution | 2.2a | **11.0** | **4.1** |
| **Property** | | | |
| Rental growth | | 22.9 | 19.3 |
| Yield movement | | – | 14.6 |
| Disposals and acquisition costs | | 0.6 | (5.4) |
| Capital expenditure and refurbishments | | – | (0.4) |
| Rental property gains | | 23.5 | 28.1 |
| Development property gains | | 33.3 | 27.5 |
| | | **56.8** | **55.6** |
| UMS | | (21.0) | (4.8) |
| Pre-contract and other development costs | | (3.4) | (3.5) |
| Total property | | **32.4** | **47.3** |
| **Unallocated** | | **(3.4)** | **0.1** |
| **Total adjusted NAV movement in the period** | | **40.0** | **51.5** |
| Total adjusted NAV brought forward | | 474.5 | 423.0 |
| **Total adjusted NAV carried forward** | 2.4a | **514.5** | **474.5** |

The unallocated amount includes restructuring costs of £1.6 million (2010: £nil), dividends of £0.8 million (2010: £nil), current tax charges of £0.4 million (2010: credit £1.0 million) and the share of joint venture swap losses of £0.5 million (2010: £0.7 million).

# Section 2: Results for the year continued

## 2.3 Adjusted profit and EPS

In addition to the IFRS reporting measures, the Group reports adjusted profit on the basis recommended for real estate companies by EPRA, the European Public Real Estate Association. EPRA recommends that real estate investment companies exclude development profits and profits from disposal of assets as they are one off in nature, however the development of properties for future sale is an on-going business activity for the Group and therefore results of this core activity are included in the adjusted result through the Property Segment result.

### a) Adjusted profit and reconciliation to IFRS

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

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| Operations segment result – Net portfolio contribution | 2.2a | 11.0 | 4.1 |
| Property segment result pre UMS losses | 2.2b | (2.0) | 0.6 |
| Unallocated to segments | | (3.6) | (0.4) |
| **Adjusted profit pre UMS losses** | | **5.4** | **4.3** |
| UMS losses | 2.2b | (21.0) | (4.8) |
| **Adjusted loss*** | | **(15.6)** | **(0.5)** |
| Net valuation gains on investment property | 3.1 | 7.7 | 15.4 |
| Share of joint venture gains on investment property | 3.4b | 10.7 | 18.1 |
| Mark to market changes in interest rate swaps** | 4.3 | (10.6) | (18.6) |
| Interest rate swap payments on ineffective hedges** | | 10.2 | 10.9 |
| Share of joint venture changes in fair value of interest rate swaps | 3.4b | 0.4 | (0.3) |
| Current tax included in unallocated to segments | | 0.4 | (1.0) |
| Share of joint venture deferred tax credit/(charge) | 3.4b | 0.3 | (0.5) |
| Minority interest share of NPC*** | 3.4b | 1.2 | 1.0 |
| Minority interest share of property segment result | | – | (0.3) |
| **Profit before tax** | | **4.7** | **24.2** |

* The adjusted loss for 2010 has been restated to include losses on disposal of investment property of £2.9 million, which had been previously excluded, so that all property disposals are included in adjusted loss.

** Within IFRS reported profit, there is a £10.6 million loss (2010: £18.6 million loss) relating to movements in the mark to market of ineffective interest rate swaps, this full loss can be seen in note 4.3. Part of this movement, £10.2 million (2010: £10.9 million) relates to actual interest payments made on these swaps and is considered to be a true operating cost of the Operations Segment. It is therefore already included within Net Financing Costs in NPC (Operating Segment result) in note 2.2a.

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

Unallocated to segments includes restructuring costs of £1.6 million (2010: £nil), current tax charges of £0.4 million (2010: credit £1.0 million) and share option fair value charges of £1.2 million (2010: £1.3 million).

### b) EPS and Adjusted EPS

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

## Notes to the financial statements continued

### Section 2: Results for the year continued

#### 2.3 Adjusted profit and EPS continued

The calculations of basic and adjusted EPS for the year ended 31 December 2011 is as follows:

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| **Earnings** | | | |
| Basic (and diluted) | | 2.1 | 19.6 |
| Adjusted | 2.3a | (15.6) | (0.5) |
| Adjusted pre UMS losses | 2.3a | 5.4 | 4.3 |
| **Weighted average number of shares (thousands)** | | | |
| Basic | | 160,271 | 160,074 |
| Dilutive potential ordinary shares (share options) | | 39 | 81 |
| Diluted | | 160,310 | 160,155 |

| | 2011 | 2010 |
|---|---|---|
| **Earnings per share (pence)** | | |
| Basic | 1.3p | 12.2p |
| Diluted | 1.3p | 12.2p |
| **Adjusted** | **(9.7p)** | **(0.3p)** |
| **Adjusted (pre-UMS result)** | **3.4p** | **2.7p** |

Movements in the weighted average number of shares have resulted from the issue of shares arising from the employee share based payment schemes. In addition to the potential dilutive ordinary shares (share options) shown above, there were a further 29,000 share options in existence at 31 December 2011 (2010: 794,000) which are excluded from this calculation because they would increase EPS (they are anti-dilutive). Also excluded from the potential dilutive shares (share options) are 1,460,000 options in existence at 31 December 2011 (2010: nil) which are subject to conditions that have not yet been met.

#### 2.4 Adjusted Net Assets and NAV per share

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

**a) Adjusted net assets**

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Wholly owned £m | Share of JV's £m | Total £m | Wholly owned £m | Share of JV's £m | Total £m |
| Investment properties | 396.2 | 400.1 | 796.3 | 375.7 | 391.1 | 766.8 |
| Completed properties (at market value) | 220.9 | – | 220.9 | 117.4 | – | 117.4 |
| Rental properties | 617.1 | 400.1 | 1,017.2 | 493.1 | 391.1 | 884.2 |
| Properties under development (at market value) | 189.1 | 0.2 | 189.3 | 137.8 | 0.2 | 138.0 |
| **Total property portfolio** | **806.2** | **400.3** | **1,206.5** | **630.9** | **391.3** | **1,022.2** |
| Debt on rental properties (net of cash) | (393.7) | (212.1) | (605.8) | (267.9) | (212.5) | (480.4) |
| Debt on properties under development | (40.3) | – | (40.3) | (66.7) | – | (66.7) |
| | (434.0) | (212.1) | (646.1) | (334.6) | (212.5) | (547.1) |
| Other assets/(liabilities) | (39.9) | (6.0) | (45.9) | 6.5 | (7.1) | (0.6) |
| **Adjusted net assets** | **332.3** | **182.2** | **514.5** | **302.8** | **171.7** | **474.5** |
| **Loan to value (%)** | **54** | **53** | **54** | **53** | **54** | **54** |

The movement in other assets/(liabilities) shown above is caused mainly by the provision for onerous contracts in UMS and a significant increase in development creditors.

## Section 2: Results for the year continued

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

**b) Reconciliation to IFRS**

Adjusted NAV reconciles to NAV reported under IFRS as follows:

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| **Adjusted NAV** | 2.4a | **514.5** | **474.5** |
| Mark to market interest rate swaps | | (50.5) | (49.6) |
| Valuation gain not recognised on property held at cost | 3.1 | (76.1) | (37.1) |
| Deferred tax | | (0.3) | (0.3) |
| **Net asset value reported under IFRS** | | **387.6** | **387.5** |

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

The Board continuously monitors the adjusted NAV attributable to its shareholders. NAV per share as at 31 December 2011 is calculated as follows:

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| **Net assets** | | | |
| Basic (as reported under IFRS on the balance sheet) | 2.4b | 387.6 | 387.5 |
| Adjusted pre-dilution (as defined by EPRA) | 2.2c | 514.5 | 474.5 |
| Adjusted diluted (takes into account the dilutive effect of all share options being exercised) | | 516.4 | 476.0 |
| **Number of shares (thousands)** | | | |
| Basic | | 160,271 | 160,268 |
| Outstanding share options | | 2,344 | 830 |
| Diluted | | 162,615 | 161,098 |
| **Net asset value per share (pence)** | | | |
| Basic | | 242p | 242p |
| Adjusted pre dilution | | 321p | 296p |
| **Adjusted diluted** | | **318p** | **295p** |

### 2.5 Provisions for onerous contracts

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

The provisions relate to onerous trading contracts and leases at the group's manufacturing facility (UMS). Provision has been made for forecast unavoidable losses on existing trading contracts of £5.6 million, all expected to be realised in 2012. The decision to cease trading at UMS also resulted in future lease payments and associated costs becoming onerous. Discounted future payments of £5.4 million (relating primarily to the lease of the factory site) have been provided in respect of these leases of which £4.7 million is not expected to be realised until between 2013 and 2017 and is therefore disclosed as due after one year. Future payments have been discounted using a market rate of 5%.

