ESP

Creating homes, not halls

Strategic Report

Governance Report

Financial Statements

Empiric is an internally managed Real Estate Investment Trust. We invest in and operate purpose-built accommodation, to create places students can call home.

Headlines

This was a year of solid progress for Empiric. We successfully implemented key elements of our programme for transforming our operational and financial performance, with further actions in place for 2019.

Transformation on track

Operational Headlines

- Current occupancy of 96% for academic year 2018/19 (2017/18: 92%), benefiting from rigorous focus on driving revenue, although below our target for the year of 97%. Further action taken to enhance sales capabilities and attract short-term lets
- All properties brought onto the Hello Student® platform from 1 September 2018
- Facilities management for 27 assets brought in-house ahead of the 2018/19 academic year, with remainder to come in-house by 1 April 2019
- Wide range of other improvements to enhance operational performance and reduce costs, helping to ensure our business is fit for the long term
- 95 assets with 9,397 beds contracted as at 31 December 2018 (31 December 2017: 94 assets with 9,158 beds)
- 91 revenue-generating assets at the year end (31 December 2017: 85 assets), with an average valuation yield of 5.64% (31 December 2017: 5.70%)

Financial Headlines

Revenue

+25%

2018 — £64.2m *2017 — £51.2m*

Profit Before Tax

+94%

2018 — £40.3m *2017 — £20.8m*

Gross Margin

+9%

2018 — 62% *2017 — 57%*

Dividend Cover

+88%

2018 — 64% *2017 — 34%*

Administration Expenses

-33%

2018 — £9.1m *2017 — £13.5m*

Property Valuation

+9%

2018 — £970.6m *2017 — £890.1m*

At a Glance

Empiric offers students places where they want to live. Our properties are some of the best in the market and our people get to know our students, so we provide a more personal service. This approach – combined with the smaller size and individual character of our buildings – helps to foster a strong sense of community, encouraging students to stay with us in future years. In short, we offer our students homes, not halls.

Homes, not halls

Revenue-generating Assets

91

2017 — 85

Cities and Towns

29

2017 — 29

Assets Contracted

95

2017 — 94

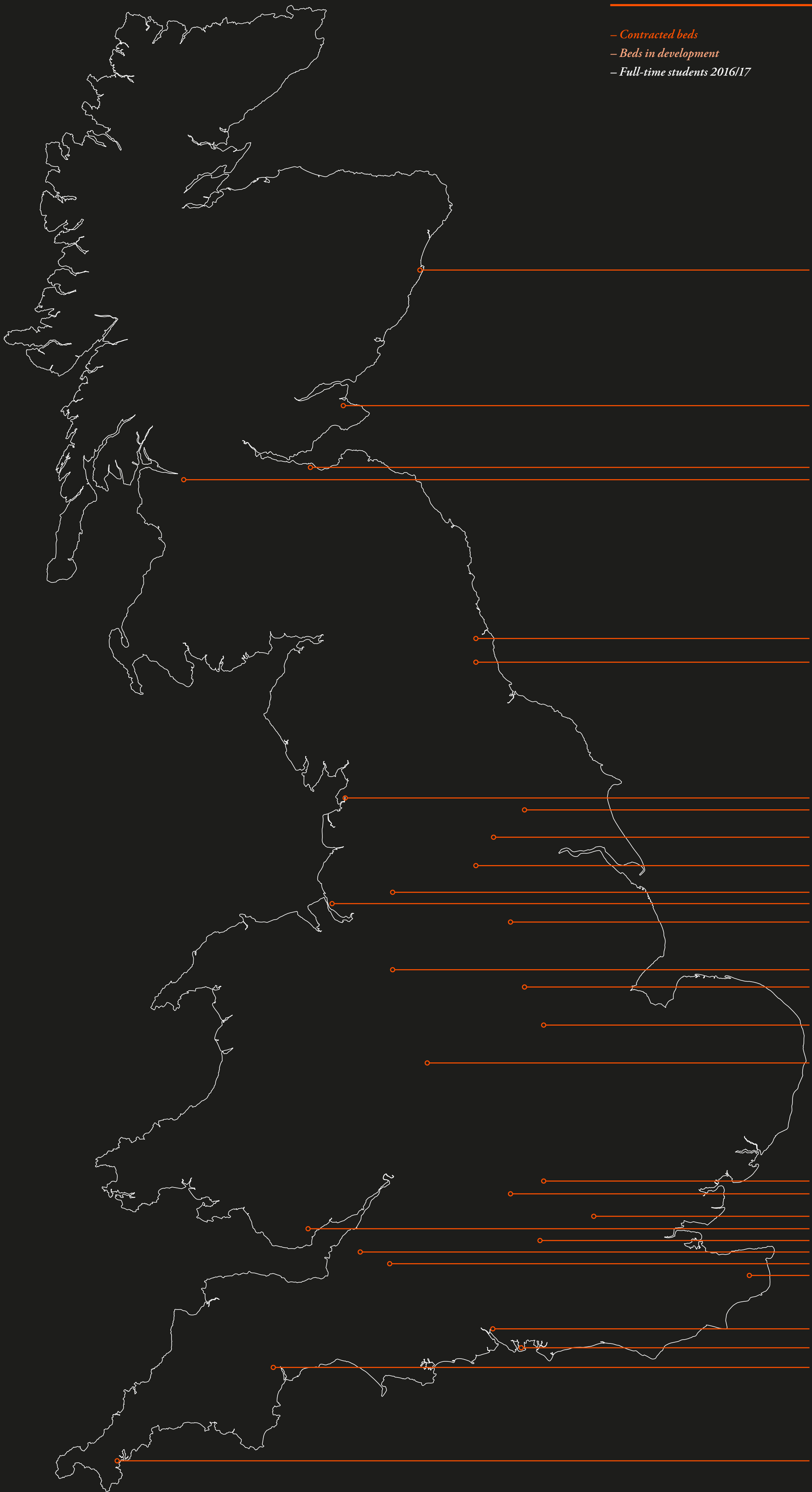
Beds Contracted

9,397

2017 — 9,158

Our properties are well located in key university towns and cities across the UK, and let to a broad range of domestic and international student customers at every stage of their journey. We market all of our assets under the Hello Student® brand.

– Contracted beds
– Beds in development
– Full-time students 2016/17



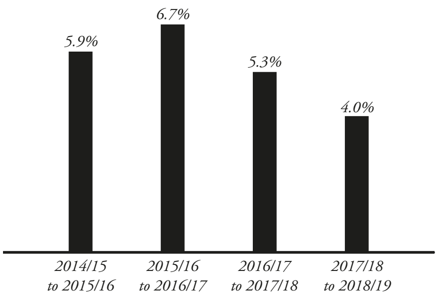
Aberdeen	*179*		*21,465*
St Andrews	*233*		*9,215*
Edinburgh	*152*	*166*	*51,315*
Glasgow	*440*		*57,350*
Newcastle	*152*		*44,620*
Durham	*109*		*14,685*
Lancaster	*207*		*13,955*
York	*441*		*21,640*
Leeds	*323*		*53,890*
Huddersfield	*277*		*14,680*
Manchester	*770*		*81,035*
Liverpool	*480*		*48,570*
Sheffield	*304*		*51,085*
Stoke	*120*		*6,975*
Nottingham	*337*		*54,165*
Leicester	*686*	*52*	*34,360*
Birmingham	*354*	*13*	*66,310*
Hatfield	*116*		*17,665*
Oxford	*44*		*33,640*
London	*221*		*298,470*
Cardiff	*519*		*37,525*
Reading	*83*		*14,885*
Bristol	*159*	*153*	*43,050*
Bath	*385*		*22,320*
Canterbury	*126*	*125*	*25,935*
Southampton	*459*		*32,445*
Portsmouth	*354*		*19,665*
Exeter	*524*		*19,350*
Falmouth	*144*	*190*	*7,465*

Our Market

Student accommodation is one of the largest alternative real estate sectors in the UK, sustained by strong demand for higher education from domestic and international students. However, the market is polarising as students are attracted to the best universities, meaning that we must remain highly selective about the towns and cities we choose to invest in.

Selectivity remains key

Total Annual UK Increase in Bed Numbers



Source: Cushman and Wakefield Student Residential Tracker 2018/19

Full-time students are the core customers for Purpose Built Student Accommodation ("PBSA"), since they are most likely to study away from home. There are currently around 1.8 million full-time students in the UK. Of these, 77% are from the UK, 7% are from the EU and 16% are non-EU international students (Source: HESA). There are now almost 630,000 PBSA bed spaces in the UK, which means that the majority of students still live in other forms of accommodation such as houses in multiple occupation ("HMOs"). However, the proportion living in PBSA continues to rise strongly, particularly in the private sector which now makes up almost half of the PBSA provision, reflecting the attractiveness of the buildings and the service and amenities they offer.

Demand for Higher Education Remains Strong

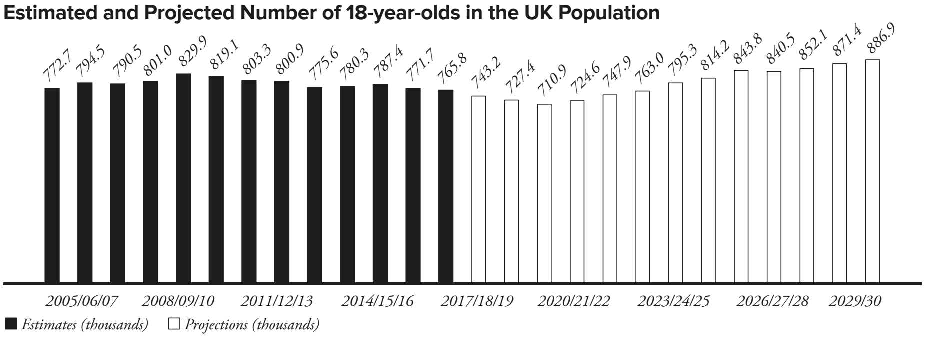
Applications for university places are an important leading indicator of demand for PBSA. For the 2018/19 academic year, total applications were down 0.6%. This was driven almost entirely by a fall in the number of people making the maximum of five applications to different universities through the main UCAS scheme before the 30th June deadline. The number of students applying to between one and four universities either increased or was stable, as more students chose not to include lower performing universities on their application list. The number of applications to institutions requiring lower grades fell by 6%, while those to mid-tier institutions fell by 3%. Applications to top-tier institutions increased by 1%. Empiric's portfolio is targeted at the higher performing universities, with 65% of our beds in Russell Group university cities.

UCAS data indicates that the UK continues to be an attractive place to study, with the number of applications from EU students in 2018/19 up over 2%, while non-EU international applications were up over 6%. The Migration Advisory Committee published its report on international students in September 2018. It found that international students bring a clear economic benefit to the UK, citing the 2015 Department for Education estimate of £17.6 billion of export value, as well as the 2018 Higher Education Policy Institute/Kaplan International Pathways estimate of £20.3 billion. The report suggested that there should continue to be no cap on the number of international students and although it did not recommend removing international students from the migration statistics, it did suggest a number of small policy changes to make the UK more welcoming to international students.

While trends in applications from UK, EU and international students are important, overall the number of applications remains well above the number of places available at UK universities. In 2018/19, there were 695,565 undergraduate applicants to UK universities and 533,360 acceptances, with the latter falling by just 0.1% compared to the prior year (Source: UCAS). Analysis of acceptances by tier of university also shows the polarisation of the market, with bottom-tier universities struggling to attract more students.

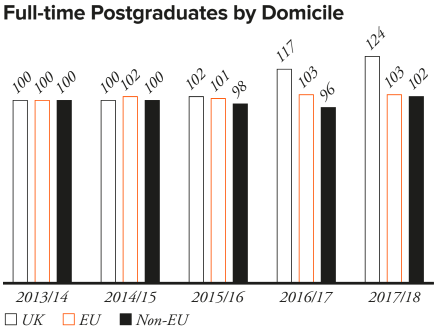
Early applications for the 2019/20 academic year were promising. Most medicine, dentistry and veterinary science courses, and all courses at Oxford and Cambridge universities, required students to apply by October 2018. UCAS statistics show that 65,870 people applied for

Estimated and Projected Number of 18-year-olds in the UK Population



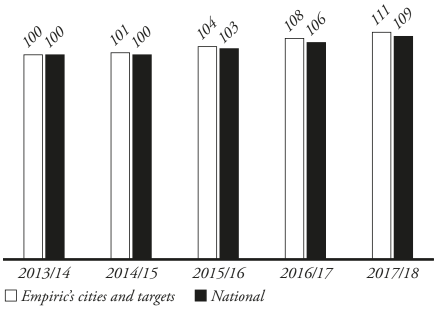
Source: ONS

Full-time Postgraduates by Domicile



Source: HESA
Rebased to 100 as of 2013/14

Growth in Full-time Students



Rebased to 100 as of 2013/14

these courses, up 7% on last year. Applications from UK students were up 9%, non-EU applications students increased by 6% and demand from the EU was little changed from last year.

There was an 11% rise in the number of 18-year-olds from England applying for October deadline courses, despite the population of young people decreasing by 2.1% this year. This decline is part of a long-term demographic trend which will bottom out in 2020, with the number of 18-year-olds rebounding sharply from 2021, as shown in the chart above. This rebound, coupled with higher participation rates, should further increase demand for higher education and PBSA in future years.

The UCAS statistics cited above only consider undergraduate admissions. Since the introduction of postgraduate loans in the UK in 2016/17, the number of placed postgraduates has grown, with a 5.7% increase in the year after their introduction (Source: HESA). This provides an additional source of demand for PBSA.

A concern for the higher education sector is the Augar review; this is currently low on the government's list of priorities and so most likely will be implemented in the next Parliament. The consensus is that the outcome will be a reduction in fees of around 25% (to c.£6,000 per annum for UK students) which should help to bolster the number of applicants, and the reduction in revenue for universities could give them a further incentive to increase their student numbers. Overall the review should be beneficial for PBSA, but the uncertainty until the publication of its conclusions will remain unhelpful.

Supply of PBSA

The supply of PBSA has grown rapidly, with a 24% increase in rooms available nationally in the four years to academic year 2018/19, including a 127% increase in the number of studios.

However, the development pipeline for student accommodation is becoming smaller in some city markets as they mature and other land uses out-compete PBSA, such as build to rent.

Attractive development opportunities remain available but site and city selectivity are key, with the cities that are home to the best-performing universities offering the greatest potential.

In addition, the majority of university towns and cities now have Article 4 Directions in place, which prevent local housing stock being converted into HMOs. This means that in locations with rising demand for student housing, new PBSA will be required to meet it. The outlook for student accommodation in the right locations therefore remains healthy.

Investment Demand

Investment demand for PBSA continues to be strong. Large volumes of funds are available for the alternative property sectors as investors turn away from major asset classes such as retail and offices. This demand comes from both UK and international investors. Investment volumes in 2018 are expected to be around £3.2 billion. In contrast to previous high-volume years, this is the result of a larger number of smaller transactions rather than fewer but larger portfolio deals. As a result, portfolios continue to attract premiums but there is now also more liquidity for smaller transactions, as the market has matured.

Investment yields for stabilised assets compressed in the first half of 2018 and were broadly stable in the second half. The level of demand and the tightening of yields make it challenging to acquire standing assets, pointing to a maturing PBSA market.

Market Yields

	Direct Let		*25-Year FRI Lease*	
	Current	*Forecast*	*Current*	*Forecast*
Prime London	*4.00%*	*Stable*	*3.50%*	*Strengthening*
Inner London	*4.50%*	*Strengthening*	*3.75%*	*Strengthening*
Prime Regional	*5.25%-5.50%*	*Strengthening*	*4.00%*	*Strengthening*
Secondary Regional	*6.00%*	*Stable*	*4.00%*	*Stable*
Other Regional	*7.00%+*	*Weakening*	*4.25%*	*Strengthening*

Source: JLL

Note: Referenced against appropriate cash flows and applies to single "best in class" assets typically 250–500 bed assets excluding any portfolio premium. These yields are intended as a guide and we would emphasise the need to appraise individual schemes on a case-by-case basis.