## Section 2: Results for the year continued

### 2.6 Tax

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

The preparation of the tax charge in the financial statements requires the Directors to make significant judgements around the outcome of challenges by HMRC to the tax treatment of certain of the Group's activities; where appropriate, the Directors seek advice from leading tax professionals and tax counsel in arriving at such judgements.

**Accounting policies**

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

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

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

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

**a) Tax – income statement**

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

| | 2011 £m | 2010 £m |
|---|---|---|
| Corporation tax in respect of income | – | – |
| Income tax on UK rental income arising in non-UK companies | 0.5 | 0.5 |
| Adjustments for prior years | – | (1.3) |
| **Current tax charge/(credit)** | **0.5** | **(0.8)** |
| | | |
| Origination and reversal of temporary differences | 0.9 | 2.5 |
| Effect of change in tax rate | (0.3) | (0.1) |
| Adjustments for prior years | (0.3) | 1.3 |
| **Deferred tax charge** | **0.3** | **3.7** |
| | | |
| **Total tax charge in income statement** | **0.8** | **2.9** |

In order to understand how, in the income statement, a tax charge of £0.8 million arises on a profit before tax of £4.7 million, the taxation charge that would arise at the standard rate of UK corporation tax is reconciled to the actual tax charge as follows:

| | 2011 £m | 2010 £m |
|---|---|---|
| **Profit before tax** | **4.7** | **24.2** |
| | | |
| Income tax using the UK corporation tax rate of 26.5% (2010: 28%) | 1.2 | 6.8 |
| Effect of indexation on investment and development property | (2.4) | (3.5) |
| Non-deductible expenses | 0.9 | 1.3 |
| Share of joint venture profit | 0.4 | (0.7) |
| Movement on unprovided deferred tax asset | 1.6 | (0.3) |
| Profit on disposal of assets not chargeable to tax | 0.1 | – |
| Effect of property disposals to USAF | (0.4) | (0.6) |
| Adjustments for prior years – deferred tax | (0.3) | 1.3 |
| Adjustments for prior years – current tax | – | (1.3) |
| Rate difference on deferred tax | (0.3) | (0.1) |
| **Total tax charge in the income statement** | **0.8** | **2.9** |

**b) Tax – other comprehensive income**

Within other comprehensive income a tax charge totalling £0.4 million (2010: £3.7 million) has been recognised representing deferred tax. An analysis of this is included below in the deferred tax movement table.

# Section 2: Results for the year continued

## 2.6 Tax continued

### c) Tax – balance sheet

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

2011

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

2010

| | At 31 December 2009 £m | Transfers £m | Charged in income £m | (Credited) in equity £m | At 31 December 2010 £m |
|---|---|---|---|---|---|
| Investment property | 2.8 | – | 4.7 | – | 7.5 |
| Property held in current assets | (2.9) | – | 2.2 | – | (0.7) |
| Property, plant and machinery | (0.3) | – | – | – | (0.3) |
| Investments in joint ventures | 7.4 | – | 0.6 | – | 8.0 |
| Interest rate swaps | (7.0) | – | (2.0) | (1.0) | (10.0) |
| Interest rate swaps relating to joint ventures | – | – | – | (2.7) | (2.7) |
| Tax value of carried forward losses recognised | – | – | (1.8) | – | (1.8) |
| **Net tax liabilities** | **–** | **–** | **3.7** | **(3.7)** | **–** |

A deferred tax asset of £35.1 million (2010: £33.6 million) in respect of losses of £140.7 million (2010: £124.6 million) has not been recognised due to uncertainty of future taxable profits and the ability to offset these losses against them.

Company

Deferred tax has not been recognised on temporary timing differences of £12.2 million (2010: £12.1 million) in respect of revaluation of subsidiaries and investment in joint ventures as it is probable that the temporary timing difference will not reverse in the foreseeable future.

## 2.7 Audit fees

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

## Section 3: Asset management

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

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

### 3.1 Wholly owned property assets

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

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

These are assets that were acquired by the Group with the intention to hold the assets for a long period to earn rental income or capital appreciation, prior to establishing The UNITE UK Student Accommodation (USAF). The assets are held at fair value in the balance sheet with changes in fair value taken to the income statement.

#### ii) Completed properties (current assets)

Following the establishment of USAF in 2006, the Group is required to offer all completed properties which meet certain performance criteria for sale to USAF, and USAF may be required to purchase assets which meet certain conditions. Therefore, all properties constructed and completed after 2006 are held as completed properties in current assets, because these may be sold to USAF. The Group continues to earn rental income and capital appreciation on these assets which are held at cost in the balance sheet.

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

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

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

The property portfolio is valued every six months by external, independent valuers, having an appropriate recognised professional qualification. The fair values are based on market values as defined in the RICS Appraisal and Valuation Manual, issued by the Royal Institution of Chartered Surveyors, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction where the parties had each acted knowledgeably, prudently and without compulsion. CB Richard Ellis Ltd, Jones Lang LaSalle Ltd and Messrs Knight Frank, Chartered Surveyors were the external valuers in the years ending 31 December 2011 and 2010.

#### Accounting policies

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

Investment properties are held at fair value.

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

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

Borrowing costs are capitalised if they are directly attributable to the acquisition and construction of a property asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Capitalisation of borrowing costs continues until the assets are substantially ready for their intended use but stops if development activities are suspended. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognised. The capitalisation rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development cost financed out of general borrowings, to the average rate. During the year the average capitalisation rate used was 6.7% (2010: 7.0%).

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

## Section 3: Asset management continued

### 3.1 Wholly owned property assets continued

The movements in the carrying value of the Group's wholly owned property portfolio during the year ended 31 December 2011 were as follows:

2011

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

Whilst completed property and property under development are held at cost on the balance sheet, the Group manages the assets based on their market value (fair value). These properties are included in adjusted NAV at their fair value, valued on the same basis as for investment properties, by external valuers. The fair value of the Group's wholly owned properties at the year ended 31 December 2011 is as follows:

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

# Notes to the financial statements continued

## Section 3: Asset management continued

### 3.1 Wholly owned property assets continued

The movements in the carrying value of the Group's wholly owned property portfolio during the year ended 31 December 2010 were as follows:

2010

| | Investment property £m | Completed property £m | Property under development £m | Total £m |
|---|---|---|---|---|
| At 1 January 2010 | 403.6 | 204.1 | 38.1 | 645.8 |
| Cost capitalised | 4.7 | 0.5 | 76.5 | 81.7 |
| Interest capitalised | – | – | 2.5 | 2.5 |
| Transfer from property under development | – | (0.8) | 0.8 | – |
| Transfer from work in progress | – | – | 0.6 | 0.6 |
| Disposals | (48.0) | (96.6) | (3.0) | (147.6) |
| Impairment | – | (2.1) | (2.5) | (4.6) |
| Valuation gains | 17.4 | – | – | 17.4 |
| Valuation losses | (2.0) | – | – | (2.0) |
| Net valuation gains | 15.4 | – | – | 15.4 |
| **Carrying value at 31 December 2010** | **375.7** | **105.1** | **113.0** | **593.8** |

The fair value of the Group's wholly owned property portfolio at the year ended 31 December 2010 is as follows:

| | Investment property £m | Completed property £m | Property under development £m | Total £m |
|---|---|---|---|---|
| Carrying value at 31 December 2010 (above) | 375.7 | 105.1 | 113.0 | 593.8 |
| Valuation gains not recognised under IFRS but included in Adjusted NAV | | | | |
| Brought forward | – | 17.2 | 0.8 | 18.0 |
| Disposals | – | (12.9) | – | (12.9) |
| Valuation gain in year | – | 8.0 | 24.0 | 32.0 |
| | – | 12.3 | 24.8 | 37.1 |
| **Market value at 31 December 2010** | **375.7** | **117.4** | **137.8** | **630.9** |

Included within investment properties are £43.1 million (2010: £44.5 million) of assets held under a long leasehold and £9.9 million (2010: £10.6 million) of assets held under short leasehold.

Total interest capitalised in investment and development properties at 31 December 2011 was £32.9 million (2010: £28.4 million) on an accumulative basis. Total internal costs relating to manufacturing, construction and development costs of group properties amount to £53.6 million at 31 December 2011 (2010: £45.6 million) on an accumulative basis.

### 3.2 Inventories

| | 2011 £m | 2010 £m |
|---|---|---|
| Modules for sale to third parties or joint ventures | 1.0 | – |
| Interests in land | 1.4 | 1.8 |
| Other stocks | 6.0 | 0.9 |
| **Inventories** | **8.4** | **2.7** |

The movement in other stock is caused by an increase in manufacturing work in progress, raw materials and consumables relating to an increase in manufacturing activity at the end of the year.

# Section 3: Asset management continued

## 3.3 Other fixed assets

### Accounting policies

#### Property, plant and equipment

Other than land and buildings; property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see below). Land and buildings are stated at fair value on the same basis as investment properties.

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

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

#### Intangible assets

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

The Group's other fixed assets can be analysed as follows:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Property, plant and equipment £m | Intangible assets £m | Property, plant and equipment £m | Intangible assets £m |
| **Cost or valuation** | | | | |
| At 1 January | 19.4 | 18.2 | 18.8 | 16.7 |
| Additions | 0.6 | 1.5 | 0.6 | 1.5 |
| Disposals | (0.2) | (0.2) | – | – |
| At 31 December | 19.8 | 19.5 | 19.4 | 18.2 |
| **Depreciation and impairment losses** | | | | |
| At 1 January | 12.5 | 12.4 | 11.4 | 10.2 |
| Depreciation charge for the year | 1.5 | 2.6 | 1.1 | 2.2 |
| Disposals | (0.1) | (0.1) | – | – |
| Impairment | 3.6 | 0.1 | – | – |
| At 31 December | 17.5 | 15.0 | 12.5 | 12.4 |
| Carrying value at 1 January | 6.9 | 5.8 | 7.4 | 6.5 |
| **Carrying amount at 31 December** | **2.3** | **4.5** | **6.9** | **5.8** |

UMS freehold land and buildings, carried at fair value of £0.7 million (2010: £0.7 million), are included within property, plant and equipment and have a historic cost of £1.8 million (2010: £1.8 million).

The impairment reduces the carrying value of other UMS fixed assets to their scrap value of £0.2 million. This arises from the decision to cease trading at UMS, as disclosed in note 2.5. UMS is a separate cash generating unit.

# Notes to the financial statements continued

## Section 3: Asset management continued

### 3.4 Investments in joint ventures (Group)

**Accounting policies**

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

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

The Group has four joint ventures:

| Joint venture | Group's share of assets/results 2011 & 2010 | Objective | Partner | Legal entity in which Group has interest |
|---|---|---|---|---|
| The UNITE UK Student Accommodation Fund (USAF) | 18.9%* | Invest and operate student accommodation throughout the UK | Consortium of investors | UNITE Student Accommodation Fund, a Jersey Unit Trust |
| UNITE Capital Cities (UCC) | 30% | Develop and operate student accommodation in the capital cities of London and Edinburgh | GIC Real Estate Pte, Ltd Real estate investment vehicle of the Government of Singapore | UNITE Capital Cities Unit Trust, incorporated in Jersey |
| OCB Property Holdings (OCB) | 25% | Develop and operate three investment properties located in London | Oasis Capital Bank | OCB Property Holdings (Jersey) Ltd, incorporated in Jersey |
| UNITE Student Village (USV) | 51%** | Develop and operate a student village located in Sheffield | Lehman Brothers | LDC (Project 110) Ltd, incorporated in England and Wales |

* Part of the Group's interest is held through a subsidiary, USAF (Feeder) Guernsey Ltd, in which there is an external investor. A minority interest therefore occurs on consolidation of the Group's results representing the external investor's share of profits and assets relating to its investment in USAF. The ordinary shareholders of The UNITE Group plc are beneficially interested in 16.3% (2010: 16.3%) of USAF.

** At 31 December 2011, the Group held a 75% interest in the ordinary shares of the joint venture, however under the articles of association the Group cannot exercise control and are only entitled to a beneficial interest of 51% of the joint ventures assets and results.
On 18 January 2012 the Group acquired the balance of the share capital in USV for £2.4 million and discharged shareholder loans amounting to £3.8 million. The payment of these amounts is deferred until 31 October 2012.

## Section 3: Asset management continued

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

a) Net assets and results of the joint ventures

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

2011

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

2010

| | USAF £m | | UCC £m | | USV £m | | OCB £m | | Total £m | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Gross | Share | Gross | Share | Gross | Share | Gross | Share | Gross | Share |
| Investment property | 1,231.5 | 232.8 | 379.5 | 113.8 | 63.0 | 31.5 | 179.6 | 44.9 | 1,853.6 | 423.0 |
| Cash | 32.7 | 6.2 | 6.6 | 2.0 | 3.5 | 1.8 | 4.3 | 1.1 | 47.1 | 11.1 |
| Debt | (607.2) | (114.7) | (253.3) | (76.0) | (44.9) | (22.5) | (100.9) | (25.2) | (1,006.3) | (238.4) |
| Swap liabilities | (11.0) | (2.0) | (27.0) | (8.1) | (2.4) | (1.2) | (6.3) | (1.6) | (46.7) | (12.9) |
| Other current assets | 1.4 | 0.3 | 0.4 | 0.1 | – | – | 2.0 | 0.5 | 3.8 | 0.9 |
| Other current liabilities | (22.0) | (4.0) | (5.9) | (1.7) | (3.0) | (1.5) | (7.1) | (1.7) | (38.0) | (8.9) |
| | 625.4 | 118.6 | 100.3 | 30.1 | 16.2 | 8.1 | 71.6 | 18.0 | 813.5 | 174.8 |
| Investment loans | (2.6) | (2.6) | – | – | (7.8) | (3.9) | (26.2) | (6.7) | (36.6) | (13.2) |
| **Net assets** | **622.8** | **116.0** | **100.3** | **30.1** | **8.4** | **4.2** | **45.4** | **11.3** | **776.9** | **161.6** |
| **Profit for the period** | **71.9** | **16.4** | **11.6** | **3.5** | **4.2** | **2.1** | **13.2** | **3.3** | **100.9** | **25.3** |
| **Adjusted net assets** | **636.4** | **104.3** | **127.3** | **38.2** | **19.4** | **9.7** | **78.0** | **19.5** | **861.1** | **171.7** |

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

## Section 3: Asset management continued

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

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

The carrying value of the Group's investment in joint ventures has increased by £11.4 million during the year ended 31 December 2011 (2010: £13.3 million), resulting in an overall carrying value of £173.0 million (2010: £161.6 million). The following table shows how the increase has been achieved.

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Investment in joint venture £m | Joint venture investment loan £m | Total interest £m | Investment in joint venture £m | Joint venture investment loan £m | Total interest £m |
| **Recognised in the income statement:** | | | | | | |
| Net portfolio contribution (NPC) | 11.1 | – | 11.1 | 7.7 | – | 7.7 |
| Minority interest share of NPC | 1.2 | – | 1.2 | 1.0 | – | 1.0 |
| Net revaluation gains | 10.7 | – | 10.7 | 18.1 | – | 18.1 |
| Deferred tax | 0.3 | – | 0.3 | (0.5) | – | (0.5) |
| Discount on interest free loans | (0.7) | 0.7 | – | (0.7) | 0.7 | – |
| Loss on cancellation of interest rate swaps | (0.4) | – | (0.4) | – | – | – |
| Ineffective swaps | 0.4 | – | 0.4 | (0.3) | – | (0.3) |
| | 22.6 | 0.7 | 23.3 | 25.3 | 0.7 | 26.0 |
| **Recognised in equity:** | | | | | | |
| Movement in effective hedges | 0.3 | – | 0.3 | (2.6) | – | (2.6) |
| Deferred tax on movement in effective hedges | (0.2) | – | (0.2) | – | – | – |
| **Other adjustments to the carrying value:** | | | | | | |
| Profit adjustment related to trading with joint venture | (2.4) | 0.2 | (2.2) | (4.0) | 0.3 | (3.7) |
| Distributions received | (8.9) | – | (8.9) | (5.4) | – | (5.4) |
| **Increase in carrying value** | **11.4** | **0.9** | **12.3** | **13.3** | **1.0** | **14.3** |
| Carrying value at 1 January | 161.6 | 13.2 | 174.8 | 148.3 | 12.2 | 160.5 |
| **Carrying value at 31 December** | **173.0** | **14.1** | **187.1** | **161.6** | **13.2** | **174.8** |