Our Business Model

Key Strengths ··········►

How We Add Value ··········►

Buildings

We have a diversified and attractive portfolio of properties that offer high-quality accommodation to customers ranging from first year undergraduates to postgraduates.

Our People

We have a strong and growing pool of talent, which allows us to deliver a high level of service and management.

Specialist Knowledge

We understand how to successfully develop, acquire and operate student accommodation assets.

Brand

Hello Student® is a leading brand, which gives us a clear identity in the student property market.

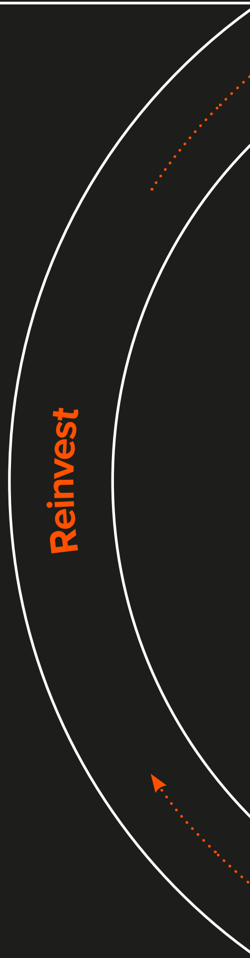
Financing

We finance our business through a combination of shareholder equity and debt facilities. Our debt has a weighted average term of 7.6 years and average interest costs of 3.26%, of which 57% are fixed and 9% are capped.

Technology

We continue to enhance our systems, to support our operations, booking and accounting.

Our business model combines strong operations, delivered in-house, with a differentiated portfolio of student properties. Together, our operations and assets enable us to create value for all our stakeholders.



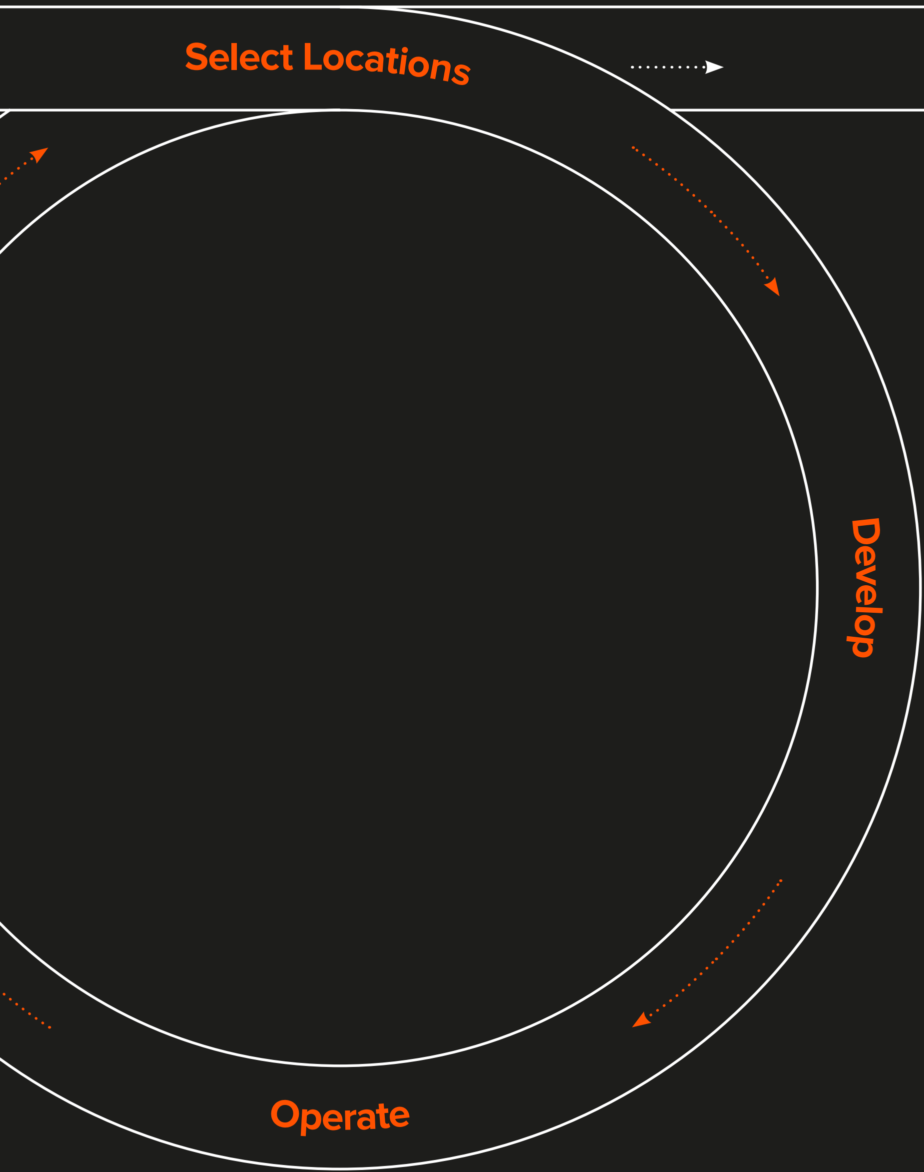
Select Locations

We are highly selective about where we invest, with a focus on the towns and cities that are home to the most successful universities and where student numbers are rising faster than average. We select sites based on their compatibility with the types of accommodation we provide (see below) and their proximity to universities and amenities.

Our investment policy enables us to invest in studio, one, two and three-bed apartments, modern townhouses and affordable apartments, These four different accommodation niches enable us to invest more deeply in a city, to generate economies of scale and better margins.

Develop

Developing assets allows us to acquire them at a greater yield on cost than buying standing assets. Forward funded projects are typically less complex than direct developments and have a lower risk profile, as the planning, construction and time risk lies with the third-party developer. These projects also have lower staffing requirements and benefit from a forward funding coupon charged to the developer. However, direct development delivers higher yielding assets than forward funding. We have a strong track record in direct development.



Outputs

Customers

Our student customers benefit from having a great place to live during their studies, at a rent that represents value for money.

Our People

Our employees have the opportunity to develop their careers in an exciting and growing sector.

Shareholders

Shareholders benefit from the rising capital value of our portfolio and growing rents, which support our dividends.

Communities

The communities around our assets benefit from reduced pressure on local housing stock and from the improvements we fund to social infrastructure in the surrounding area.

Operate

We market our assets through the Hello Student® platform. Having all our assets on one platform gives us economies of scale, helps us to cross-sell as customers move between buildings and cities, and assists with recruiting experienced and dedicated staff.

Empowering our property managers to feel ownership and pride helps us to drive occupancy and increase the number of students who rebook with us. The platform also gives us insights into asset performance, so we can adjust rents to increase occupancy, and exceed students' needs, so we can further improve our offering.

Reinvest

We intend to hold our investments for the long term. However, we may sell an asset if we see an opportunity to create more value for shareholders by reinvesting the proceeds. We therefore continually review the portfolio to ensure our capital is effectively allocated.

Our Strategic Objectives

A successful strategy

	1. Customers	2. Brand
Objectives	– Ensure high levels of tenant satisfaction are achieved in every location – Build intimate communities through building design and on-site management programme – Enable loyal customers to move building to building and city to city, while keeping them attracted to the Hello Student® brand and platform	– Improve the student experience through a consistent and high-quality approach to branding, operation and management, through the Hello Student® platform – Raise awareness of the Hello Student® consumer brand among students, to support our "fresher-to-PhD" accommodation and service offering
Progress	– We achieved a student satisfaction rating of 8.1 out of 10 – We achieved a rebookers rate of 21.3% – We continued to create communities in our buildings, through our approach to offering a more personal service to our students and through other channels, such as organising social events	– Bringing all properties on the Hello Student® platform from September 2018 will help to ensure a consistent approach to branding, operations and management, which will enhance the brand in the eyes of students – We have a new learning management system and are investing in training to promote excellent service – We launched a very successful blog on the Hello Student® website, written by students for students

We have a well-defined strategy, which is designed to deepen and widen our engagement with, and understanding of, all our stakeholders and to deliver attractive and sustainable benefits to them for the long term.

Key Performance Indicators
To see how our strategy links to our Key Performance Indicators see *page 16*

Principal Risks & Uncertainties
To see how our strategy links to our Principal Risks see *page 28*

3.

People and Operations

- Provide the majority of operational functions in-house
- Improve operational efficiency
- Develop our people, to help them provide the best customer service experience
- Continue to give our people opportunities to grow and excel within the Group
- Build gross income
- Reduce costs per bed

- All properties are now branded Hello Student®. We are on track to have facilities management in-house for all buildings from 1 April 2019
- We continually develop and train our staff, to support them in their journey with the Group
- We increased future gross income through our acquisition, development and redevelopment programmes
- We run an ongoing review of the Group and are continually finding operational and financial improvements and cost savings

4.

Buildings

- Continue to purchase core assets
- Diversify income between different markets and product types, to spread operational risk, concentrating on specific cities to increase efficiencies
- Create efficiencies in locations with existing assets, plus some additional leading university locations
- Develop in-house metrics of university performance and trajectory, to refine product types and assess locational risk
- Maximise the value from the asset portfolio by growing the portfolio profitably and sustainably

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- We purchased Southampton Emily Davies Hall
- We completed three developments for the 2018/19 academic year, all in locations where we already have assets
- We completed our second townhouse development in York, to expand our offering
- We expanded the Hello Student® platform, giving us operating efficiencies in locations with multiple assets
- We are conducting an ongoing review of all assets and city groups, which continually informs the process of reshaping the investment portfolio

5.

Shareholder Outcomes

- Improve profitability through lower cost base per city and bed
- Mitigate risk of a single-niche approach and broaden growth opportunities
- Continue to grow a high yield on cost portfolio through development
- Improve profitability through higher income per bed and rental growth

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- We increased the operating margin and dividend cover generated by the portfolio
- We added to our pipeline of forward funded and direct developments
- We developed plans to fine tune the portfolio and add further depth to cities where we can earn attractive returns

Chairman's Statement

In last year's report, the Executive Team set out a strategic programme of change, to rectify some fundamental issues with the Group's performance. We have made solid progress with this programme, which has improved our operations and supporting infrastructure, while reducing costs and maintaining high levels of service. However, there is still much more to do and the Board remains focused on the next stage of our improvement activities as we enter 2019.

A year of progress

MARK PAIN
Non-Executive Chairman
20 March 2019

The Group has made big strides with efficiency improvements, in particular by bringing facilities management in-house.

Dear Fellow Shareholder

I am pleased to report to you for the first time as Chairman of Empiric.

Performance and Business Review
To deliver the financial performance the Group is capable of, we need to maximise the occupancy of our assets. We achieved an improved level of occupancy for the 2018/19 academic year of 96%, up from 92% in the previous year. However, this was still below the 97% we consider full occupancy. As explained in the Chief Executive Officer's Review, we are taking action to generate additional bookings for this academic year.

The Group has taken big strides with efficiency improvements, in particular by bringing facilities management for 27 of our assets in-house, with the remainder coming in-house from April 2019. This will help us to deliver better service and reduce costs. Combined with our other operational efficiencies, this enabled us to achieve a gross margin of 62% for the year, up from 57% in 2017 and on the way to our target of 70%. We also applied the same rigorous focus to administrative expenses, which were significantly lower than our target of £10 million for the year. This contributed to adjusted earnings per share increasing by 72%, improving our dividend cover, as discussed below.

We continue to explore the potential disposal of non-core assets from the portfolio. Our strategy is to recycle disposal proceeds, where there are attractive opportunities to do so. The Group is financed with an LTV of 30.6%. Towards the end of 2018 we agreed a new £86.1 million ten-year debt facility, with a fixed interest rate of 3.196%. We now have £390 million of financing facilities, with an average term of 7.6 years and average interest cost of 3.26%.

Dividend
The Board has declared four quarterly dividends in respect of 2018, of 1.25 pence per share each. We therefore met our dividend target for the year of 5.0 pence per share. Adjusted earnings per share were 3.2 pence, resulting in a marked improvement in dividend cover to 64% (2017: 34%).

Board, Management and People
We were greatly saddened by the loss of Baroness Brenda Dean, who chaired Empiric from its IPO until her death in March 2018. She made an enormous contribution to the Group and more widely in her long career. In recognition, we have established the Brenda Dean Scholarship. This will run for a minimum of three years and is aimed at entrepreneurial women who need financial support to start a business. The scholarship is open to students coming through the business programmes at Nottingham University, where Brenda was a member of the University Council.

Stuart Beevor was Acting Non-Executive Chairman between March and September and I want to thank him for his considerable efforts in that position. I joined the Board on 1 September 2018, at which date Stuart resumed his former role as a Non-Executive Director and Chairman of the Remuneration Committee.

There were two other changes to Board roles during the year. In July, we appointed Lynne Fennah to the dual roles of Chief Financial Officer and Chief Operating Officer, formalising the responsibility she had already taken for our operations. In November, we appointed Tim Attlee as Chief Executive Officer. Tim was a co-founder of Empiric and our Chief Investment Officer, in addition to being Acting Chief Executive Officer since December 2017. We are delighted that Tim and Lynne are leading our Senior Leadership Team, which we have further strengthened with a number of key appointments. More information can be found in Tim's statement on *page 13*.

Since the end of the year, we have announced the appointment of Alice Avis as a Non-Executive Director. She brings a wealth of invaluable experience in driving digital transformation and operational excellence in customer-focused, multi-site businesses, which will be important for the Board as Empiric focuses on further enhancing its operations.

After nearly five years on the Board, Stephen Alston has decided not to seek re-election as a Non-Executive Director at the Annual General Meeting on 2 May 2019. On behalf of the Board, I thank him for his important contribution to the Group and wise counsel.

Bringing the running of our properties and facilities management in-house has made a considerable difference to the number of people Empiric employs. I want to welcome our new people to the Group and thank everyone for their hard work this year and their contribution to the Group's ongoing transformation.

Summary
The Group has made solid progress in 2018 but there is still more to be done to deliver the performance it is capable of. We have a strong leadership team and the right plans in place to deliver. We are also working on a longer-term strategy to grow shareholder value, so we can take advantage of the attractive opportunities that will present themselves in our market.

Chief Executive Officer's Review

In 2018, we took tough decisions and implemented the actions required to improve our performance. We are now well over the halfway stage of our transformation programme and we are starting to see results coming through. We are confident that we will see further improvements as we continue to implement our programme in 2019.

Reinvigorating the business

TIM ATTLEE
Chief Executive Officer
20 March 2019

The business is now in substantially better shape than at the start of 2018, with many improvements made.

Enhancing Performance

Our fundamental focus is on maximising revenue from our assets and minimising the associated costs, while maintaining the high standard of personal service that distinguishes us from our competitors.

The business is now in substantially better shape than at the start of 2018 and the many improvements we have made are detailed in the Operational and Financial Review. However, we were somewhat disappointed that occupancy was slightly below our target, as a number of students signed leases with us but did not arrive. To help fill the gap, we recruited a central sales team to target semester lets. This team began work on 3 January 2019. We are also evolving our sales processes and training, which will augment our ability to deliver full occupancy in the years ahead.

With all of our assets now on the Hello Student® platform and with all facilities management to be performed in-house from April 2019, we will have full operational control over our properties for first time since Empiric was founded. This will allow us to pull every available lever that affects revenue or cost.

Maximising occupancy is critical to driving revenue. During the year, we enhanced our management information and combined it with improved data and analysis from the Hello Student® website (see Operational and Financial Review), to give us detailed insights into bookings at each asset. We also tightened our processes for converting bookings into signed leases, highlighting buildings where action is needed to increase bookings. We introduced bi-weekly sales meetings, attended by the Executive Directors, Operations Director, marketing and our internal analyst, which result in documented actions and rental rate decisions by asset, helping us to drive bookings. Optimising rents in this way has given us a more sustainable level of rents across the portfolio, increasing the potential for like-for-like rental growth for the 2019/20 academic year. We are continuing to enhance our sales capabilities, including improvements to our sales processes and training.

Protecting Shareholder Value

While we are relentlessly focused on generating income to increase our dividend cover, we also recognise that we must protect the balance sheet and long-term shareholder value. This means we must constantly analyse and evaluate the portfolio. Our market is polarising, as students are increasingly attracted to the best-performing universities and turning away from lower ranked institutions. We therefore need to focus future investments in these growing markets and recycle capital from non-core assets. Our intention is to continue to redeploy capital to add depth to our offering in existing cities, so we have a broader range of product and price points that suit everyone from first year undergraduates to postgraduate students. This will also underpin our ability to enable loyal customers to move between buildings or cities, while staying with the Hello Student® brand.

People and Culture

One effect of our transformation programme has been a significant increase in the number of people we directly employ, as we bring operations in-house. At the start of the year, we directly employed just over 130 people. This had risen to 248 by the year end, with a further 69 people scheduled to join us when we take on the remainder of the facilities management from April 2019. Importantly, we have recruited an HR Director and heads of IT, facilities management and property, who have all joined the Senior Leadership Team. This gives us both the management capacity and the specialist skills we will need to take the business forward.

We continue to build a collaborative and communicative culture and look to help our people succeed in their roles through training and development. We introduced a number of changes to the way we manage, assess and train our people in 2018, with further improvements to come as we establish our in-house HR function in 2019. More information can be found in the Corporate and Social Responsibility section on *page 25*.

Portfolio Summary

At 31 December 2018, we owned or were committed to owning 95 assets, representing 9,397 beds (31 December 2017: 94 assets, 9,158 beds). Of these, 91 were revenue generating (31 December 2017: 85 assets). The revenue-generating properties had gross rent of £73.9 million for the 2018/19 academic year (2017/18 academic year: £65.3 million). Commercial revenue was £1.7 million, representing 2.1% of gross annualised rent (31 December 2017: £1.8 million, representing 2.8% of gross annualised rent). The gross rent roll is expected to increase to £79.3 million for the 2019/20 academic year, with three development projects set to become revenue generating for that year. A further two development projects are scheduled to complete for subsequent academic years.

Like-for-like income growth for the academic year 2018/19 averaged around 2% across the portfolio. We expect further rental growth for the academic year 2019/20, while continuing to prioritise occupancy levels.

Valuation

Each property in the portfolio has been independently valued by CBRE, in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation – Professional Standards January 2014 (the "Red Book"). At 31 December 2018, the portfolio was valued at £970.6 million, an increase of 9% for the year (31 December 2017: £890.1 million).

The valuation benefited from the increased occupancy and income growth compared to the end of 2017 and some yield compression, particularly in the first half of 2018. The valuation also reflected the acquisition of one standing asset and the realisation of development profit on the projects which reached practical completion ahead of the 2018/19 academic year (see overleaf). The like-for-like increase in the portfolio valuation was 4.8%.

Chief Executive Officer's Review continued

We have made further good progress with our development and redevelopment projects in 2018.

What Our Students Say

"The staff showed kindness, support, and care. It was a great experience living there; they made us feel very welcome from the beginning until the end. Whenever there was an enquiry it was instantly fixed, which was impressive and professional. Totally felt like it was my second home while I was undertaking my last year in university there, and it was great being around a good community as such. Thank you Sophie, Andrew and Hannah for making it a memorable experience."

Friendliness of Staff

★★★★☆

Ease of Finding the Building

★★★★☆

Efficiency of Check-in

★★★★☆

Overall Quality of Welcome

★★★★☆

Information on Arrival

★★★★☆

Pre-arrival Information

★★★★☆

Initial Cleanliness of Room

★★★★☆

Value for Money

★★★½☆

For Operational Review see *page 19*

Asset Acquisition

The Group acquired one standing asset during the year, the 240-bed Emily Davies Hall in Southampton. The property comprises affordable accommodation arranged in three- and four-bed apartments and is leased to Southampton Solent University until September 2019, at which point we intend to directly let it. The purchase price was £10.6 million, excluding costs. The acquisition has broadened our offer in Southampton, where we now have 459 beds. At the year end, the asset was valued at £11.2 million, an increase of 6% on the purchase price.

Developments and Redevelopments

We made further good progress with our development and redevelopment projects during 2018. Two forward funded developments completed ahead of the 2018/19 academic year: Princess Road in Leicester (110 beds) and Percys Place in York (106 beds). Princess Road offers studio accommodation while Percys Place contains studios and apartments, as well as five- and six-bed townhouses. More information on our townhouse offering can be found in the case study on *page 21*.

Practical completion of a third forward funded development, The Emporium in Birmingham, was delayed as a result of the late delivery of the final part of the communal space. In total, 171 of the 184 beds were delivered and 155 of those are occupied. Forward funded developments have the advantage of protecting us from late completion, as the risk largely remains with the developer. We have been fully compensated by the developer for the lost return and the additional management time we have incurred. We were also able to mitigate damage to the Hello Student® brand by offering refunds to students at the developer's expense.

In addition to the forward funded developments, we completed a major refurbishment and redevelopment of Blocks 3 and 4 at Victoria Point, Manchester. The blocks contain 169 beds in total and provide affordable accommodation that suits returning undergraduates. We continue to see the potential for targeted redevelopments that increase capital values and income, although we aim to limit the impact on income and dividend cover by carefully timing these projects. We are constantly reviewing opportunities to redevelop buildings, implementing a detailed appraisal process to weigh up all risks.

Outlook

We expect 2019 to be a year of further progress. We have taken swift action to maximise revenue for the remainder of this academic year and bookings for the 2019/20 academic year are progressing in line with expectations. The benefits of the operational improvements we have made to date will continue to come through in 2019 and we are taking action to drive additional efficiencies.

For 2019, the Board is continuing to target a dividend of 5.0 pence per share. The Board is expecting the total dividend for 2019 to be around 85% covered by adjusted earnings.

While there are economic and political uncertainties, both domestically and internationally, we believe the sector is relatively insulated from the potential impact of Brexit and from economic conditions more generally. There are good reasons to be optimistic about the sector's prospects but selectivity is key. Overall, the Board remains confident in the outlook for the business.

Our Customers

A home away from home

How likely are you to recommend your Hello Student® accommodation to another student?

★★★★☆

At Hello Student®, we focus on providing a home-from-home experience for our students. We see them as individuals, know their names and do our best to make their time with us as enriching as possible. That means we listen, learn and have a real and honest relationship with them.

We make it our business to know what is happening around us. We keep things running smoothly in our buildings and make sure our residents are always safe. We also know our cities, so we can tell you the fastest route to university or recommend a reliable taxi home.

What does this add up to? Knowing what people want now and what they might like in the future. That is why our students rebook year after year and why more than eight out of ten would recommend us to their friends.

Key Performance Indicators

We have made a number of changes to our key performance indicators ("KPIs"), in particular introducing non-financial metrics that show our operational performance. As a result, we have focused our financial KPIs and no longer include the LTV ratio, dividend per share or basic earnings per share. All of these metrics continue to be reported in the Operational and Financial Review on ***pages 18 to 23****.*

Monitoring our performance

Non-Financial KPIs

Rebookers Rate (%)

21.3%

Performance

2018	21.3

Purpose

The rebookers rate demonstrates our ability to retain tenants within the Hello Student® brand, which in turn is an indicator of the quality of service we provide.

Note: Due to the entire portfolio only moving onto the Hello Student® platform from September 2018 we do not have comparative information for this year.

Strategic Link

1 2 3 4 5

Student Happiness (out of 10)

8.1

Performance

2018	8.1
2017	7.9

Purpose

Student satisfaction reflects the quality of service we provide and the attractiveness of our buildings.

Strategic Link

1 2 3 4 5

Current Occupancy (%)

96%

Performance

2018	96
2017	92

Purpose

Occupancy is a key driver of our revenue and demonstrates the quality and location of our assets, the strength of our sales process and our ability to set appropriate rents.

Strategic Link

1 2 3 4 5

Health and Safety

We have a duty to protect the health and safety of our people and the students living in our buildings. We have a strong track record and look to build upon this now that all buildings are managed by Hello Student®. As a result going forward one of our KPIs will be the health and safety in and around our buildings.

1 2 3 4 5

Financial KPIs

Gross Margin (%)

62%

Performance

2018	*62*
2017	*57*

Purpose

The gross margin reflects our ability to drive occupancy and to rigorously control our operating costs.

Strategic Link

1 2 3 4 5

Adjusted Earnings per Share (p)

3.20p

Performance

2018	*3.20*
2017	*1.86*

Purpose

Adjusted earnings per share is the earnings measure that best demonstrates our ability to reward shareholders through dividends.

Strategic Link

1 2 3 4 5

Dividend Cover (%)

64%

Performance

2018	*64*
2017	*34*

Purpose

Dividend cover shows our ability to pay dividends out of current year earnings.

Strategic Link

1 2 3 4 5

Net Asset Value per Share (p)

106.14p

Performance

2018	*106.14*
2017	*104.37*

Purpose

Growth in the NAV per share reflects the quality of our assets and our ability to generate revenue from them.

Strategic Link

1 2 3 4 5

Total Return (%)

6.48%

Performance

2018	*6.48*
2017	*3.80*

Purpose

The total return shows the aggregate value we have created for shareholders, through both capital growth of NAV and dividends.

Strategic Link

1 2 3 4 5

Strategic Link
1. Customers
2. Brand
3. People and Operations
4. Buildings
5. Shareholder Outcomes

Definitions
For definitions see *page 98*

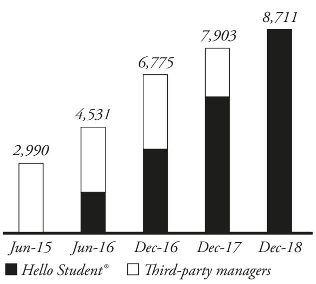
Operational and Financial Review

This section of the report details our actions to improve our operating performance and our financial results in 2018.

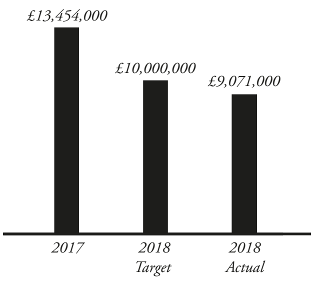
Improving delivery

LYNNE FENNAH
Chief Financial and Operating Officer
20 March 2019

Operating Beds by Manager



Administrative Expenses



Operational Review

Facilities management ("FM") is one of our largest costs. Providing these services in-house saves us the outsourced providers' profit margin and VAT, which we are unable to reclaim as a VAT-exempt business. Ahead of the 2018/19 academic year, we brought FM in-house for 27 buildings, with the rest of the portfolio to follow from 1 April 2019. Our FM help desk is up and running and we have established a database to ensure an effective and compliant programme of maintenance. To ensure we have the in-house expertise required, we recruited a Head of Facilities Management, who joined us on 4 December 2018.

Insourcing FM also offers other efficiency benefits. It saves management time, as we no longer have to manage four separate FM providers, and allows us to consolidate contracts for ancillary services such as pest control and lift maintenance, so we can achieve better rates by procuring single contracts across the portfolio. During 2018, we also used our improved management reporting to tighten control of ad hoc expenditure by our outsourced FM providers, with a corresponding benefit to our property costs during the year.

We have also focused on reducing our other operating costs. For example, we brought the administration of utilities in-house from 1 July 2018 and entered into fixed price contracts from 1 October 2018 onwards. Initiatives to reduce energy use, with a corresponding cost and environmental benefit, are outlined on ***page 26***.

At the start of the year, we had 62 assets on our Hello Student® platform. From 1 September 2018, all of our direct let properties were branded Hello Student®. This enables us to manage costs ourselves, gives us full control over the marketing of those assets and the interaction with students, and provides us with live data on our entire portfolio, helping us to drive occupancy and revenue.

As noted above, we benefited from the improved Hello Student® website, which we had relaunched towards the end of the previous year. It has improved design, functionality and analytics, allowing us to review the number of hits for a given property and track how those translate into enquiries, viewings, bookings and signed leases. Visits to the website were up over 45% compared with 2017.

We employ a "social first" marketing approach, which uses Facebook as an important channel for driving traffic to the Hello Student® website. During the year, we refocused our marketing spend by targeting our activity and reducing wastage, helping us to cut costs and improve effectiveness. We are undertaking a review of our marketing function in order to exploit inspirational and relevant content for the Hello Student® website and social media. In addition to Facebook, we will test and engage other social media platforms.

We made good progress with streamlining our administrative costs in 2018, including reducing the number of head office roles and using fewer consultants and contractors. The restructured finance team is providing essential support and enhanced information to the Executive Team, underpinning our granular approach to business performance and cost control.

The recruitment of a Director of Human Resources, who joined us on 2 January 2019, will enable us to bring our HR function in-house in 2019. The new function will replace our current outsourced supplier, which provides purely transactional support, and we will be able to align HR to support our business objectives.

Information Technology is another important area of focus for 2019. We currently have two managed service providers for our IT systems, with one covering head office and the other for student properties. Moving to one provider will give us a single integrated system, as well as enabling us to obtain a better price for a larger contract. Our new Head of IT joined Empiric on 1 November 2018 and will have a significant role in helping us to build the commercial platforms we need to run the business in future. A key objective will be to support the development of a revenue management system, enabling us to process bookings, rent demands and rent collection in-house, with the potential for significant savings over the current outsourced provider's costs. We plan to trial this system in a single property in November 2019, with a further roll out across the portfolio from 2020.

In addition to the new senior leaders noted above, we recruited a Head of Property during the year. Our Senior Leadership Team now comprises the Executive Directors, the Group Financial Controller and the Operations Director, HR Director and Heads of IT, FM and Property. This gives us the strength, depth and breadth of leadership we need and reflects the Group's shift to an operational business that provides key functions in-house.

Operational and Financial Review continued

Dividends

Quarter to	*Declared*	*Paid*	*Amount (p)*
31 March 2018	23 May 2018	15 June 2018	*1.25*
30 June 2018	21 August 2018	14 September 2018	*1.25*
30 September 2018	14 November 2018	7 December 2018	*1.25*
31 December 2018	20 February 2019	Due 22 March 2019	*1.25*
			5.00

Our new debt facility extends our average debt maturity profile to 7.6 years.

Financial Performance

Revenue in 2018 was £64.2 million, up 25% from £51.2 million in 2017. The increase resulted from the acquisition of Emily Davies Hall in February, the initial contribution from developments completed in 2018, a full year of the assets acquired and developments completed in 2017, as well as increased occupancy and income growth, which benefited the final four months of the year.

Operating profit under IFRS was £53.0 million, an increase of 63% compared to the £32.5 million achieved in 2017. This included an aggregate revaluation uplift on our property portfolio at the year end of £22.4 million, net of property acquisition costs (2017: £15.8 million including a £1.1 million gain on the sale of Forthside Way in Stirling). The gross margin for the year was 62% (2017: 57%).

Administration expenses were driven down to £9.1 million in 2018, lower than our guidance (2017: £13.5 million). For 2019, we continue to expect administration costs of approximately £10 million, with the additional costs of recruitment in areas such as HR and IT offset by savings elsewhere.

Net financing costs for the year were £12.7 million, net of money market investment income and the fair value gain on interest rate swaps of £0.1 million (2017: £11.8 million and £0.1 million, respectively).

Profit before tax was £40.3 million, up 94% (2017: £20.8 million). No corporation tax was charged, as the Group fulfilled all of its obligations as a UK Real Estate Investment Trust ("REIT"). Basic earnings per share ("EPS") were therefore 6.68 pence (6.67 pence on a diluted basis) (2017: 3.84 pence and 3.83 pence (diluted)).

The Net Asset Value ("NAV") per share as at 31 December 2018 was 106.14 pence, prior to adjusting for the interim dividend for the quarter ended 31 December 2018 of 1.25 pence per share (31 December 2017: 104.37 pence, prior to adjusting for the interim dividend of 1.25 pence per share). The NAV is shown net of all property acquisition costs and dividends paid during the year.