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

## Section 3: Asset management continued

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

#### c) Transactions with joint ventures

The Group acts as asset and property manager for the joint ventures and receives management fees in relation to these services. In addition, the Group is entitled to a promote fee from USAF if the joint venture outperforms certain benchmarks. The Group receives additional units in USAF as consideration for the promote fee. The Group has recognised the following management fees in its results for the year.

| | 2011 £m | 2010 £m |
|---|---|---|
| USAF | 6.3 | 5.3 |
| UCC | 3.1 | 2.8 |
| OCB | 0.9 | 0.4 |
| **Property management fees** | **10.3** | **8.5** |
| USAF | 1.2 | – |
| OCB | 0.1 | 2.1 |
| **Development management fees** | 1.3 | **2.1** |
| **Total fees** | **11.6** | **10.6** |

During the year the Group did not sell any properties to USAF. In 2010 the group sold five properties to USAF for £146.2 million. £105.7 million of the properties were held on the balance sheet as completed property within current assets, the proceeds and carrying value of the properties is therefore recognised in turnover and cost of sales in the income statement and the cash flows in operating activities. The remaining £40.5 million of properties were classified as investment properties within fixed assets, the proceeds and carrying value of the properties is therefore recognised in loss on disposal of property in the income statement and the cash flows in investing activities.

UCC properties are partly funded by debt totalling £248.4 million (2010: £253.3 million) which equates to 64.2% (2010: 66.7%) of the market value of these properties. The Group has guaranteed its share, 30%, of this debt amounting to £74.5 million (2010: £76.0 million). This guarantee only takes effect in the event that the joint venture is unable to repay the debt within nine months of it becoming due. The Group considers the likelihood of the guarantee being invoked to be remote based on the level of debt and the time frames allowed under the arrangements. These guarantees are accounted for in accordance with IFRS 4.

### 3.5 Investments in subsidiaries (Company)

**Accounting policies**

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

#### a) Carrying value of investment in subsidiaries and joint ventures

The movements in the Company's interest in unlisted subsidiaries and joint ventures during the year are as follows.

| | Investment in subsidiaries | | Investment in joint ventures | |
|---|---|---|---|---|
| | 2011 £m | 2010 £m | 2011 £m | 2010 £m |
| At 1 January | 106.8 | 96.8 | 3.7 | 1.6 |
| Disposals | – | (14.4) | – | – |
| Impact of discounting on interest free loans | – | – | – | (0.1) |
| Revaluation | 5.2 | 24.4 | (1.2) | 2.2 |
| **At 31 December** | **112.0** | **106.8** | **2.5** | **3.7** |

In addition to the equity investment in subsidiaries and joint ventures, the Company has provided an interest free loan to the USV joint venture. The carrying value of the investment loan at 31 December 2011 was £3.9 million (2010: £3.9 million).

# Notes to the financial statements continued

## Section 3: Asset management continued

### 3.5 Investments in subsidiaries (Company) continued

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

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

* Held directly by the Company.

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

#### b) Transactions with other group companies

During the year, the company entered into various interest free loans with its subsidiaries, the aggregate of which are disclosed in the cash flow statement. In addition, the Company was charged by UNITE Integrated Solutions plc for corporate costs of £2.7 million (2010: £2.3 million).

As a result of these intercompany transactions, the following amounts were due (to)/from the company's subsidiaries at the year end.

| | 2011 £m | 2010 £m |
|---|---|---|
| UNITE Holdings plc | 76.5 | 77.7 |
| UNITE Finance Ltd | – | 33.4 |
| LDC (Holdings) plc | 241.2 | 207.2 |
| **Amounts due from group undertakings** | **317.7** | **318.3** |
| | | |
| Unilodge Holding Ltd | (13.9) | (13.9) |
| Unilodge Holdings (UK) Ltd | (15.8) | (15.8) |
| **Amounts due to group undertakings** | **(29.7)** | **(29.7)** |

The Company has had a number of transactions with its joint ventures, which are disclosed in note 3.4c.

The Company has guaranteed £235 million of its subsidiary companies borrowings (2010: £192 million). The guarantees have been entered into in the normal course of business. A liability would only arise in the event of the subsidiary failing to fulfil its contractual obligations. These guarantees are accounted for in accordance with IFRS 4.

## Section 4: Funding

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

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

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

### 4.1 Borrowings

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

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

| | 2011 £m | 2010 £m |
|---|---|---|
| **Current** | | |
| In one year or less, or on demand | 29.2 | 0.3 |
| **Non-current** | | |
| In more than one year but not more than two years* | 251.9 | 68.3 |
| In more than two years but not more than five years | 140.4 | 260.3 |
| In more than five years | 29.2 | 29.2 |
| | 421.5 | 357.8 |
| **Total borrowings** | **450.7** | **358.1** |

* Since the year end £78.3 million of this debt has been refinanced through an extended facility of £82.0 million expiring in 2015.

In addition to the borrowings currently drawn as shown above, the Group has available undrawn facilities of £14.3 million (2010: £39.7 million). A further working capital facility of £20.0 million (2010: £20.0 million) is also available.

A further £132 million (2010: £227 million) of facilities are available if certain conditions are met. Of this amount £30 million (2010: £44 million) is only available for rental properties and £99 million (2010: £99 million) for development properties. The remaining amount is available for investment or development.

The carrying value of borrowings is considered to be approximate to fair value, except for the Group's fixed rate loans carried at £17.4 million (2010: £39.4 million). The fair value of these fixed rate loans has been calculated by a third party expert discounting estimated future cash flows on the basis of market expectations of future interest rates. The fair value of these loans is £18.4 million (2010: £40.8 million).

Properties with a carrying value of £696.8 million (2010: £582.4 million) have been pledged as security against the Group's borrowings.

### 4.2 Interest rate swaps

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

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

# Notes to the financial statements continued

## Section 4: Funding continued

### 4.2 Interest rate swaps continued

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

| | 2011 £m | 2010 £m |
|---|---|---|
| Current | – | 0.2 |
| Non-current | 39.0 | 37.1 |
| Fair value of interest rate swaps | 39.0 | 37.3 |

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 7 fair value hierarchy. The IFRS 7 level categorisation relates to the extent the fair value can be determined by reference to comparable market values. The classifications range from level 1 where instruments are quoted on an active market through to level 3 where the assumptions used to arrive at fair value do not have comparable market data.

### 4.3 Net financing costs

**Accounting policies**

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

| Recognised in the income statement: | 2011 £m | 2010 £m |
|---|---|---|
| Finance income | | |
| – Interest income on deposit | (0.1) | (0.2) |
| – Impact of discounting on interest free joint venture investment loans (note 3.4b) | (0.7) | (0.7) |
| **Finance income** | **(0.8)** | **(0.9)** |
| Gross interest expense on loans | 15.8 | 16.3 |
| Interest capitalised | (7.1) | (2.5) |
| Loan interest and similar charges | 8.7 | 13.8 |
| Changes in mark to market of interest rate swaps not accounted for as hedges | 10.6 | 18.6 |
| **Finance costs** | **19.3** | **32.4** |
| **Net financing costs** | **18.5** | **31.5** |

The Group's overall average cost of debt as at 31 December 2011 is 5.7% (2010: 6.9%). The average cost of the Group's investment debt at 31 December 2011 is 5.4% (2010: 6.1%). This excluded £27 million of swaps and associated debt which are not specifically allocated to properties, see note 4.5a(i) for further details.

## Section 4: Funding continued

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

The Group's gearing ratios are calculated as follows:

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| Cash and cash equivalents | 5.1 | 16.8 | 23.8 |
| Current borrowings | 4.1 | (29.2) | (0.3) |
| Non-current borrowings | 4.1 | (421.5) | (357.8) |
| Interest rate swaps liabilities | 4.2 | (39.0) | (37.3) |
| **Net debt per balance sheet** | | **(472.9)** | **(371.6)** |
| Mark to market of interest rate swaps | | 38.9 | 37.0 |
| **Adjusted net debt** | | **(434.0)** | **(334.6)** |
| Reported net asset value (attributable to owners of the parent company) | 2.4c | 387.6 | 387.5 |
| Adjusted net asset value | 2.4c | 514.5 | 474.5 |
| **Gearing** | | | |
| Basic (Net debt/Reported net asset value) | | 122% | 96% |
| Adjusted gearing (Adjusted net debt/Adjusted net asset value) | | 84% | 71% |
| See-through adjusted gearing (including share of JV properties and net debt) | | 126% | 115% |

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

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

##### i) Development and refinancing
After taking account of interest rate swaps, £36 million (89%) of the Group's development borrowing at 31 December 2011 (2010: £27 million (41%)) is fixed. The Group will continue to review the level of its hedging in the light of the current low interest rate environment.