Dividends

The dividends declared in respect of the 2018 financial year are shown in the table above.

Of the total dividends, 1.32 pence per share was declared as property income distributions and 3.68 pence per share was declared as ordinary UK dividends (2017: 2.94 pence per share and 2.61 pence per share respectively).

Adjusted EPS is the most relevant measure of earnings when assessing dividend distributions. It increased by 72% from 1.86 pence in 2017 to 3.2 pence in 2018, to give dividend cover of 64%. Adjusted EPS is defined on ***page 98***.

At 31 December 2018, the Company had distributable reserves of £58 million. We therefore continue to have substantial headroom for the payment of dividends.

At the AGM on 2 May 2019, shareholders will be asked to vote on a resolution to cancel the Company's share premium account, which stood at £467 million at 31 December 2018. When companies issue shares at a premium to their nominal value, that premium must be recorded in the share premium account. The Companies Act restricts the use of this capital which cannot, for example, be used to declare dividends or to repurchase the Company's shares. Cancelling the share premium account will release this capital, which will then be treated as realised profit. While we have no current intention to do so, this will give us increased flexibility to declare dividends or to make other distributions to shareholders. If shareholders approve the resolution, we will promptly apply for the necessary court order to confirm the cancellation.

Our Places

"The townhouses are a great concept and really popular with students. They like the independence of having their own front door, while still having the support of our site team and the fantastic facilities Percys Place has to offer."

Bev Smethurst, York City Manager

Places students can call home

We introduced our townhouse concept following feedback from Hello Student® tenants, who wanted somewhere that combined the best features of HMOs, university townhouses and studio living. The four-, five- and six-bedroom homes are suitable for existing and new Hello Student® tenants. They allow students to live with friends and retain the high-quality feel we are known for.

We now have three operational townhouse schemes. Clifton Place, Exeter and Percys Place, York are Empiric developments, while we acquired Victoria Court, Lancaster as an operational asset. All three schemes are fully let.

All our townhouses have en-suite bedrooms and well-proportioned, open-plan living and kitchen spaces. They also have their own front door and the back door typically gives direct access to communal facilities.

Following the successful Exeter and York developments, we have two more schemes in the pipeline. Ocean View in Falmouth will open in September 2019 and St Mary's Hospital in Bristol will be complete for September 2021. They will add 118 townhouse beds, widening our offering in terms of product and rents.

	Townhouse beds	Total beds
Clifton Place, Exeter	72	150
Percys Place, York	68	106
Victoria Court, Lancaster	33	100

Our People

"I really love this job and this company and I feel very lucky that I've found myself here. I'd recommend it to anyone. I actually recommended a role in another city to a friend. I told her she wouldn't regret it and she loves it too!"

Room for growth

We want Empiric to be a great place for our people to work and fulfil their potential. Sophie Joyce joined Hello Student® as an accommodation manager in September 2016. Just over two years later, she has risen to operations support manager, with a stint as city manager along the way. Sophie works with our on-site teams and describes her role as being about "training, support and problem solving", as she helps them to deliver the best possible service.

"Hello Student® is always adapting and changing," she says. "That gives you the opportunity to progress very quickly. I always tell people when I'm hiring that if you prove yourself in this role, the sky's the limit. There are people below me who are ready to move up and I can see more steps for me as things change and grow."

Asked what you need to succeed in Hello Student®, Sophie says, "You need to be passionate about the job. You have to be always thinking of new ideas and different ways of doing things. And you have to be able to take responsibility."

Operational and Financial Review continued

On 20 December 2018, we announced the refinancing of £86.1 million of our debt with a new ten-year, fixed rate term loan facility with Scottish Widows Limited.

Loan-to-value Ratio

30.6%

2017 — 28.2%

Debt Financing
On 20 December 2018, we announced the refinancing of £86.1 million of our debt with a new ten-year, fixed rate term loan facility with Scottish Widows Limited. The new facility is secured against a portfolio of our operating assets, held as a lending group through a wholly owned subsidiary. The new facility is interest only until final repayment in 2028 and fixed at 3.196% per annum, which reduces our cost of debt to 3.26%. The facility also extends our average debt maturity profile across all our facilities to 7.6 years.

We drew down £30.6 million of the new facility on 20 December 2018, to repay an expiring facility with NatWest. We expect to draw down the remaining £55.5 million towards the end of October 2019, to repay a second expiring NatWest facility. Drawing down funds on the expiry of these facilities ensures we do not incur any break fees.

Our loan-to-value ("LTV") ratio at the year end was 30.6% (31 December 2017: 28.2%) below our threshold of 40% and our long-term target of 35%. We have changed the way we measure LTV during the year to ensure that we are consistent with our peers. Our LTV is now calculated as total drawn borrowings net of cash held and fixed term deposits divided by gross asset value.

Alternative Investment Fund Manager ("AIFM")
The Company continues to be authorised as a full-scope AIFM and is regulated by the Financial Conduct Authority. The Company engages a specialist compliance consultancy, Portman Compliance Consulting LLP, to ensure that it adheres to all of its regulatory obligations.

Change in Listing Chapter
Under the Listing Rules, Empiric is currently categorised as a premium listed closed-ended investment fund. This requires us to follow an investment policy, which limits our operational flexibility. The Board has reviewed our listing category and concluded that given Empiric's evolution from a pure real estate company to an operating business, we would be better served by being classified as a commercial company. Rather than pursuing an investment policy, we would then be able to follow a business strategy set by the Board. We do not believe this would significantly change our strategic or operational focus but it would enhance our ability to manage the portfolio, bring us into line with the majority of internally managed REITs on the London market and reduce our compliance costs.

The change of listing category requires shareholder approval and we have included a resolution to this effect for the forthcoming AGM. If approved, we expect the change to take effect from 3 June 2019. More information on the proposal can be found in the Notice of Annual General Meeting, which is available on our website, www.empiric.co.uk.

Implementing Our Investment Policy

We continued to add to the portfolio in 2018 through acquisition and development activity, while ensuring continued compliance with our Investment Policy.

Investment Policy
Empiric acquires, owns, leases, develops and manages student residential accommodation in the UK, across multiple formats. We let to students in higher education on direct tenancy agreements and on other longer-term lease arrangements, as appropriate. We invest in, and develop, modern student accommodation with a focus on quality, predominantly positioned in prime, city-centre locations in top university cities and towns around the UK, thereby benefiting from strong geographical risk diversification.

Our Investment Policy contains a number of restrictions, each of which we complied with during the year:

Asset Acquisition
The Group acquired one standing asset during the year, Emily Davies Hall in Southampton. More information can be found in the Chief Executive Officer's Review on *page 14*.

Development and Redevelopment Projects
We had four projects due for completion ahead of the 2018/19 academic year. Three completed on time. Practical completion of the fourth project, The Emporium, Birmingham, was delayed until March 2019. More information on the delay to The Emporium can be found in the Chief Executive Officer's Review on *page 14*.

Restriction	*Complied*	*Comment*
The Group must generate income from no fewer than five separate buildings (excluding development and forward funded projects).	✓	The Group had 91 revenue-generating assets at the year end.
No single asset will represent more than 20% of the Gross Asset Value ("GAV").	✓	The largest single asset represented 6% of the Group's GAV at 31 December 2018.
At least 90% of the properties directly and indirectly owned must be freehold or long-leasehold properties (with at least 100 years remaining) or the equivalent.	✓	100% of the Group's properties are freehold or long leasehold. 86.4% of the Group's properties are freehold.
A maximum of 15% of NAV may be committed to spend on the equity requirement for development projects, including conversions. All development projects will be conducted in special purpose vehicles ("SPVs") with no recourse to other Group assets.	✓	Commitments to development projects totalled 6% of the NAV at 31 December 2018. All development projects are conducted in SPVs with no recourse to other Group assets.
In respect of forward funded projects, the maximum exposure to any single developer will be limited to 20% of the GAV.	✓	The maximum exposure to any single developer was 2% of GAV at 31 December 2018.
Rent from commercial leases is limited to 25% of the total rent receipts of any single building and aggregate commercial rents received is limited to 15% of the Group's total rent receipts.	✓	Commercial leases provide less than 25% of total rent at all of the Group's buildings and generated 3% of the Group's total rent receipts in 2018.

Site	*Development Basis*	*Beds*	*Completed*
The Emporium, Birmingham	Forward funded	*184*	*March 2019*
Princess Road, Leicester	Forward funded	*110*	*March 2018*
Percys Place, York	Forward funded	*106*	*August 2018*
Blocks 3&4, Victoria Point, Manchester	Major refurbishment/development	*169*	*September 2018*
		569	

At the year end, we had five projects in progress, for delivery over the next three academic years. All are progressing satisfactorily.

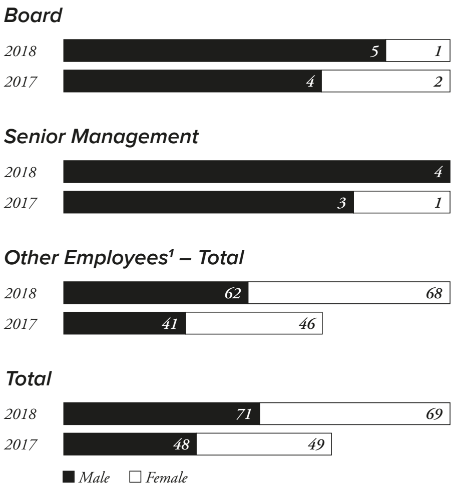
Site	*Development Basis*	*Beds*	*Delivery year*
140/142 New Walk, Leicester	Forward funded	*52*	*2019*
King's Stables Road, Edinburgh	Forward funded	*166*	*2019*
Ocean View, Falmouth	Direct development	*190*	*2019*
		408	
FISC, Canterbury	Major refurbishment/development	*125*	*2020*
St Mary's, Bristol	Direct development	*153*	*2021*
		278	

Corporate and Social Responsibility

As a responsible business, we strive to look after the interests of all our stakeholders. This section of the report provides more information on our people, how we benefit our communities, and our approach to health and safety, the environment and ethical business.

A responsible business

Gender Diversity



1 Above does not include Community Ambassadors due to the high turnover in staff levels.

People

Our people are central to our ability to deliver strong operational performance. During the year, 32 people joined us from our former outsourced service providers, giving us a total of 248 employees at the year end.

We have continued to enhance the way we manage and develop our people. Our initiatives in 2018 included:

- establishing job descriptions and individual objectives for all operational staff;
- establishing KPIs, systems and parameters for measuring individual performance;
- introducing a new communication platform, to allow managers to share best practices instantly and visually and to source content for our social media channels;
- conducting a people planning workshop, to evaluate all management on their performance and potential for growth; and
- implementing a learning management system ("LMS") for all Hello Student® staff, which includes core competency courses and additional courses covering processes and procedures. The LMS allows us to track the training completed by every individual.

During 2019, our people plans include:

- focusing on team building, performance and identifying the potential for internal promotions;
- maximising use of the LMS and creating inspirational training programmes that drive results;
- fine-tuning job descriptions and objectives and enhancing our staff reward processes;
- improving internal communications;
- ensuring a smooth transfer for the maintenance and housekeeping staff joining us from our outsourced providers;
- introducing a formal workforce advisory panel; and
- focusing on developing a commercially led, value driven culture.

Diversity

We support the principle of diversity at all levels of the workplace and recognise its contribution to business success. We consider diversity in its broadest sense and employ people with a multitude of professional, educational, social and ethnic backgrounds. When recruiting for senior roles, we look to ensure we have balanced longlists and shortlists of candidates. The chart on the left analyses our gender diversity at the year end.

Corporate and Social Responsibility continued

Health and safety is always at the top of our agenda, reflecting our moral responsibility to protect our tenants and employees.

Health and Safety

Health and safety is always at the top of our agenda. We have a moral and legal responsibility to protect the people who live in our buildings and to ensure our people have a safe and healthy working environment. Statutory compliance, for example with fire regulations, is the absolute minimum for us, and we work hard to ensure our buildings meet the standards we set. All buildings in the portfolio have had a detailed external fire risk assessment undertaken in the last two years. When developing new buildings, we ensure that safe materials are used.

To protect our tenants, we have CCTV coverage with monitoring in the large majority of our buildings. Our learning management system includes health and safety training, which is compulsory for all of our people who work in our properties.

We intend to report a performance metric for health and safety from 2019, which will be the first year in which we fully manage all of our assets.

Communities

PBSA benefits the surrounding community by freeing up numerous houses, which would otherwise be occupied by students. This makes homes available for local families and helps local businesses, since the residents live there full time rather than only during university terms. As many areas of the UK face significant pressure on their housing stock, local authorities often welcome PBSA developments. Many have also imposed Article 4 Directions, which control the redevelopment of residential housing into houses in multiple occupation.

Local authorities may require us to support the community in other ways, as a condition of obtaining planning permission for new developments. This can range from a financial contribution to the local authority to making the community a better place to live, for example by refurbishing community assets such as playing fields or providing public art.

Environment

The primary environmental impact of our properties comes from energy and water use by our student tenants. In 2018, we signed up for the Student Energy Project, in coordination with Amber Energy. The project encourages students to reduce energy use, for example by turning down heating or switching off lights, with a student ambassador in each building responsible for educating the other tenants. Buildings can compete against each other and students receive rewards for their performance. The project reduces our energy costs, with a proportion of the savings going to the Student Minds charity.

Other energy saving programmes include Amber Energy conducting a full energy audit of each of our buildings. This will identify initiatives for reducing use. We are also looking for ways to reduce water use, such as replacing shower heads with more water-efficient versions.

In addition, every building will move to automatic meter readings. This will enable us to spot trends in energy use more easily and quickly, so we can identify ways to reduce consumption. A similar initiative is planned to reduce water use.

Greenhouse Gas Emissions and EPRA Sustainability

This section contains information on greenhouse gas ("GHG") emissions required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 (the "Regulations"). For the third time, we have chosen to report this information in line with EPRA (European Public Real Estate Association) sustainability best practice.

Headlines

– 6% reduction in like-for-like GHG emissions since 2017.
– 2% reduction in like-for-like natural gas consumption since 2017.
– Absolute figures have increased in line with business growth as expected.

Reporting Period

The reporting period is 1 January 2017 to 31 December 2018, comprising the period from the commencement of operations to the year end. Data for two years is shown to enable comparison.

Organisational Boundary

The operational control approach is used to consolidate the Company's organisational boundary. The Company owns 100% of the property assets it operates and has therefore reported on that basis. Like-for-like indicators include all properties which have been in the portfolio since 1 January 2017, but not those which were acquired, sold or included in the development pipeline at any time since that date.

Methodology

We have used the EPRA Best Practices Recommendations on Sustainability Reporting (3rd Edition) and GHG Protocol Standard (revised edition) to prepare this disclosure. The UK Government Conversion Factors for Company Reporting have been applied to convert energy data into greenhouse gas emissions. Whole building data has been reported and any missing data has been estimated using either direct comparison, pro rata calculation or based on an average consumption value per bed.

In order to express the GHG emissions in relation to a quantifiable factor associated with the Company's activities, the intensity ratio of tCO_2e per operating bed has been chosen, calculated using absolute data.

Exclusions

The Company has reported on all emission sources required under the Regulations, with the exception of emissions arising from fuel combustion in building backup generators and fugitive refrigerants from air-conditioning systems. This is due to technical issues collecting information for these relatively small sources.

We are committed to carrying out business fairly, honestly and openly.

The tables below contain our EPRA performance data for each relevant impact area.

Greenhouse Gas	EPRA Code	2018	2017
Like-for-like:			
Total direct GHG emissions (tCO_2e)	GHG-Dir-LfL	***2,911***	*2,969*
Total indirect GHG emissions (tCO_2e)	GHG-Indir-LfL	***4,063***	*4,481*
Absolute:			
Total direct GHG emissions (tCO_2e)	GHG-Dir-Abs	***3,449***	*3,327*
Total indirect GHG emissions (tCO_2e)	GHG-Indir-Abs	***5,091***	*4,914*
Normalised:			
GHG intensity from building energy consumption (tCO_2e per operating bed)	GHG-Int	***1.02***	*1.04*

2018 – % of total assets included: LfL – 100%, Abs – 100%
2018 – % of data estimated: LfL – 19%, Abs – 22%

Energy	EPRA Code	2018	2017
Like-for-like:			
Total fuel consumption (kWh)	Fuels-LfL	***15,826,461***	*16,119,870*
Total district heating & cooling consumption (kWh)	DH&C-Abs	***0***	*0*
Total electricity consumption (kWh)	Elec-LfL	***14,354,543***	*12,746,503*
Absolute:			
Total fuel consumption (kWh)	Fuels-Abs	***18,748,371***	*18,067,826*
Total district heating & cooling consumption (kWh)	DH&C-Abs	***0***	*0*
Total electricity consumption (kWh)	Elec-Abs	***17,985,677***	*13,977,676*
Normalised:			
Building energy intensity (kWh per operating bed)	Energy-Int	***4,395.08***	*4,050.75*

2018 – % of total assets included: LfL – 100%, Abs – 100%
2018 – % of data estimated: LfL – 19%, Abs – 22%

Water	EPRA Code	2018	2017
Like-for-like:			
Total water consumption (m^3)	Water-LfL	***256,572***	*256,227*
Absolute:			
Total water consumption (m^3)	Water-Abs	***314,411***	*278,685*
Normalised:			
Building water intensity (m^3 per operating bed)	Water-Int	***37.62***	*35.23*

2018 – % of total assets included: LfL – 100%, Abs – 100%
2018 – % of data estimated: LfL – 90%, Abs – 89%

Ethical Business
We are committed to carrying out business fairly, honestly and openly. Our anti-bribery policy mandates a zero tolerance approach and is set out in our compliance manual, which all our people receive.

We require employees to take regular compliance training and to certify each year that they have complied with our policies. Our whistleblowing procedures allow employees to report any suspected wrongdoing in confidence.

There were no incidents of whistleblowing during the year. See *page 44* for more information on the whistleblowing policy.

Modern Slavery and Human Rights
Protecting human rights and preventing modern slavery is important but we do not believe these are material issues for our business. Our suppliers have ultimate responsibility for respecting human rights and preventing modern slavery in the supply chain. As a customer, however, we can play an active role in supplier development. Our position is that the use of child labour, forced labour (including human trafficking), physical disciplinary abuse and any infraction of the law is prohibited.

Principal Risks and Uncertainties

Robust risk culture

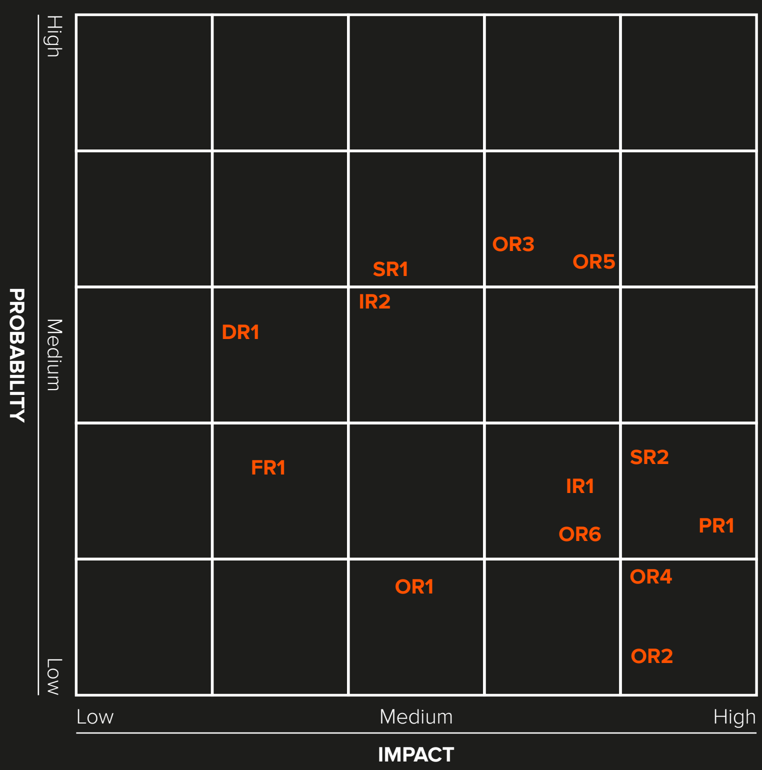
Empiric has a strong culture of managing risk and a well-defined risk management process. This process is designed to identify, evaluate and mitigate (rather than eliminate) the significant risks we face. The process can therefore only provide reasonable, rather than absolute, assurance. We outsource certain services to our administrator, FIM Capital Limited (the "Administrator"), and other service providers, and rely to an extent on their systems and controls.

The Audit Committee formally reviews the effectiveness of our risk management processes and internal control systems, on the Board's behalf. During the course of these reviews, the Board has not identified or been advised of any material failings or weaknesses.

Changes to Risks During the Year
The risk environment we operate in continues to evolve and this is reflected in the principal risks and uncertainties that are set out on the following pages.

We have expanded the definition of the risk that we focus exclusively on the student accommodation sector (SR1) to identify a number of macro factors that are or could influence the higher education sector. We have expanded financing risk (FR1) to cover capital raising in general, rather than specifically debt financing. We have also identified health and safety as a separate risk (OR2), rather than including it in the risk relating to legal and regulatory compliance (OR1). We have removed one principal risk, which was the risk that our operations and management of cost bases relied on third-party managers. This is no longer relevant, given the insourcing of our property management and FM services. We have also added a principal risk (OR3) relating to the need to keep our operating costs under control.

The trends relating to all the principal risks and uncertainties are set out in the table on *pages 29 to 33*.



Strategic Risks
SR1
SR2

Development Risks
DR1

People Risks
PR1

Investment Risks
IR1
IR2

Funding Risks
FR1

Operational Risks
OR1
OR2
OR3
OR4
OR5
OR6

Our Risk Appetite

The Group's risk appetite in relation to our portfolio is covered by our Investment Policy (see ***page 24***). It contains a range of criteria, such as limits on the amount of development we can undertake at any one time, which ensures that the business is not exposed to excessive risk in respect of its assets. The Board also looks to ensure that the Group is conservatively financed, with a target LTV ratio of 35% in the long term and a maximum of 40%. In addition, the Board has zero tolerance to health and safety risk within our control and looks to go beyond its statutory requirements, as described on ***page 26***.

Principal Risks

The principal risks and uncertainties we face have the potential to materially affect our business, either favourably or unfavourably. Some risks may be unknown to us at present, and some risks that we currently regard as immaterial, and have therefore not included here, may become material in the future.

Brexit

The Board continues to review the potential impact of Brexit on the Group's business. While we do not deem it to be a principal risk at this stage, we are monitoring developments. There are two primary ways in which Brexit may affect Empiric. First, it could reduce student numbers coming from the EU. These students currently comprise 7% of the UK undergraduate population, so any reduction is unlikely to have a material effect on overall student numbers, particularly when taking into account excess demand for university places, as discussed in the Our Market section on ***page 4***. Second, Brexit may have a wider impact on universities themselves, through the loss of research funding and academics from the EU. This could make UK universities less attractive places to study. We believe our focus on the towns and cities with the most successful universities will help to mitigate this risk.

Strategic Risks

Risk		Strategy	Impact and Probability	Mitigation	Trend
SR1	**We focus exclusively on the student accommodation sector. We therefore rely on the development of the higher education market in the UK generally or in specific regions, including any change in demand from international students.** Specific factors that could affect the higher education sector, and which present both risks and opportunities for us, include: – the risk of some universities becoming insolvent; – the possible introduction of two-year degree courses; – the Government's review of the level of tuition fees; – the potential for an economic slowdown in the UK; – the impact of Brexit – see statement above; and – the Augar review.	*1,2,3,4,5*	Medium impact, medium to high probability. An adverse change in the higher education market could reduce student numbers and demand for student accommodation, either across the UK or in specific regions. This, in turn, could reduce our rental income and the value of all, or a significant proportion of, our portfolio.	We monitor government policy and its actual or potential impact on UK, EU and international student numbers. We pay particular attention to proposals relating to Brexit and how these affect the UK as a whole, as well as specific regions. We acquire or develop well-located assets serving leading universities. Maintaining competitive rental levels should ensure high occupancy, even during periods of weaker demand. Our strategy allows us to diversify across niches that appeal to a broad range of students. For example, recently completed developments expanded our townhouse offer and we have further townhouses in the pipeline. We also seek to ensure that our developments and, where possible, acquisitions of standing assets, are fit for alternative use such as private residential, subject to planning.	▲
SR2	**We face competition from new and existing UK and international property investors, who may have larger financial resources and/or be targeting lower investment returns.**	*1,2,3,4,5*	High impact, low to medium probability. Increased competition may lead to an oversupply of rooms through overdevelopment, to inflated prices for existing properties or development land, or reduction of rents we can achieve.	The UK's full-time student population was 1.8 million for the 2018/19 academic year. We are focused on the cities and towns with high-quality and growing higher education institutions and where our research indicates that there is a significant undersupply of PBSA. Our assets are in prime locations, in varying formats and at different price points. In times of reduced demand, they should be more attractive to potential customers than the competition, at the right price. We continue to diversify our product and price points, for example through rolling out our townhouse format.	▶

Trend
▲ *Increasing* ▶ *No change* ▼ *Decreasing*

Strategic Link
1. Customers 2. Brand 3. People and Operations 4. Buildings 5. Shareholder Outcomes

Principal Risks and Uncertainties continued

Risk		Strategy	Impact and Probability	Mitigation	Trend
Investment Risks					
IR1	**The performance of our portfolio depends on general property and investment market conditions.** There remains uncertainty in the property market following the EU referendum in June 2016, which could prevail beyond the conclusion of the Brexit negotiations, depending on their outcome.	4,5	Medium to high impact, low to medium probability. Market conditions may reduce our revenues, which would affect our ability to make distributions to shareholders. A fall in property valuations due to market conditions may reduce our GAV, which could lead to a breach of the LTV covenants in our borrowings.	Our assets are in multiple prime locations, diversifying the risk of adverse changes to the portfolio. We maintain a prudent borrowing limit of 40% of our GAV, with a target of 35%. The LTV covenants have been negotiated to be as flexible as possible. We regularly review property market conditions and would take action, should it look like any property used as collateral had decreased in value to the extent that there was a risk that we might breach any of our LTV covenants. In addition, international students pay in advance, meaning we maintain substantial cash balances on account. The student property sector has demonstrated considerable robustness, underpinned by the supply and demand imbalance. Nevertheless, we do not overstretch annual rent increases, which we vary according to the local market conditions for each area or building. The higher education sector is not reliant on students from the EU, who comprise only 7% of all full-time students in the UK, compared with 77% from the UK and 16% from non-EU countries.	▶
IR2	**Our ability to achieve our Investment Policy depends on both the rental income we receive and the appreciation in property values.**	2,4,5	Medium impact, medium probability. Rental income and property values may be affected by increased supply of student accommodation, failure to collect rents, increasing costs or any deterioration in the quality of our properties.	Our portfolio is geographically diversified and is becoming increasingly diversified by product type and rental level. Where we have more than one property serving a town or university, the total number of beds equates to no more than 5% of the location's full-time student population. We are not therefore unduly exposed to any one student market. We manage our properties directly through the Hello Student® platform and will have all facilities management in-house from 1 April 2019, giving us full control over our operational performance. In addition, we are training Hello Student® staff to deliver a high-quality service. We are evolving our procedures in areas such as debt collection, to ensure we have tight controls. Bad debts have had only a minimal impact on our profits.	▶

Risk		Strategy	Impact and Probability	Mitigation	Trend
Development Risk					
DR1	**Our development activities are likely to involve more risk than operating our properties. This includes general construction risks such as delays, late delivery, developments not being completed (while associated costs are still incurred) or changes in market conditions, which could result in completed developments having substantial vacancies.**	3,4,5	Low to medium impact, medium probability. Any of the risks associated with our development activities could reduce the value of our assets. A delay in constructing assets under development could result in one or more of the assets not being delivered in time for the start of the academic year, with a resultant impact on occupancy and revenue.	Our Investment Policy allows us to commit up to 15% of NAV to expenditure on development (excluding the cost of the land or property to be developed). Since IPO, we have undertaken a greater proportion of our development activities through forward funded projects, rather than by direct development. Forward funding projects reduces the risk to us, as the developer takes on the construction risk and the risk of cost over-runs. These projects also generally benefit from a rental guarantee for the first year of operations, if the asset is not delivered in time for the start of the academic year. For assets we develop directly, we put in place suitable contingencies, insurance cover and other arrangements with the contractor or sub-contractor, to cover the impact of any delay. Our development activities span a range of towns and cities and there is little or no overlap in the developers acting on these projects (with the maximum exposure to any one developer restricted to 20% of GAV for forward funded projects), further reducing the impact of any delays or changes in market conditions.	▶
Funding Risk					
FR1	**The Group may not be able to raise equity or debt on acceptable terms.**	4,5	Low to medium impact, low to medium probability. Without the continued availability of equity or debt on acceptable terms, we may be unable to progress investment opportunities as they arise and continue to grow the Group, in line with the long-term strategy.	At the year end, the Group had headroom in its debt facilities of £60 million. The Group agreed a new ten-year fixed rate facility of £86.1 million in December 2018, extending the average maturity of its debt facilities to 7.6 years.	▶

Principal Risks and Uncertainties continued

	Risk	*Strategy*	*Impact and Probability*	*Mitigation*	*Trend*
People Risk					
PR1	**Our ability to achieve our investment objective depends on the performance of the Executive Directors and key staff which cannot be guaranteed.** As a result, our performance will, to a large extent, depend on our ability to align the incentives of the Executive Directors to shareholders' interests, retain key staff and/or recruit people of the right calibre and experience.	*1,2,5*	High impact, low to medium probability. The Executive Directors' failure to acquire and manage assets effectively could materially affect our profitability, NAV and share price. Similarly, the departure of an Executive Director or senior member of staff, and either a delay or failure in recruiting a suitable replacement, could affect the Group's performance.	The Board believes the Executive Directors are performing well, as demonstrated by the decisions to appoint Tim Attlee as CEO and to expand Lynne Fennah's remit to include the responsibilities of COO, and by the improvement in the Group's operational and financial performance in 2018. We have expanded our Senior Leadership Team below Board level, as described on ***pages 13 and 19***, reducing our reliance on the Executive Directors.	▶
Operational Risks					
OR1	**Our operations, including our development activities, are subject to laws and regulations enacted by national and local government.** Our ability to respond and adapt to the changing planning and regulatory environment is key to our future business performance.	*1,2,3,5*	Medium impact, low probability. Failing to comply with laws or regulations may affect our ability to deliver or acquire further buildings, or result in one or more existing buildings being temporarily or permanently closed, which may have a material adverse effect on our performance. Any change in the laws or regulations relating to our operations or development activities may have a material adverse impact on our ability to implement our Investment Policy and our returns to shareholders.	Our investment team has significant experience and, together with its advisers, closely monitors the planning environment both nationally and in our target markets. The Executive Directors are ultimately responsible for ensuring that planning submissions are well prepared, address local concerns and demonstrate good design, and that all our buildings comply with building regulations, are sustainable and environmentally efficient.	▶
OR2	**We need to comply with health and safety laws and regulations, to protect the health and wellbeing of our employees, contractors, customers and the general public.**	*1,2,3,5*	High impact, low probability. A serious health and safety incident could result in criminal or civil proceedings and severely damage our reputation. It could also lead to delays in development projects.	We undertake landlord risk assessments for every property prior to occupation. In addition, all our student property is insured as occupied residential property, our property managers receive training to minimise the risk of a health and safety incident occurring, and our buildings are inspected on a sample basis, as part of our ANUK accreditation. More information on our approach to health and safety can be found on ***page 26***.	▲
OR3	**We need to maintain rigorous control of our operating costs.**	*5*	Medium to high impact, medium to high probability. Operating costs that are greater than expected will reduce our profitability and our dividend cover.	The actions we have taken have materially improved our ability to manage our costs. Bringing facilities management in-house and putting all our properties onto the Hello Student® platform give us direct control of all the significant elements of our cost base, and we will drive further efficiencies in 2019. We have also made substantial improvements to the quality of our management information, enabling us to identify any cost issues quickly and take action to address them.	▼