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

The Group currently manages this risk by retaining swaps of £27 million relating to loans against properties that have been sold with the intention of allocating them against imminent new developments. Prior to this reallocation these swaps were commercially hedging loans against rental properties. The Group's policy also allows this exposure to be managed through the use of forward starting swaps.

## Section 4: Funding continued

### 4.5 Financial risk factors continued

**a) Interest rate risk continued**

ii) Medium and long-term finance

The Group holds its medium and long-term bank finance under floating rate arrangements. The majority of this debt is hedged through the use of interest rate swap agreements, although not all these arrangements qualify for hedge accounting under IAS 39. During 2011, the Group's policy guideline has been to hedge in excess of 75% of the Group's exposure for terms of approximately 2-15 years.

At 31 December 2011, after taking account of interest rate swaps, 69% (2010: 97%) of the Group's medium and long-term investment borrowing was held at fixed rates. This was temporarily below the hedging policy guideline of 75%. New funding facilities are to be put in place in early 2012 which will require further hedging taking the hedge ratio above 75% again. Excluding the £27 million of swaps the fixed investment borrowing is at an average rate of 5.7% (2010: 6.8%) for an average period of 2 years (2010: 3 years), including these swaps the average rate is 5.4%.

The Group holds interest rate swaps at 31 December 2011 against £302.9 million (£295.6 million) of the Group's borrowings. The maturity of these swaps and the applicable interest rates are as follows:

| | 2011 Nominal amount hedged £m | 2011 Applicable interest rates % | 2010 Nominal amount hedged £m | 2010 Applicable interest rates % |
|---|---|---|---|---|
| Within one year | – | – | 5.0 | 4.8 |
| Between one and two years | 27.6 | 5.2-5.3 | – | – |
| Between two and five years | 242.5 | 2.8-5.8 | 243.5 | 5.2-5.8 |
| More than five years | 32.8 | 5.3-5.6 | 47.1 | 4.50-5.6 |

At 31 December 2011, if interest rates had increased/decreased by 1%, pre-tax profit for the year would have been £0.8 million (2010: £0.3 million) lower/higher.

**b) Liquidity risk**

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

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

2011

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

2010

| | Total contractual cash flows £m | Less than 1 year £m | Between 1 and 2 years £m | Between 2 and 5 years £m | Over 5 years £m |
|---|---|---|---|---|---|
| Bank and other loans | 398.2 | 11.0 | 78.8 | 272.5 | 35.9 |
| Trade and other payables | 52.8 | 52.8 | – | – | – |
| | | | | | |
| Interest rate swaps – effective | 6.1 | 1.8 | 1.6 | 2.0 | 0.7 |
| Interest rate swaps – ineffective | 46.4 | 11.4 | 11.4 | 21.4 | 2.2 |
| | 503.5 | 77.0 | 91.8 | 295.9 | 38.8 |

# Section 4: Funding continued

## 4.5 Financial risk factors continued

### c) Covenant compliance

Many of the Group's funding facilities carry covenants. The Group monitors its covenant position and the headroom available on an ongoing basis. At 31 December 2011, the Group was in full compliance with all of its borrowing covenants. The Group is able to use available cash to reduce debt to increase headroom on its loan to value (LTV) covenants. The covenant headroom position is outlined below and assumes that available cash is used to reduce debt.

| | 31 December 2011 | | 31 December 2010 | |
|---|---|---|---|---|
| | Weighted covenant | Weighted actual | Weighted covenant | Weighted actual |
| Loan to value | 74% | 56%* | 74% | 54%* |
| Interest cover | 1.18 | 1.74 | 1.11 | 1.60 |
| Minimum net worth | £250m | £515m | £250m | £475m |

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

## 4.6 Operating leases

### a) Payable

**Accounting policies**

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

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

| | 2011 £m | 2010 £m |
|---|---|---|
| Less than one year | 14.5 | 14.2 |
| Between one and five years | 57.2 | 56.6 |
| More than five years | 226.5 | 211.5 |
| **Total** | **298.2** | **282.3** |

These leases primarily relate to properties which the group has sold and leased back and on which rental income is earned. The leases are generally for periods between 17 and 25 years and subject to annual RPI-based rent review. One property is subject to a fixed annual rent increase of 2%. The total operating lease expenditure incurred during the year was £14.6 million (2010: £14.5 million)

### b) Receivable

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

| | 2011 £m | 2010 £m |
|---|---|---|
| Less than one year | 52.0 | 40.8 |
| Between one and five years | 22.3 | 26.1 |
| More than five years | 13.4 | 14.7 |
| **Total** | **87.7** | **81.6** |

## Notes to the financial statements continued

### Section 4: Funding continued

#### 4.7 Capital management

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

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

- adjusted net debt (4.4)
- adjusted gearing (4.4)
- see through LTV (2.4a)
- weighted average cost of investment debt (4.5aii)

In order to manage levels of adjusted gearing over the medium term, the Group seeks to deliver NAV growth and to dispose of non-core property assets in order to offset capital that is committed to development activity. £100 million to £150 million of non-core property disposals are targeted by December 2012. The Group targets new developments with a yield on cost of approximately 9%. The Group does not commit to developing new sites until sufficient equity and funding to fulfil the full cost of the development is secure.

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

#### 4.8 Equity

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

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

| | Number of ordinary shares | |
|---|---|---|
| | 2011 | 2010 |
| Issued at start of year – fully paid | 160,268,343 | 159,606,942 |
| Shares issued to long-term incentive plan | – | 640,000 |
| Share options exercised | 3,117 | 21,401 |
| Issued at end of year – fully paid | 160,271,460 | 160,268,343 |

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

#### 4.9 Dividends

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

During the year, the Company declared and paid an interim dividend of £0.8 million (2010: £nil). After the year end, the Directors proposed a final dividend of 1.25p per share. No provision has been made in relation to this dividend.

## Section 5: Working capital

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

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

### 5.1 Cash

#### Accounting policies

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

The Group's cash position at 31 December 2011 was £16.8 million (2010: £23.8 million).

The Company's cash position at 31 December 2011 was £0.1 million (2010: £0.5 million).

The Group's cash balances include £14.5 million (2010: £15.6 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 | | Company | |
|---|---|---|---|---|---|
| | Note | 2011 £m | 2010 £m | 2011 £m | 2010 £m |
| Profit/(loss) for the year | | 3.9 | 21.3 | (0.9) | (2.6) |
| Adjustments for: | | | | | |
| Depreciation and amortisation | 3.3 | 4.1 | 3.3 | – | – |
| Dividends receivable | | – | – | (2.3) | – |
| Fair value of share based payments | 6.1 | 1.2 | 1.3 | – | – |
| Impairment of fixed assets | 3.3 | 3.7 | – | – | – |
| Change in value of investment property | 3.1 | (7.7) | (15.4) | – | – |
| Net finance costs | 4.3 | 18.5 | 31.5 | 0.1 | 0.1 |
| Loss on disposal of investment property | | 0.2 | 2.9 | – | – |
| Share of joint venture profit | 3.4b | (22.6) | (25.3) | – | – |
| Trading with joint venture adjustment | | 2.2 | 3.7 | – | – |
| Tax charge | 2.6a | 0.8 | 2.9 | – | – |
| **Cash flows from operating activities before changes in working capital** | | **4.3** | **26.2** | **(3.1)** | **(2.5)** |
| Decrease in trade and other receivables | | 1.2 | 2.5 | – | (0.1) |
| (Increase)/decrease in completed property and property under development | | (114.7) | 24.7 | – | – |
| (Increase)/decrease in inventories | | (6.8) | 4.9 | – | – |
| Increase/(decrease) in trade and other payables | | 31.0 | (18.2) | 0.7 | (0.3) |
| Increase in provisions | | 11.0 | – | – | – |
| **Cash flows from operating activities** | | **(74.0)** | **40.1** | **(2.4)** | **(2.9)** |

Cash flows consist of the following segmental cash inflows/(outflows): Operations £13.8 million (2010: £0.6 million), property (£17.2 million (2010: (25.9 million) and unallocated (£3.6 million) (2010: £0.3 million). The unallocated amount includes restructuring (£1.4 million) (2010: £nil), Group dividends (£0.8 million) (2010: £nil), dividend payable to minority interests (£0.7 million) (2010: (£0.7 million)) and tax payable of (£0.6 million) (2010: £0.8 million).