Risk		Strategy	Impact and Probability	Mitigation	Trend
OR4	**The Company operates as a UK REIT and has a tax-efficient corporate structure, which benefits UK shareholders. Any change to our tax status, UK tax legislation or interpretation of that legislation could affect our ability to achieve our investment objective or provide favourable returns to shareholders.**	5	High impact, low probability. If we fail to remain a REIT for UK tax purposes, our profits and gains will be subject to UK corporation tax.	The Board is responsible for ensuring we adhere to the UK REIT regime. It monitors the compliance reports provided by the Executive Directors on potential transactions, the Administrator's reports on asset levels and our registrar's and broker's reports on shareholdings. Our compliance processes are embedded throughout the business and in particular in the finance team. KPMG provides REIT compliance monitoring services and Portman Compliance Consulting LLP assists us with compliance matters.	▶
OR5	**We may not be able to maintain the occupancy rates of our properties or any other properties we acquire.**	1,2,5	Medium to high impact, medium to high probability. If we cannot maintain attractive occupancy levels (or maintain them on economically favourable terms), there may be a material adverse effect on our profitability, NAV and share price.	We have a rigorous focus on revenue management and have brought all our properties onto the Hello Student® platform. This gives us full control over marketing and student interaction, and provides live data across the portfolio, so we can respond rapidly to changes in the market and drive occupancy and revenue. We continue to enhance our sales processes, as discussed in the Chief Executive Officer's Review on *page 13*.	▲
OR6	**Our business depends on the integrity and availability of our computer systems, so we must maintain high standards of cyber security.** We collect and retain information regarding our business dealings, our customers and our suppliers. Securely processing, maintaining and transmitting this information are critical to our business and we must comply with restrictions on the handling of sensitive information (including employee and customer information).	1,2,3,5	Medium to high impact, low to medium probability. A major cyber security or information security breach could have a significant impact on our reputation and could result in the inability to use our computer systems or the loss of business-critical information. This in turn could affect our ability to do business or result in fines or compensation, reducing our profitability.	Our networks are protected by firewalls and anti-virus protection systems, with backup procedures also in place. We have employed an in-house Head of IT, who joined us on 1 November 2018. His remit includes enhancing our controls and optimising our systems design, to minimise the risk of hacking. This is particularly critical as we expand our portfolio and our operational capabilities, to ensure our investment in computer systems aligns with our overall business strategy, is cost-effective and designed to reduce as far as possible the risk of security breaches. All staff are given appropriate training to identify emails and other communications that could result in a security breach. We also provide training in compliance and the General Data Protection Regulation. The new learning management system supports training for people on our sites.	▲

Approval of Strategic Report
The strategic report for the year ended 31 December 2018 has been approved by the Board and was signed on its behalf by:

Tim Attlee
Chief Executive Officer | 20 March 2019

Board of Directors

	Mark Pain *Non-Executive Chairman*	**Tim Attlee** *Chief Executive Officer*	**Lynne Fennah** *Chief Financial and Operating Officer*
Appointed	1 September 2018	11 February 2014	26 June 2017
Independent	Yes	No	No
Committee Memberships	$\boxed{N}$ R	N	None
Relevant Skills and Experience	– Strong financial, customer and shareholder focus – Charted accountant – Extensive experience of executive and non-executive roles in the real estate, financial services and consumer/leisure sectors	– Chartered surveyor – Co-founder of Empiric Student Property – Joined the Board as Chief Investment Officer in June 2014 and was acting CEO from December 2017 to November 2018 – Has developed and invested in student accommodation since 2008 – Experience in all aspects of real estate general practice – Emphasis on institutional investment and property development	– Chartered accountant – Significant senior experience in the real estate and hospitality sectors, covering key areas such as finance, operations, tax, regulatory compliance, HR and IT – Appointed COO in July 2018
Principal External Appointments	– Non-executive director – AXA Insurance UK – Vice chairman and senior independent director – Yorkshire Building Society – Chairman – London Square	None	None
Significant Previous External Experience	– Group finance director – Abbey National plc – Group finance director – Barratt Developments plc – Non-executive director – Ladbroke Coral Group plc, Aviva Insurance Limited, Spirit Pub Group plc, Johnston Press plc, Northern Rock, LSL Property Services and Punch Taverns plc	– Experienced developer in various property sectors including student, residential and commercial buildings in the UK and abroad – Knight Frank – Managing Partner, Botswana – Founder of London Cornwall Property Partners Ltd	– CFO of Palmer Capital Partners – European CFO of TOGA Group – Various senior roles including Group Financial and IT director of The Goodwood Estate Company Limited

Committees N Nomination A Audit R Remuneration $\boxed{}$ Chair

Jim Prower

Senior Independent Non-Executive Director

28 May 2014

Yes

A R

- Chartered accountant
- Has worked in the property sector since 1987
- In-depth knowledge of financial matters, particularly in relation to the real estate sector through his previous role as finance director at the Argent Group, which is undertaking the development of King's Cross Central
- Experienced in raising debt and equity financing for investment, development and working capital

- Senior independent director – Tritax Big Box REIT plc
- Non-executive director and chairman of audit committee – AEW UK Long Lease REIT plc

- Finance director and company secretary at several companies, including Argent Group, Minty plc, Creston Land & Estates plc and NOBO Group plc

Stephen Alston

Non-Executive Director

28 May 2014

No

N A

- Over 25 years' experience in structuring investment, development and planning deals, as both lender and financial equity partner
- Member – Association of Property Lenders

- Partner – Real Estate Venture Capital Management LLP

- Deputy CEO (Commercial Banking & Treasury) – Ahli United Bank (UK) PLC

Stuart Beevor

Non-Executive Director

1 January 2016

Yes

R A

- Chartered surveyor
- Over 35 years' real estate experience
- Strong leadership experience, as executive and non-executive director of a number of public and private entities

- Non-executive director – ICG Longbow Senior Secured UK Property Debt Investments Limited
- Non-executive director – Thames Valley Housing Association Limited and its subsidiary Metropolitan Housing Trust Limited
- Chairman – Investment Advisory Board, Diversified Property Fund for Charities
- Member – Investment committees of two DTZ Investors Pension Fund clients
- Member – Greenwich Hospital Advisory Board

- Managing director – Grosvenor Fund Management
- Managing director – Legal & General Property Limited
- Non-executive director and chairman of remuneration committee – The Unite Group plc

Chairman's Introduction to Corporate Governance and Corporate Governance Statement

The link between strong governance and corporate performance is well established. I joined the Board as Chairman on 1 September 2018 and I am pleased to confirm that the Group has a robust framework of governance and oversight. We will continue to develop this framework, in particular to enhance our operational policies and procedures as the Group transitions from being a real estate company to an operationally focused business.

Board Membership and Meetings

	Regular	*Ad Hoc*[3]
Brenda Dean[1]	*2 (2)*	*5 (5)*
Mark Pain[2]	*3 (3)*	*0 (0)*
Tim Attlee	*11 (11)*	*9 (9)*
Lynne Fennah	*11 (11)*	*8 (9)*
Jim Prower	*11 (11)*	*8 (9)*
Stephen Alston	*10 (11)*	*9 (9)*
Stuart Beevor	*10 (11)*	*7 (9)*

Activities

The Board has approved a schedule of matters reserved for its consideration and approval. These include:

- reviewing and approving Board membership and powers, including the appointment of Directors;
- reviewing and approving our strategy;
- approving the budget, financial plans, and both annual and interim financial reports;
- overseeing treasury functions;
- reviewing property valuations;
- managing our funding structure and requirements;
- approving the dividend policy; and
- approving all investment decisions.

1 Deceased 13 March 2018.
2 Joined 1 September 2018.
3 Ad hoc meetings were specific subject meetings, called at short notice and held by telephone.

The Board's primary focus during the year was overseeing the implementation of management's plan to turn around the Group's performance. This included approving the decisions to take facilities management in-house and to bring the remaining properties managed by third parties onto the Hello Student® platform. Operational performance remains a key focus in 2019.

Becoming an operational business requires both the management team and the Board to have the appropriate skills. As described in the Strategic Report, we significantly broadened the management team towards the end of the year, to give it the skills and experience the Group needs. Since the end of the year we have made two changes to the composition of the Board. On 1 March 2019 we appointed Alice Avis as a Non-Executive Director. Alice brings considerable experience in advertising, branding, marketing and digital transformation across consumer goods and retail sectors. This will help the Board to oversee and drive operational performance and I expect it to continue to evolve along these lines.

Having served on the Board since its IPO in 2014, Stephen Alston has announced his intention to step down with effect from 29 March 2019. We welcome Alice to the Board and thank Stephen for his significant contribution and wish him well for the future. Further details on the composition of the Board are included on ***page 37***.

In December 2018, the Chairman led an internal evaluation of the effectiveness of the Board and its committees. This followed the externally facilitated evaluation undertaken in the previous year. The results of this review are set out on ***page 39***.

Our commitment to strong governance means we look to comply in full with the provisions of the UK Corporate Governance Code (the "Code"), which apply to companies of our size. During 2018, Empiric was in full compliance with the 2016 edition of the Code, except that we did not have a majority of independent Non-Executive Directors on the Nomination Committee. A copy of the Code can be obtained from the Financial Reporting Council's website, www.frc.org.uk.

The Board welcomes the 2018 edition of the Code, which applies from 1 January 2019. We believe that the emphasis on purpose, culture and values is right and are strongly in favour of, for example, reward structures that ensure good corporate behaviour. Developing the Group's culture and values will be a focus for 2019. The Group will also introduce a formal workforce advisory panel in 2019. More information on this can be found in the Relations with Stakeholders section on ***page 41***.

Compliance Statements

The Directors confirm that to the best of our knowledge:

- The Company is well placed to manage its financing and other business risks. The Board is therefore of the opinion that it is appropriate to adopt the going concern basis of accounting in preparing the Annual Report and Accounts (see ***page 40*** for more information).
- The Strategic Report, which the Board has approved, includes a review of the performance of the Group taken as a whole, together with a description of the principal risks and the uncertainties it faces.
- Taking into account the Group's current position and the impact of the principal risks documented in the Strategic Report, the Directors have a reasonable expectation that the Company will remain viable and continue to operate and meet its liabilities as they fall due, over the period to 31 December 2021. Further details are set out in the Viability Statement on ***page 40*** and in the Principal Risks and Uncertainties section on ***pages 28 to 33***.
- The Company has a continuing process for identifying, evaluating and managing the risks it faces. Further details are set out on ***page 28***.
- The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks, and the procedures for managing or mitigating them, are set out on ***pages 28 to 33***.
- The Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. See ***page 63*** for further information.

Mark Pain
Chairman | 20 March 2019

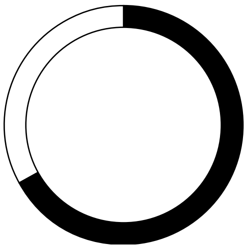
Leadership

The Board
The Board's principal responsibility is to promote the Company's long-term success. The Board leads and provides direction for the Executive Directors, by setting our investment objectives and Investment Policy and overseeing its implementation. The Executive Directors are principally responsible for managing our investment activities and operations on a day-to-day basis.

In addition, the Board reviews the continuing appointment of our key service providers, to ensure that terms remain competitive and in the best interests of shareholders. The Executive Directors keep the contracts of our corporate advisers under review and report their recommendations for changes to the Board, as and when necessary.

The Board delegates appropriate matters to its committees and reviews their terms of reference at least every two years. The last review of the terms of reference took place in March 2018. Copies of the committees' terms of references are available from the Company Secretary or the Company's website, www.empiric.co.uk.

Board Composition
At the year end, the Board consisted of two Executive Directors and four Non-Executive Directors, including the Chairman. Changes to Board membership and Directors' roles during the year are discussed in the Chairman's Statement on *page 11* of the Strategic Report. Biographical information on each of the Directors is set out on *pages 34 and 35*.



Board Roles
There is a clear division of responsibility between the Chairman and Chief Executive Officer ("CEO"). Their roles have been set out in writing and agreed by the Board. The primary responsibilities of the Directors are set out in the table below:

Primary Responsibilities
Chairman – Mark Pain The Chairman is responsible for leading the Board and ensuring its effectiveness. He is also responsible for reviewing the Company's general progress and long-term development and ensuring that it meets its responsibilities to all stakeholders.
Chief Executive Officer – Tim Attlee The CEO is the Company's senior officer and is responsible to the Chairman and the Board for directing and promoting the Company's profitable operation and development, consistent with the key objective of creating shareholder value over the long term.
Chief Financial and Operating Officer – Lynne Fennah The CFO/COO is responsible for overseeing business operations, leading the finance function, producing timely and accurate financial information and analysis, raising and managing debt, ensuring tax and regulatory compliance and maintaining financial control.
Senior Independent Non-Executive Director – Jim Prower The Senior Independent Director acts as a sounding board for the Chairman and as an intermediary for the other Directors, if necessary. He is also available to shareholders, if they have concerns which they cannot resolve through other channels.
Non-Executive Directors – Stephen Alston, Stuart Beevor Non-Executive Directors' responsibilities include providing constructive challenge, overseeing management's progress with implementing strategy and meeting goals and objectives, and monitoring the reporting of performance.

Director Independence
Each year, the Board reviews the independence of the Chairman and the Non-Executive Directors. Except Stephen Alston (see below), all of the Non-Executive Directors, including the Chairman, are considered to be independent for the purposes of the Code. Mark Pain also met the independence criteria on his appointment as Chairman.

Stephen Alston is a partner of Real Estate Venture Capital Management LLP ("Revcap"), which is a former joint venture partner of the Group. The Group acquired Revcap's holding in the Willowbank joint venture on 31 March 2017 and paid fees to Revcap up to 30 June 2017. Stephen is therefore not considered to be independent under the Code, as he is a partner of an organisation which has had a material business relationship with the Group within the last three years. As noted in the Chairman's Statement on *page 11*, Stephen will retire from the Board on 29 March 2019, at which point all of the Non-Executive Directors will be independent. Full details of all related parties are disclosed on *page 92*.

Appointment of Directors
The Executive Directors have contracts with the Company which include a 12-month notice period and restrictive covenants.

The Non-Executive Directors have letters of appointment, which can be terminated in accordance with our Articles of Association and do not specify a notice period. The terms and conditions of appointment for the Non-Executive Directors are available for inspection at our registered office and at each Annual General Meeting ("AGM").

Directors who are appointed to the Board are required to be elected by shareholders at the next AGM. Mark Pain and Alice Avis will therefore be proposed for election to the Board at the AGM on 2 May 2019.

In line with best practice, the Directors will submit themselves annually for re-election at the AGM. Tim Attlee, Lynne Fennah, Jim Prower and Stuart Beevor will therefore stand for re-election at the forthcoming AGM. The formal performance evaluation carried out in December 2018 (see *page 39*) confirmed that the performance of each of the Directors submitting for re-election continues to be effective and that they demonstrate commitment to their roles.

Leadership continued

Board Meetings
The Board hold regular formal scheduled meetings and hold additional meetings, as required. These meetings are typically held at our offices and are subject to a quorum of two Directors. The diagram below sets out the information flow to the Board, ensuring the Directors can contribute effectively to Board discussions:

1.	The Chairman sets the agenda for Board meetings, with input from the Executive Directors. The agenda includes a number of standing items (see below).
2.	Three days before the meeting, the agenda and Board papers (see below) are sent to all Directors.
3.	Board meetings are held on a regular basis throughout the year.
4.	Decisions and actions agreed at the meeting are implemented by the Executive Directors and monitored by the Company Secretary.
5.	A list of actions form the basis of the next Board meeting agenda.