## Section 5: Working capital continued

### 5.2 Trade and other receivables

**Accounting policies**
Trade receivables are initially recognised at the amount invoiced to the customer (fair value) and subsequently at the amounts considered recoverable (amortised cost). Estimates are used in determining the level of receivables that will not, in the opinion of the Board, be collected. These estimates include such factors as historical experience and industry specific factors. A provision for impairment of trade receivables is established when there is sufficient evidence that the Group will not be able to collect all amounts due. The carrying value of trade receivables is considered to approximate fair value.

Trade and other receivables can be analysed as follows, all trade and other receivables are current.

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 £m | 2010 £m | 2011 £m | 2010 £m |
| Trade receivables | 6.7 | 12.0 | – | – |
| Amounts due from group undertakings | – | – | 317.7 | 318.3 |
| Amounts owed by joint ventures | 13.4 | 20.2 | – | – |
| Prepayments and accrued income | 19.5 | 11.8 | – | – |
| Other receivables | 1.4 | 0.6 | – | – |
| **Trade and other receivables** | **41.0** | **44.6** | **317.7** | **318.3** |

The Group offers tenancy contracts to commercial (Universities and retail unit tenants) and individual tenants based on the academic year. The Group monitors and manages the recoverability of its receivables based on the academic year to which the amounts relate. Rental income is payable immediately, therefore all receivables relating to tenants are passed the payment due date.

2011

| | Ageing by academic year | | | |
|---|---|---|---|---|
| | Total £m | 2011/12 £m | 2010/11 £m | Prior years £m |
| **Rental debtors** | | | | |
| Commercial tenants (past due and impaired) | 4.3 | 4.3 | – | – |
| Individual tenants (past due and impaired) | 6.3 | 1.0 | 2.0 | 3.3 |
| Provisions carried | (5.9) | (1.2) | (1.7) | (3.0) |
| Rental debtors (past due but not impaired) | 4.7 | 4.1 | 0.3 | 0.3 |
| Manufacturing debtors (not past due or impaired) | 2.0 | 2.0 | – | – |
| **Trade receivables** | **6.7** | **6.1** | **0.3** | **0.3** |

2010

| | Ageing by academic year | | | |
|---|---|---|---|---|
| | Total £m | 2010/11 £m | 2009/10 £m | Prior years £m |
| **Rental debtors** | | | | |
| Commercial tenants (past due and impaired) | 8.1 | 6.7 | 0.8 | 0.6 |
| Individual tenants (past due and impaired) | 8.0 | 2.3 | 3.8 | 1.9 |
| Provisions carried | (6.3) | (1.0) | (3.3) | (2.0) |
| Rental debtors (past due but not impaired) | 9.8 | 8.0 | 1.3 | 0.5 |
| Manufacturing debtors (not past due or impaired) | 2.2 | 2.2 | – | – |
| **Trade receivables** | **12.0** | **10.2** | **1.3** | **0.5** |

Amounts receivable from joint ventures are not past due or impaired.

As at 31 December 2011, trade receivables of £10.6 million (2010: £16.1 million) were provided against. Movements in the Group's provision for impairment of trade receivables can be shown as follows:

| | 2011 £m | 2010 £m |
|---|---|---|
| At 1 January | 6.3 | 3.5 |
| Impairment charged to income statement in year | 2.6 | 2.8 |
| Receivables written off during the year (utilisation of provision) | (3.0) | – |
| **At 31 December** | **5.9** | **6.3** |

## Section 5: Working capital continued

### 5.3 Credit risk

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

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

| | Note | 2011 £m | 2010 £m |
|---|---|---|---|
| Cash | 5.1 | 16.8 | 23.8 |
| Trade receivables | 5.2 | 6.7 | 12.0 |
| Amounts due by joint ventures (excluding loans that are capital in nature) | 5.2 | 13.4 | 20.2 |
| Joint venture investment loans | 3.4b | 14.1 | 13.2 |
| | | **51.0** | **69.2** |

#### a) Cash

The Group operates investment guidelines with respect to surplus cash. Counterparty limits for cash deposits are largely based upon long-term ratings published by credit rating agencies and credit default swap rates.

#### b) Trade receivables

The Group's customers can be split into three groups – (i) students (individuals), (ii) commercial organisations including Universities and (iii) manufacturing customers. The Group's exposure to credit risk is influenced by the characteristics of each customer. The Group holds tenant deposits of £9.0 million (2010: £8.1 million) as collateral against individual customers.

#### c) Joint ventures

Amounts receivable from joint ventures fall into two categories – working capital balances and investment loans.

### 5.4 Trade and other payables

#### Accounting policies

Trade payables are initially recognised at the value of the invoice received from a supplier (fair value) and subsequently at amortised cost. The carrying value of trade payables is considered approximate to fair value.

Trade and other payables due within one year can be analysed as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 £m | 2010 £m | 2011 £m | 2010 £m |
| Trade payables | 9.7 | 4.7 | – | – |
| Retentions on construction contracts for properties | 3.1 | 2.4 | – | – |
| Amounts due to group undertakings | – | – | 29.7 | 29.7 |
| Other payables and accrued expenses | 53.0 | 30.3 | 3.0 | 2.3 |
| Deferred income | 18.6 | 15.4 | – | – |
| **Trade and other payables** | **84.4** | **52.8** | **32.7** | **32.0** |

Other payable and accrued expenses include £9.0 million (2010: £8.1 million) in relation to customer deposits. These will be returned at the end of the tenancy subject to the condition of the accommodation and payment of any outstanding amounts.

# Notes to the financial statements continued

## Section 6: Key management and employee benefits

**The Group's greatest resource is its staff and it works hard to develop and retain its people. The remuneration policies in place are aimed to help recognise the contribution that UNITE's people make to the performance of the Group.**

**Over the next couple of pages you will find disclosures on wages and salaries and share option schemes which allow employees of the Group to take an equity interest in the Group.**

### 6.1 Staff numbers and costs

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

| | Number of employees | |
|---|---|---|
| | 2011 | 2010 |
| Managerial and administrative | 371 | 370 |
| Site operatives | 606 | 543 |
| | **977** | **913** |

The aggregate payroll costs of these persons were as follows:

| | 2011 £m | 2010 £m |
|---|---|---|
| Wages and salaries | 30.7 | 27.7 |
| Social security costs | 3.2 | 2.9 |
| Pension costs | 0.7 | 0.6 |
| Fair value of share based payments | 1.2 | 1.3 |
| | **35.8** | **32.5** |

The staff numbers above are average full-time equivalents and therefore are only marginally affected by the reduction in headcount as a result of the restructure late in 2011. Managerial and administrative full-time equivalents in December 2011 amounted to 354 (2010: 378), a reduction of 24.

The wages and salaries costs include redundancy costs of £1.1 million (2010: £0.3 million).

**Accounting policies**

The Group operates a defined contribution pension scheme. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

### 6.2 Key management personnel

The Board considers that the key management personnel within the Group are those appointed to the Board. As such, the remuneration of key management personnel is contained within the Remuneration Report on pages 53 to 60.

## Section 6: Key management and employee benefits continued

### 6.3 Share based compensation

A transaction is classified as a share based transaction where the Group receives services from employees and pays for these in shares or similar equity instruments. The Group operates a number of share-based compensation schemes allowing employees to acquire shares in the Company.