Board Agenda
The formal agenda for regular Board meetings includes:
- a review of the performance of our investments;
- an assessment of our progress with new investment opportunities;
- a review of our strategy;
- a review of our financial performance and forecasts;
- an update on investor relations; and
- updates on any regulatory or compliance issues advised by the Company Secretary or other advisers.

Board Papers
The Directors are provided with a comprehensive set of papers ahead of each Board meeting. These cover:
- proposed investments;
- our financial position and performance;
- an update on the student accommodation sector;
- shareholder analysis;
- a report on public relations and press commentary; and
- a report on regulatory and governance matters.

When considering investment opportunities, the Board reviews detailed proposals prepared by the Executive Directors and approves investment decisions, as appropriate.

Advice for Directors
The Directors have access to independent advice at the Company's expense, if they judge it necessary to discharge their responsibilities. All Directors also have access to the advice and services of FIM Capital Limited, which acts as our Company Secretary.

Board and Committee Meetings
During the year, there were 20 Board meetings, including nine ad hoc meetings. The table below shows the Directors' attendance at Board and Committee meetings in 2018. The figures in brackets show the number of meetings each Director was eligible to attend:

	Board				
	Regular	Ad Hoc[4]	Audit Committee	Nomination Committee	Remuneration Committee
Brenda Dean[1]	2 (2)	5 (5)	1 (1)[3]	1 (1)	1 (1)
Mark Pain[2]	3 (3)	0 (0)	1 (1)[3]	1 (1)	4 (4)
Tim Attlee	11 (11)	9 (9)	4 (4)[3]	2 (2)[3]	2 (2)[3]
Lynne Fennah	11 (11)	8 (9)	4 (4)[3]	1 (1)[3]	1 (1)[3]
Jim Prower	11 (11)	8 (9)	4 (4)	4 (4)	9 (9)
Stephen Alston	10 (11)	9 (9)	4 (4)	4 (4)	7 (9)
Stuart Beevor	10 (11)	7 (9)	4 (4)	4 (4)	9 (9)

1 Deceased 13 March 2018.
2 Joined 1 September 2018.
3 Attended at the Committee's invitation.
4 Ad hoc meetings were specific subject meetings, called at short notice and held by telephone.

Lynne Fennah was absent from one ad hoc meeting due it being a discussion about her appointment as COO.

Stuart Beevor was absent from one regular Board meeting and two ad hoc meetings in January due to time zone differences. Stuart read all papers and provided comments before the meetings and was debriefed after.

Jim Prower was unable to make one ad hoc Board meeting as he was travelling.

Prior to each regular Board meeting, the Non-Executive Directors hold their own meeting. This allows them to discuss matters they want to raise with the Executive Directors and any other relevant issues.

In a typical year, the Non-Executive Directors meet once without the Chairman, to appraise his performance. This process is led by Jim Prower, as the Senior Independent Director, and takes into account the views of the Executive Directors. This appraisal did not take place during 2018, as Mark Pain did not join the Board until 1 September, but will take place in 2019.

Effectiveness

Board Performance and Evaluation

In December 2018, the Chairman led an internal evaluation of the effectiveness of the Board and its committees. This followed the externally facilitated evaluation undertaken in the previous year (see below).

The basis of the evaluation was a detailed questionnaire designed by the Chairman, after reviewing best practice. The subjects covered included:

- the Board's composition, including its mix of skills, experience, knowledge and diversity;
- succession planning for Executive and Non-Executive Directors;
- Board and committee roles and responsibilities;
- Board discussions and decision making, including risk management and stakeholder views;
- the conduct of Board meetings and information flow to the Board;
- induction, training and support;
- the Chairman's performance; and
- the effectiveness of all committees.

Responses to the questionnaire were collated and analysed by the Chairman and the results reported to the Board at its meeting in January 2019. The key findings were:

- the need to ensure that the Board benefited from a more diverse range of skills and capabilities;
- the need to continue to improve succession planning at senior executive and Board level;
- the need to ensure that the Board and committees have sufficient induction and training made available to them;
- the need to develop a more holistic approach to engaging with colleagues and other stakeholders;
- the need to define, develop and oversee a more effective culture; and
- the need to develop a more balanced dialogue around medium- and long-term strategy.

A plan of activity is being developed and will be reported on in next year's Annual Report and Accounts.

Progress Against the 2017 Board Evaluation

Towards the end of 2017, the Board engaged Board Evaluation Limited to conduct an externally facilitated evaluation of its performance. The results were presented to the Board on 27 February 2018. The improvement areas identified in this assessment and our progress against them during the year are set out below:

Improvement Area and Actions Taken
Succession planning Succession planning is considered by the Nomination Committee as part of its standing agenda. The expansion of the leadership team, as described in the Strategic Report, gives the Group a broader pool of senior talent to draw on.
Directors' training and development Plans to enhance the Directors' training and development are ongoing. The training the Directors received in 2018 is described in the Induction and Training section below.
Governance documentation We made a number of enhancements to documentation during the year, including refreshing the terms of reference for the three Board committees and formally documenting the annual Board review and the annual re-election of Directors.
Challenge and accountability Challenge and accountability continue to improve across the Group, at every level. This includes objective setting for the Executive Directors and the wider leadership team.
Management information The Group has made substantial enhancements to its management information and forecasting over the last 12 months. Bringing outsourced functions in-house has also improved the quality of information available to the Board and management.
Companies Act responsibilities Actions taken in 2018 included ensuring that the Group's wider stakeholders are considered in all business decisions and in the formulation of KPIs, and that the Directors are aware of changes being implemented, in particular their responsibilities under s172 of the Companies Act.

Induction and Training

Mark Pain received a thorough formal induction on his appointment as Chairman. This included meeting members of the operations and head office teams, visits to a number of the Group's sites and meetings with key advisers. He also met the Company's five largest shareholders to understand their views on Empiric and its prospects. The Chairman designed his induction programme in conjunction with the CEO.

The Chairman reviews and discusses each Director's individual training and development needs. The Board as a whole also receives briefings and training on relevant topics. For example, in December 2018 the Group's Head of Facilities Management presented to the Board on its responsibilities in respect of health and safety.

The Directors also visit our properties and developments to gain greater insight into the portfolio and its operations. In November 2018, the Board visited the Group's properties in Exeter. This was part of a two-day off-site meeting, at which the Board discussed a range of topics including our strategy, market positioning, portfolio and competitive landscape.

Empiric also benefits from the Non-Executive Directors' membership of other boards. This gives them experience and training they can apply directly to our business. In addition, the Board receives regular publications on key topics from our advisers and other professional services firms.

Accountability

Internal Controls and Risk Management

The Directors are responsible for maintaining the Company's systems of internal control and risk management, in order to safeguard the Company's assets. This system is designed to identify, manage and mitigate the financial, operational and compliance risks inherent to our business. The system is also designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board regularly monitors the Company's risk management and internal control systems which have been in place for the year under review and up to the date of approval of the annual report and accounts, including receiving reports from the external auditor. The Board also conducts a formal risk assessment on an annual basis.

Our non-financial internal controls include the systems of operational and compliance controls maintained by our Administrator. The Administrator also acts as our Company Secretary and has its own systems of internal controls in relation to these matters, details of which the Board reviewed as part of our Financial Position and Prospects Procedures memorandum.

As discussed in the Audit Committee Report on *page 44*, the Board does not currently consider that a full-time internal audit function is required.

AIFM Directive

The Company continues to act as its own full-scope AIFM, authorised by the Financial Conduct Authority.

This document constitutes the Company's Annual Report for the purposes of Article 22 of the Alternative Investment Fund Managers Directive (2011/61/EU) (the "AIFM Directive"). The disclosures required by paragraphs 2(a) to (c) of Article 22 of the AIFM Directive are contained within the financial statements of the Company.

See Change in Listing Chapter on *page 23* for more information.

Going Concern

The financial position of the Company and Group, their cash flows, liquidity position and borrowing facilities are described in the Operational and Financial Review on *pages 18 to 23*. Detailed forecasts have been prepared and the Directors have considered the future cash requirements of the Group and concluded that they have sufficient capacity to meet all their commitments. A full summary of equity and debt financing are detailed on *page 23*.

As a consequence, the Directors believe that the Company and Group are well placed to manage their financing and other business risks. The Board is, therefore, of the opinion that the going concern basis of accounting adopted in the preparation of the Annual Report is appropriate for at least 12 months from the date of approval of the Annual Report.

Viability Statement

In accordance with provision C.2.2 of the 2016 UK Corporate Governance Code, taking into account the Group's current position and principal risks, the Directors have assessed the prospects of the Group over a three-year period and confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the three years to December 2021. Three years has been chosen for the assessment period as this is the horizon for accurately predicting occupancy levels, rental growth and interest rates. The Directors' assessment has been made with reference to the Group's current position and prospects, the Group's strategy, the Board's risk appetite and the Group's principal risks and the management of those risks, as detailed in the Strategic Report on *pages 28 to 33*.

During 2018, and in making this statement, the Board carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten the Group's business model, future performance, solvency or liquidity.

The assessment is based on the three-year planning cycle of the Group, being the typical period over which the Directors have visibility on the debt financing for the Group, practical completion of the Group's current development assets and commitments and the Group's operational capabilities and the Directors believe the forecasting assumptions used are reliable.

The Group's strategy and principal risks underpin the three-year plan and associated stress testing, which the Directors review at least annually. The Directors' review considers profits, cash flows, financing requirements and financial covenants.

The three-year plan review is underpinned by regular Board briefings provided by the Executive Directors and discussion of any new strategies undertaken by the Board in its normal course of business. These reviews consider both the market opportunity and the associated risks.

The strategic plan is built using a bottom-up model, on an asset by asset basis. The model makes certain prudent assumptions about the acquisition of properties (both standing assets and development assets), the ability to refinance debt as it falls due and/or recycle capital, the performance of the property portfolio both in terms of income generation (annual rental growth of 2% and 6% voids across the operating portfolio) and capital appreciation (annual uplift of 2.5%) and the payment of dividends to shareholders, in line with the Company's obligations under the UK REIT regime.

The model is subject to sensitivity analysis, which involves flexing a number of key assumptions underlying the forecast, both individually and in aggregate. These include assumptions including occupancy, the Group's cost base, rent changes and interest rates. Where appropriate, this analysis was carried out to evaluate the potential impact of the Group's principal risks (see *pages 28 to 33*) actually occurring. In particular, in assessing the Group's viability, the Board has considered the potential impact on the Group's principal operating risks, notably those relating to occupancy levels and operating costs.

Relations with Stakeholders

Shareholders
The Board recognises the importance of maintaining strong relationships with shareholders, so we understand their views and are aware of their issues and concerns. The Executive Directors and our advisers regularly engage with shareholders and we receive feedback from our broker and financial adviser on shareholder issues. Meetings with investors typically take place after the interim and full year results.

The Chairman makes himself available to shareholders, as necessary, outside these meetings. As noted on *page 39*, he met our top five shareholders as part of his induction programme. Stuart Beevor held a number of discussions with investors during his time as acting Chairman, and also supported Brenda Dean during her calls with investors in the early part of 2018. The Senior Independent Director is an alternative contact for shareholders.

The Board makes itself available at the Company's General Meetings and we encourage shareholders to attend and vote at these meetings. The 2019 AGM will be held at 10am on 2 May 2019 at Maitland/AMO, 3 Pancras Square, London, N1C 4AG.

The Company also communicates with investors in a number of other ways. These include:

– News announcements – We provide a regular flow of news, to keep shareholders up to date with our progress. We release any price-sensitive information to all shareholders at the same time, in accordance with regulations.
– The Annual and Half Year Reports – These are our most significant tools for informing shareholders about our progress. Our Annual and Half Year Reports are sent to shareholders by mail and are also available to download from our website, www.empiric.co.uk.
– Our website – The website provides shareholders with timely information on our performance and property portfolio. It also gives access to current and archived documents, including our financial reports and regulatory prospectuses, as well as webcasts from the most recent results presentations.
– Investor/analyst meetings – We invite investors and analysts to our regular results presentations, where they have an opportunity to meet both Directors and members of the management team.
– Site visits – From time to time we run site visits for major shareholders, giving them valuable insight into the types of properties and locations we invest in and manage.

Debt Providers
We recognise the important contribution of providers of debt capital and therefore maintain a regular and open dialogue with the Group's lenders, to understand their investment appetite and criteria. Further information on the Group's debt providers can be found on *page 23*.

Customers
Our customers – the students who live in our properties – are of critical importance to us. To understand the profile of our customer base, their values and their views on our accommodation and services, we have an ongoing third-party research initiative, in addition to the data we gather via the Hello Student® platform. The Board receives a report on the student satisfaction survey, which is completed twice a year. We also report student satisfaction as one of our key performance indicators (see *page 16*).

People
The Group complies with all relevant legislation, respects human rights, encourages a diverse and tolerant workforce, provides fair pay and remuneration benchmarked to industry standards and gives its staff the opportunity to develop in a supportive environment.

To ensure effective engagement with our people, the Group will introduce a formal workforce advisory panel during the first quarter of 2019. This will comprise a cross-section of the Group's employees and will be led by Tim Attlee. The panel will focus on workforce policies and practices, ensuring they are consistent with the Group's values and that they support our long-term success.

Nomination Committee Report

During the year, the Committee oversaw the appointment of the Chairman and Chief Executive Officer, and the creation of the new role of Chief Financial and Operating Officer.

Committee Membership and Meetings

Brenda Dean[1]	1 (1)
Mark Pain[2]	1 (1)
Tim Attlee	2 (2)[4]
Lynne Fennah	1 (1)[4]
Jim Prower	4 (4)
Stephen Alston	4 (4)
Stuart Beevor[3]	4 (4)

Meetings and Activities

The Nomination Committee met three times during the year. The main issues the Committee discussed were:

– the appointment of Mark Pain as Chairman;

– the confirmation of Tim Attlee as Chief Executive Officer;

– the appointment of Lynne Fennah to the dual roles of Chief Operating Officer ("COO") and Chief Financial Officer ("CFO"); and

– the mix of skills and experience required on the Board, which led to the appointment of Alice Avis as a Non-Executive Director after the year end.

The Committee's role also includes succession planning. During the year, it reviewed the management structure and advised on the appointment of new senior managers suggested by the Executive Directors.

With the Senior Leadership Team now in place, the Nomination Committee will continuously review succession planning throughout 2019.

1 Brenda Dean chaired the Committee until her death in March 2018.
2 Mark Pain assumed the Committee chairmanship on joining the Board in September 2018.
3 Stuart Beevor was acting Chairman of the Committee until Mark Pain's appointment.
4 Attended at the Committee's invitation.

Appointment of the Chairman

Following Brenda Dean's death in March 2018, we began the process of appointing a new Chairman to the Board, led by Stuart Beevor. We engaged Russell Reynolds Associates to identify candidates and manage the selection and interview process. Russell Reynolds has no connection with the Group, other than providing this type of service.

The Committee determined the criteria that the new Chairman should meet. These included having:

– high credibility as a leader and being a strong team player;

– good PLC board experience and relevant business experience, likely to have been gained as a highly commercial executive board member of a listed company;

– a strong operational background and understanding of operational excellence and a customer service culture;

– experience of developing and expanding businesses, and running businesses in challenging circumstances;

– high intellect and rigour, with strong strategic thinking skills and financial astuteness;

– a solid understanding of corporate governance; and

– strong experience of engaging with shareholders and advisers.

The Committee received a long list of candidates, from which we selected suitable candidates for interview. Stuart Beevor and Jim Prower conducted the initial interviews, with Tim Attlee, Lynne Fennah and Stephen Alston interviewing the final shortlist. At the conclusion of the process, the Committee recommended Mark Pain's appointment and the Board approved this recommendation.