#### a) Share schemes

The Group operates the following schemes:

| | |
|---|---|
| Executive share option scheme – 'The Approved Scheme'<br>Executive share option scheme – 'The Unapproved Scheme'<br>Executive Long-Term Incentive Plan (LTIP) | Details can be found in the Directors' Remuneration Report |
| Save As You Earn Scheme (SAYE) | Open to employees, vesting periods of three to five years, service condition |
| Employee Share Ownership (ESOT) | Used to award part of Directors' and senior managers' bonuses in shares, vest after three years continued service |

#### b) Outstanding share options

The table below summarises the movements in the number of share options outstanding for the Group and their average exercise price:

| | Weighted average exercise price 2011 | Number of options (thousands) 2011 | Weighted average exercise price 2010 | Number of options (thousands) 2010 |
|---|---|---|---|---|
| Outstanding at 1 January | £1.92 | 875 | £2.08 | 877 |
| Forfeited during the year | £1.21 | (355) | £2.31 | (181) |
| Exercised during the year | £1.90 | (3) | £2.38 | (20) |
| Granted during the year | £0.41 | 1,858 | £1.62 | 199 |
| **Outstanding at 31 December** | £0.85 | 2,375 | £1.92 | 875 |
| **Exercisable at 31 December** | £1.92 | 439 | £1.97 | 474 |

For those options exercised in the year, the average share price during 2011 was £2.08 (2010: £2.97).

For those options still outstanding, the range of exercise prices at the year end was 0p to 344p (2010: 129p to 344p) and the weighted average remaining contractual life of these options was 0.9 years (2010: 1.5 years).

The Group funds the purchase of its own shares by the 'Employee Share Ownership Trust' to meet the obligations of the LTIP and executive bonus scheme. The purchases are shown as 'Own shares acquired' in retained earnings.

The accounting is in accordance with the relevant standards. No further information is given as the amounts for share based payments are immaterial.

# Five year record

| | | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|
| Adjusted diluted net asset value per share (pence)* | | 318 | 295 | 265 | 306 | 374 |
| Net asset value per share (pence) | | 242 | 242 | 229 | 252 | 337 |
| Adjusted net assets (£m) | | 515 | 475 | 423 | 483 | 587 |
| IFRS net assets (£m) | | 388 | 388 | 366 | 320 | 450 |
| Managed portfolio value (£m) | | 2,502 | 2,334 | 2,039 | 1,829 | 1,723 |
| Gearing | adjusted (%) | 84 | 71 | 92 | 131 | 106 |
| | including share of co investment funds (%) | 126 | 115 | 133 | 174 | 136 |
| | on balance sheet (%) | 122 | 96 | 115 | 180 | 121 |
| Rental income | from wholly owned assets (£m) | 64 | 64 | 58 | 58 | 63 |
| | including share of co investment funds (%) | 96 | 89 | 82 | 78 | 82 |
| Net portfolio contribution (£m) | | 11 | 4 | 1 | (5) | (2) |
| Adjusted profit/(loss) before tax (£m) | | (16) | (1) | (32) | (57) | (66) |
| Profit/(loss) before tax (£m) | | 5 | 24 | (35) | (116) | (37) |
| Earnings per share | adjusted (pence) | (10) | 0 | (24) | (45) | (54) |
| | basic (pence) | 1 | 12 | (26) | (92) | (30) |

* Net asset values and earnings per share (EPS) for 2008 and prior years have been restated in accordance with the retrospective adjustment requirements of IAS 33 EPS with regard to share capital issued in October 2009.

# Notice of annual general meeting

Notice is hereby given that the annual general meeting (AGM) of The UNITE Group plc (the 'Company') will be held at The Core, 40 St Thomas Street, Bristol BS1 6JX at 9.30am on 17 May 2012 for the purpose of considering and, if thought fit, passing the following resolutions which, in the case of resolutions numbered 1 to 15 (inclusive), shall be proposed as ordinary resolutions and, in the case of resolutions numbered 16 and 17, shall be proposed as special resolutions.

## Ordinary business

1. To receive the audited annual accounts of the Company for the year ended 31 December 2011, together with the Directors' Report and Auditor's Report on those accounts and that section of the remuneration report subject to audit
2. To confirm and declare a final dividend on the ordinary shares for the year ended 31 December 2011 of 1.25p per ordinary share payable to shareholders on the register at the close of business on 20 April 2012
3. To approve the Directors' Remuneration Report for the year ended 31 December 2011
4. To appoint Mrs M K Wolstenholme as a Director of the Company
5. To re-appoint Mr P M White as a Director of the Company
6. To re-appoint Mr M C Allan as a Director of the Company
7. To re-appoint Mr J J Lister as a Director of the Company
8. To appoint Mr R C Simpson as a Director of the Company
9. To appoint Mr R S Smith as a Director of the Company
10. To re-appoint Mr S R H Beevor as a Director of the Company
11. To re-appoint Mr R S Walker as a Director of the Company
12. To re-appoint Sir Tim Wilson as a Director of the Company
13. To re-appoint KPMG Audit Plc as auditors to hold office until the conclusion of the next general meeting of the Company at which accounts are laid
14. To authorise the Directors to determine the remuneration of the auditors

## Special business

15. That, in substitution for any equivalent authorities and powers granted to the Directors prior to the passing of this resolution, the Directors be and are generally and unconditionally authorised pursuant to Section 551 of the Companies Act 2006 (the 'Act'):

    (a) to exercise all powers of the Company to allot shares in the Company, and grant rights to subscribe for or to convert any security into shares of the Company, up to an aggregate nominal amount of £13,355,955 (such amount to be reduced by the nominal amount of any allotments or grants made under paragraph (b) below in excess of £13,355,955; and further;

    (b) to allot equity securities (as defined by Section 560(1) of the Act) up to an aggregate nominal amount of £26,711,910 (such amount to be reduced by the nominal amount of any allotments or grants made under paragraph (a) above) in connection with an offer by way of rights issue:

        (i) in favour of holders of ordinary shares in the capital of the Company, where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as practicable), to the respective number of ordinary shares in the capital of the Company held by them; and

        (ii) to holders of any other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,

        but subject to such exclusions or other arrangements as the Directors consider expedient in relation to treasury shares, fractional entitlements, legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange or any other matter whatsoever,

    provided that this authority shall expire (unless renewed, varied or revoked by the Company in general meeting), on the date falling 15 months from the passing of this Resolution or, if earlier, at the conclusion of the next AGM of the Company to be held following the passing of this Resolution, save that the Company may, before such expiry, make an offer or enter into an agreement which would or might require shares in the Company to be allotted or rights to subscribe for or convert securities into shares be granted after such expiry and the directors may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of such offer or agreement as if this authority had not expired.

16. That, in accordance with Section 570(1) of the Act, the directors be and are empowered to allot equity securities (within the meaning of Section 560(1) of the Act) pursuant to the general authority conferred on them by Resolution 15 above as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited:

    (a) to the allotment of equity securities in connection with an offer or issue to or in favour of ordinary shareholders on the register on a date fixed by the Directors where the equity securities respectively attributable to the interests of all those shareholders are proportionate (as nearly as practicable) to the respective numbers of ordinary shares held by them on that date, but the Directors may make such exclusions or other arrangements as they consider expedient in relation to fractional entitlements, legal or practical problems under the laws in any territory or the requirements of any relevant regulatory body or stock exchange; and

(b) to the allotment (other than under (a) above) of equity securities having a nominal value not exceeding in aggregate £2,003,393

and this authority shall expire on the date falling 15 months from the passing of this Resolution, or, if earlier, at the conclusion of the next AGM of the Company to be held following the passing of this resolution, save that the Company may, before this authority expires, make an offer or agreement which would or might require equity securities to be allotted after it expires and the Directors may allot equity securities in pursuance of such offer or agreement as if this authority had not expired and provided further that this authority shall supersede and revoke all previous authorities under Section 570(1) of the Act.

17. That a general meeting other than an AGM may be called on not less than 14 clear days' notice.

By order of the board
A D Reid
Secretary
Dated 1 March 2012

Registered office:
The Core
40 St Thomas Street
Bristol
BS1 6JX

## Notes

1. A member of the Company who wishes to attend the meeting in person should arrive at the offices of the Company, The Core, 40 St Thomas Street, Bristol BS1 6JX in good time before the meeting, which will commence at 9.30am. In order to gain admittance to the meeting, members may be required to produce their attendance card, which is attached to the form of proxy enclosed with this document, or otherwise prove their identity.
2. A member of the Company who is unable or does not wish to attend the meeting is entitled to appoint a proxy to exercise all or any of his/her rights to attend and to speak and vote on his/her behalf at the meeting. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A proxy need not be a member of the Company but must attend the meeting to represent his/her appointing member. Appointing a proxy will not prevent a member from attending in person and voting at the meeting. A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. A form of proxy which may be used to make such appointment and give proxy instructions accompanies this notice. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
3. To be valid, any form of proxy, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, must be received by hand or by post at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY, no later than 9.30am on 15 May 2012.
4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
5. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear's specifications, and must contain the information required for such instruction, as described in the CREST manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be a valid, be transmitted so as to be received by the Company's agent (CREST ID 3RA50) by the latest time for receipt of proxy appointments specified in note 3 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
6. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his/her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.
7. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).
8. If you would like to submit your proxy vote via the internet, you can do so by accessing our registrar's website (www.eproxyappointment.com). You will require the control number, your unique PIN (which will expire at the end of the voting period) and your Shareholder Reference Number (SRN), printed on the proxy card, in order to log in and submit your proxy vote electronically. You can access this site from any internet enabled PC.
9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

10. If you submit more than one valid proxy appointment in respect of the same shares, the appointment received last before the latest time for the receipt of proxies will take precedence.
11. Any person to whom this notice is sent who is a person nominated under section 146 of the Act to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
12. The statement of the rights of shareholders in relation to the appointment of proxies above does not apply to Nominated Persons. These rights can only be exercised by shareholders of the Company.
13. Pursuant to Part 13 of the Companies Act 2006 and Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), the Company specifies that only those shareholders registered in the register of members of the Company at 5.00pm two days before the meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
14. As at 1 March 2012 the Company's issued share capital consists of 160,271,460 ordinary shares carrying one vote each. Therefore the total voting rights in the Company as at 1 March 2012 are 160,271,460.
15. You may not use any electronic address provided either in this notice of meeting or any related documents (including the proxy form) to communicate with the Company for any purposes other than those expressly stated.
16. Members attending the meeting have the right to ask and, subject to the provisions of the Act, the Company must cause to be answered, any questions relating to the business being dealt with at the meeting.
17. The following information is available at www.unite-group.co.uk (1) the matters set out in this notice of AGM; (2) the total numbers of shares in the Company in respect of which members are entitled to exercise voting rights at the meeting; (3) the totals of the voting rights that members are entitled to exercise at the meeting; and (4) members' statements, members' resolutions and members' matters of business received by the Company after the date on which notice of the meeting was given.
18. It is possible that, pursuant to requests made by members of the Company under Section 527 of the Act, the Company may be required to publish on a website a statement setting out any matter relating to: (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the AGM; or (b) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Act. The Company may not require the members requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under Section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the meeting includes any statement that the Company has been required under Section 527 of the Act to publish on a website.
19. In accordance with Section 338 of the Act, a member or members of the Company may (provided that the criteria set out in Section 338(3) of the Act are met) require the Company to give to members notice of a resolution which may properly be moved and is intended to be moved at the meeting, provided that: (a) the resolution must not be, if passed, ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise); and (b) the resolution must not be defamatory of any person, frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must be authenticated by the person or persons making it, must identify the resolution of which notice is to be given and must be received by the Company not later than six weeks before the meeting, or, if later, the time at which notice is given of the meeting. (In the foregoing sentence, the terms 'hard copy form', 'electronic form' and 'authenticated' bear their respective meanings set out in the Act in relation to a communication, or a document or information sent or supplied, to a company.)
20. In accordance with Section 338A of the Act, a member or members of the Company may (provided that the criteria set out in Section 338A (3) of the Act are met) require the Company to include in the business to be dealt with at the meeting a matter (other than a proposed resolution) which may properly be included in the business of the meeting, provided that the matter is not defamatory of any person, frivolous or vexatious. A request may be in hard copy form or electronic form, must identify the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person or persons making it and must be received by the Company not later than six weeks before the meeting, or, if later, the time at which notice is given of the AGM. (In the foregoing sentence, the terms 'hard copy form', 'electronic form' and 'authenticated' bear the respective meanings set out in the Act in relation to a communication, or a document or information sent or supplied, to a company.)
21. A member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways: Either by the appointment of a proxy (as described in the notes above) or of a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the Company's articles of association and the relevant provisions of the Act.
22. The following documents are available for inspection at the registered office of the Company during the usual business hours on any weekday (Saturday, Sunday or public holidays excluded) from the date of this notice until the conclusion of the AGM and will also be available for inspection at the place of the meeting from 9.15am on the day of the meeting until its conclusion:
    (a) copies of the Executive Directors' service contracts with the Company and any of its subsidiary undertakings
    (b) and letters of appointment of the Non-Executive Directors.

# Glossary

### Adjusted earnings per share
The diluted earnings per share based on adjusted profit.

### Adjusted, fully diluted net asset value per share (Adjusted NAV)
The basic NAV per share figure is recalculated to take account of dilutive outstanding share options and adjusted to:

- exclude the impact of deferred tax
- exclude the mark to market of interest rate swaps
- include the valuation gain not recognised on properties held at cost

### Adjusted gearing
Adjusted net debt as a percentage of adjusted net assets.

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

### Adjusted net debt to property assets
The adjusted net debt as a percentage of the value of UNITE properties.

### Adjusted profit
Adjusted profit is prepared on the basis recommended for real estate companies by EPRA, the European Public Real Estate Association, except for profits from disposal of assets (see note 2.3(a) for details). This excludes movements relating to changes in values of investment properties and interest rate swaps and the related tax effects.

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

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

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

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

### Minimum net worth
Minimum net worth covenant measures the value of the Company against an absolute target.

### Net Initial Yield (NIY or Yield)
The net operating income generated by a property expressed as a percentage of its value.

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

### Net portfolio contribution (NPC)
This is an important indicator of operational performance as it measures the income from the rental properties, net of their financing costs and the Group's total non-development related overheads.

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

### Non-core assets
Properties which do not fit with the Group's long-term investment strategy, either because of their location or operational inefficiency as a result of their size.

### OCB
UNITE successfully established a joint venture with Oasis Capital Bank (OCB) in August 2009. The joint venture consists of three assets located in London, all of which were completed in 2010.

### Rental properties
Investment and completed properties whose construction has been completed and are used by the Operations segment to generation Net Portfolio Contribution.

### Stabilising assets
Properties that have recently been developed and are not yet generating their optimal net operating income.

### Total income from managed portfolio
This measure indicates the overall scale of the property portfolio that the Group manages. It comprises rental and related income, totalling £219.6 million from properties owned by:

| | £m |
|---|---|
| The Group | 63.6 |
| Third parties | 1.1 |
| USAF | 109.5 |
| UCC | 27.1 |
| USV | 5.9 |
| OCB | 12.4 |

The Group's share of this gross income is shown in note 2.2(a).

### UCC
UNITE Capital Cities was established in 2005 as a joint venture between UNITE and GIC Real Estate. It is a closed-ended vehicle due to mature in 2013 and was established by UNITE to develop and operate student accommodation in London and Edinburgh. UCC equity is now fully invested and all development projects have been completed.

### USAF/the Fund
The UNITE UK Student Accommodation Fund (USAF) is Europe's largest fund that purely focuses on direct let student accommodation investment assets. The Fund is an open-ended infinite life vehicle which has unique buying access to UNITE's portfolio. UNITE act as Fund Manager of the Fund, as well as owning a significant minority stake.

### USV
UNITE Student Village was established in 2004 as a joint venture between UNITE and Lehman Brothers to develop large student village schemes of c1,000 bed spaces. UNITE acquired the USV stake in the one remaining operation asset from Lehman Brothers in January 2012.

## UNITE letting arrangements

### Direct Let
Properties where short-hold tenancy agreements are made directly between the commercial operator and the student.

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

### Nominations
Properties where short-hold tenancy agreements are made with students, with the University providing a longer term occupancy guarantee in respect of a significant proportion of rooms.

### Sale and lease back
Properties which have been sold to a third party investor then leased back to the Company. UNITE are responsible for the management of these assets on behalf of the owner.

# Company information

**UNITE Executive Team**
**Mark Allan**
Chief Executive

**Joe Lister**
Chief Financial Officer

**Richard Simpson**
Managing Director of Property

**Richard Smith**
Managing Director of Operations

**Nicola Yates**
Group Human Resources Director

**Paul Harris**
Group Strategy and Corporate Relations Director

**Registered office**
The Core
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**Registered number in England**
3199160

**Company Secretary**
**Andrew Reid**

**Auditors**
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**Financial Advisors**
**JP Morgan Cazenove**
20 Moorgate
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London EC4M 7LT

**Registrars**
**Computershare Investor Services PLC**
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The heart of
student living

UNITE