Details of Mark Pain's principal external appointments and significant previous external experience can be found on *page 34*.

Appointment of the Chief Executive Officer

Following the termination of Paul Hadaway's employment on 11 December 2017, Tim Attlee was appointed Acting CEO, in addition to his role as Chief Investment Officer. Under Tim's leadership the Group has materially improved its operating performance. The Committee was therefore pleased to recommend Tim's permanent appointment as CEO, which was effective from 29 November 2018.

Appointment of the Chief Financial and Operating Officer

Lynne Fennah joined the Board as Chief Financial Officer on 26 June 2017. Since December 2017, she has also been responsible for the Group's operating activities and has been highly instrumental in our performance improvement. The Committee therefore recommended that Lynne be appointed to the dual roles of COO and CFO, formalising her responsibilities, effective from 1 July 2018.

Appointment of a New Non-Executive Director
Alice Avis was appointed as a Non-Executive Director of the Company with effect from 1 March 2019. She also joined the Remuneration Committee with effect from the same date.

Alice's appointment brings a wealth of invaluable experience in driving digital transformation and operational excellence in customer-focused, multi-site businesses.

Board Diversity
We recognise the benefits of diversity in its broadest sense, including gender, ethnicity, age, and educational and professional background. However, we do not believe it is in the interests of the Company and its shareholders to set prescriptive targets for diversity on the Board. Where Board vacancies arise, we do consider diversity but ultimately we look to appoint the best candidate for the role.

The appointment of Alice Avis as a Non-Executive Director has added to the breadth of skills and experience on the Board, while also enhancing our gender diversity. Following Stephen Alston's retirement from the Board on 29 March, female Directors will make up one third of the Board, in line with the voluntary target set by the Hampton-Alexander review.

More information about gender diversity in Empiric as a whole can be found on *page 25*.

Mark Pain
Nomination Committee Chairman | 20 March 2019

Audit Committee Report

The Committee met four times during the year and continued to successfully implement its regular agenda.

Committee Membership and Meetings

Brenda Dean[1]	*1 (1)*[4]
Mark Pain[2]	*1 (1)*[4]
Tim Attlee	*4 (4)*[4]
Lynne Fennah	*4 (4)*[4]
Jim Prower[3]	*4 (4)*
Stephen Alston	*4 (4)*
Stuart Beevor	*4 (4)*

Meetings and Activities

The Audit Committee met four times during the year. All the Committee members attended these meetings, as well as the Chairman, the CEO, the Chief Financial and Operating Officer and representatives of our external auditor BDO LLP ("BDO") and the Company's Administrator, FIM Capital Limited, who were invited to attend.

During the year, our work included:

– reviewing the internal controls and risk management systems, which were formalised in the Financial Position and Prospects Procedures memorandum approved by the Board at IPO;

– reviewing the financial statements for the year ended 31 December 2017 and the interim report for the six months ended 30 June 2018, including considering key accounting policies and areas of significant judgement, compliance with statutory obligations and accounting standards, and consistency throughout the reports;

– reviewing the process undertaken to ensure that the Board can confirm that these financial statements and the interim report are fair, balanced and understandable; and

– reviewing and approving the external auditor's terms of engagement, remuneration and tenure of appointment.

1 Deceased 13 March 2018.
2 Joined 1 September 2018.
3 Jim Prower is considered to possess recent and relevant financial experience for the purpose of the Code and the Audit Committee as a whole is considered to have competence relevant to our sector. Details of the experience of each Committee member can be found in their biographies on *pages 34 and 35*.
4 Attended at the Committee's invitation.

External Auditor and Other Services

As we do each year, we reviewed BDO's appointment as the Group's external auditor. Following this review, we decided to retain BDO and have therefore recommended a resolution for BDO's reappointment to be proposed to shareholders at the AGM.

We considered BDO's compensation, performance and independence during the year. The Committee met with key members of the audit team, including the lead audit engagement partner, Richard Levy, and BDO has formally confirmed its independence, as part of the annual reporting process. The Committee regularly liaises with the lead audit partner to discuss any issues arising from the audit, as well as its cost-effectiveness.

BDO have been our auditors since 2014, when the Company was first listed, and Richard Levy has been the lead partner since this date.

The Committee recognises the importance of auditor objectivity and has developed the Company's policy on engaging the external auditor to supply non-audit services, by considering the Financial Reporting Council's Ethical Standard Number five (revised June 2016). This relates to non-audit services provided to audited entities and sets out the six principal threats to objectivity and independence. Our aim is to ensure that providing such services does not impair the auditor's independence and objectivity. We keep the policy and its application under constant review, particularly at the time of new engagements, to make sure that audit independence and objectivity is not impaired. During the year, BDO did not provide any non-audit services to the Group.

KPMG LLP replaced Ernst & Young LLP as provider of tax compliance and advisory services to the Group.

Internal Audit

Due to the Group's size and structure and the nature of its activities, the Committee has concluded that an internal audit function is currently unnecessary. The Group does not hold, for example, large quantities of cash or stock, and the risks we face are readily apparent and do not need an internal audit function to identify them. Employing an internal audit function would not therefore improve our risk environment. However, we will consider the need for this function regularly and make suitable recommendations to the Board.

Whistleblowing

The Committee is responsible for reviewing the arrangements by which staff can raise concerns, in confidence, about any possible improprieties relating to financial reporting or other matters. Our view is that the Group has suitable arrangements for proportionately and independently investigating such matters and for appropriate follow-up action.

Share Capital Structures

The share capital structure and restrictions are covered in detail in the Directors' Report on *pages 62 and 63*.

Financial Reporting and Significant Judgement
The Committee monitors the integrity of the financial information published in the half year and annual financial statements and considers the extent to which suitable accounting policies have been adopted, presented and disclosed. In assessing this, we consider whether management has made suitable and appropriate estimates and judgements, and seek support from the external auditor to assess them.

As at 31 December 2018, the Group had property assets of £971 million, as detailed on *page 69* in the Group Statement of Financial Position. As explained in Note 13, CBRE independently values the individual properties in accordance with IAS 40: Investment Property. The Committee has reviewed the assumptions in respect of the property valuations, discussed them with management and our external valuers CBRE, and concluded that the valuation is appropriate.

Conclusions in Respect of the Company's Annual Report
The production and the audit of the Annual Report is a comprehensive process, requiring input from several different contributors. To reach a conclusion on whether the Annual Report taken as a whole is fair, balanced and understandable, as required by the Code, the Board has requested that the Audit Committee advises on whether it considers that the Annual Report fulfils these requirements.

In outlining our advice, we considered the following:

- the comprehensive documentation outlining the controls in place for the production of the Annual Report, including the verification processes to confirm the factual content; and
- the detailed reviews undertaken at various stages of the production process by the Executive Directors, Company Secretary, financial adviser, legal adviser, auditor and the Audit Committee, which are intended to ensure consistency and overall balance.

As a result of this work, the Committee has concluded and reported to the Board that the Annual Report for the year ended 31 December 2018, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The Board's conclusions in this respect are set out in the Directors' Responsibilities Statement on *page 63*.

Jim Prower
Audit Committee Chairman | 20 March 2019

Statement from the Chairman of the Remuneration Committee

The Company has made strong progress in 2018 following the challenges which manifested in late 2017. The Remuneration Committee has continued to seek alignment between executive rewards and shareholders to ensure we offer the right incentives to deliver attractive results.

Committee Membership and Meetings

Brenda Dean[1]	1 (1)
Mark Pain[2]	4 (4)
Tim Attlee	2 (2)[3]
Lynne Fennah	1 (1)[3]
Jim Prower	9 (9)
Stephen Alston	7 (9)
Stuart Beevor	9 (9)

Activities

- Changes in the Executive Team
- Reward decisions
- Committee exercise of discretion
- Strategic and shareholder alignment

1 Deceased 13 March 2018.
2 Joined 1 September 2018.
3 Attended at the Committee's invitation.

Changes in the Executive Team
As outlined in the Chairman's Statement, Tim Attlee was appointed Chief Executive Officer (no longer Acting CEO) in November 2018 and Lynne Fennah was appointed to the dual roles of Chief Financial and Operating Officer in July 2018.

As a result of these Board changes, the Executive Directors' salaries were reviewed. Tim Attlee's salary was increased to £400,000 effective from 1 November 2018. His previous salary increase was effective from 1 July 2016. Lynne Fennah's salary was increased to £310,000 effective from 1 July 2018. Her previous salary was effective from June 2017 when she joined the Group.

No further review of base salaries was undertaken with effect from 1 January 2019 and the next effective review will be 1 January 2020.

Reward Decisions
Bonus objectives for 2018 were aligned to materially improving operating margin (one third), dividend cover (one third) and specific individual executive objectives (one third). The operating margin and dividend cover objectives were each split between the period Q1 to Q3 and Q4, recognising the consequence of the annual letting cycle which impacts the academic year commencing at the start of Q4. As a result of the outturn against objectives set, the Committee determined that the overall bonus payout should be 25.12% of maximum for Tim Attlee and 45.23% of maximum for Lynne Fennah. Full details are on *page 58*. The bonus plan arrangements for 2019 follow the same structure and components as 2018.

Lynne Fennah was granted Long-Term Incentive Plan ("LTIP") awards in March and August 2018 over shares worth in aggregate 150% of her 2018 salary. She will receive a similar award in 2019. All LTIP awards are subject to Total Return (NAV plus dividends) performance targets. Tim Attlee participates in the Value Delivery Plan ("VDP") and is not eligible to receive a LTIP award.

Committee Exercise of Discretion
Michael Enright was the Chief Financial Officer until 14 March 2017. As part of his termination arrangements, he retained the nil-cost share options relating to the deferred annual bonus awards from 2015 and 2016. In view of performance issues which were not apparent when Michael Enright's employment ceased, the Committee exercised its discretion and lapsed these outstanding awards.

Strategic and Shareholder Alignment
In setting Executive remuneration in 2019, the Committee has continued to seek alignment with Empiric's strategic priorities and shareholder interests. In particular:

– Annual bonus performance measures remain focused on objectives critical to delivering the improvement in corporate performance (building dividend cover and creating an efficient operating model) and individually specific strategic measures.
– Executives are aligned with the principle of shareholder value creation through participation in long-term incentive plans that reward growth in NAV plus dividends.
– The Directors are required to build up and retain significant holdings of Empiric shares equivalent to 200% of salary which directly align them with other shareholders. In addition, Directors participating in the VDP have an enhanced guideline of 400% and are required to retain shares vesting under the VDP until they are compliant.

Full details of how the Remuneration Policy will be applied during 2019, as well as how Directors were paid in 2018, are set out on *pages 56 to 61*. There will be an advisory shareholder vote on this section of the Remuneration Report at our 2019 AGM.

The current Remuneration Policy applies for the period 2017–2019. During 2019, the Committee will review the Policy in light of the Company's strategic priorities, market developments and governance developments including the revised UK Corporate Governance Code. We will then consult with shareholders about any changes to the intended Policy for the period 2020–2022 before seeking shareholder approval at the 2020 AGM.

As the 2017–2019 Policy was approved at the December 2016 General Meeting rather than at an AGM, we are obliged by legislation to seek shareholder approval at the forthcoming AGM for a technical renewal of the 2017–2019 Policy in order to provide continuity for the short additional period until the 2020 AGM. In order to comply with the new 2018 Corporate Governance Code we have made three changes to the 2017–2019 Policy for the purposes of this renewal – these are summarised on *page 48*.

We greatly value engagement with our shareholders and the constructive feedback we receive and look forward to your support at the forthcoming AGM.

Stuart Beevor
Remuneration Committee Chairman | 20 March 2019

Remuneration Committee Report

Our Directors' Remuneration Policy was approved by shareholders at the General Meeting held on 21 December 2016 and came into effect from 1 January 2017. The Committee is seeking shareholder approval at the 2019 AGM for a renewal of the existing Policy until the 2020 AGM. This is an extension of approximately five months and is a technical renewal to ensure the Group is on a standard renewal timing cycle. The reason the Group is not currently on the standard renewal timing cycle was due to the change in year end from June to December in 2016.

The changes proposed, as set out below, have been applied by the Committee with effect from 1 January 2019.

Summary of Policy Report

The Directors' Remuneration Policy, which we are seeking approval for at the 2019 General Meeting effective until the 2020 AGM, is set out below.

The body of the Policy has been left unchanged from the previously approved policy; however, to comply with the 2018 Corporate Governance Code, three changes are proposed as stated below, and are shown in ***bold italics*** in the Policy to highlight the changes made:

1. Future LTIP awards granted will have a five-year release period.
2. Pension provision for any future Director appointments will be limited to that offered to the majority of the workforce.
3. Directors should maintain their shareholdings in accordance with the guideline for a period of two years post employment.

In addition, the Illustration of applications of the Directors' Remuneration Policy, showing the minimum, on-target and maximum remuneration for the CEO and CFO/COO, has been updated as shown on ***page 52.***

Policy Table for Executive Directors

Component	*Purpose and link to strategy*	*Operation*	*Maximum*	*Performance framework*
Fixed Pay				

Base salary	Core element of remuneration set at a level to attract and retain Executive Directors of the required calibre to deliver the Company's investment objectives successfully.	Fixed cash paid monthly generally reviewed annually.
		
		The review takes into consideration a number of factors, including but not limited to:
		– the individual Director's role, experience and performance;
		– business performance;
		– relevant data on remuneration levels paid for comparable roles; and
		– pay and conditions elsewhere in the Company.
			To avoid setting the expectations of Executive Directors and other employees, there is no overall maximum salary for Executive Directors under the Remuneration Policy.
			
			Any increase in salaries will be determined by the Remuneration Committee, taking into account the factors stated in this table and the following principles:
			– Salary increases for Executive Directors will typically be in line with the average salary increase (in percentage of salary terms) for other permanent employees.
			– Increases may be made above this in certain circumstances, such as:
			  – progression within the role;
			  – increase in scope and responsibility of the role;
			  – increase in experience where an individual has been recruited on a lower salary initially; and
			  – increase in size and complexity of the Company.
				None.

Benefits	To provide market-competitive benefits.	Benefits are role specific and take into account local market practice. Benefits currently include (but are not limited to) reimbursed travel expenses, medical insurance, disability and life insurance and a car allowance.	There is no overall maximum level, but benefits are set at an appropriate level for the specific nature of the role and depend on the annual cost of providing individual benefits.	None.

Component	*Purpose and link to strategy*	*Operation*	*Maximum*	*Performance framework*
Pension	To provide market-competitive retirement benefits.	The Company either contributes to the Directors' personal pension arrangements or direct to their pension plans. Alternatively, Directors may receive a cash allowance in lieu of pension.	***Current*** Executive Directors receive a contribution of up to 15% of base salary to a pension plan and/or as a cash allowance in lieu of pension. ***The level of pension provision for any future Executive Director appointment will be limited to that offered to the majority of the workforce.***	None.
Variable Remuneration				
Annual and deferred annual bonus	To link reward to the achievement of key business objectives for the year. To provide additional alignment with shareholders' interests through the operation of bonus deferral.	The Executive Directors are participants in the annual bonus plan which is reviewed annually to ensure bonus opportunity, performance measures and targets and objectives are appropriate and support the business strategy. The Committee will determine the level of bonus to be awarded, taking into account the extent to which the targets have been met and overall business and personal performance. Up to 60% of an Executive Director's annual bonus will be paid in cash following the release of the audited results of the business. At least 40% of any bonus is deferred into an award over Company shares issued as a nil-cost option pursuant to the terms of the LTIP, which will usually be deferred for three years. Dividend equivalents will be paid usually in additional shares when the deferred shares are released.	The maximum annual bonus opportunity is 150% of base salary per annum. Each year the Remuneration Committee will determine the maximum annual bonus opportunity for each individual Executive Director within this limit.	The bonus is based on performance assessed over one year using appropriate financial and strategic performance measures. The selected measures for the next financial year will be set out in the Annual Report on Remuneration section of the Remuneration Report.
LTIP	To link reward for the Executive Directors to the achievement of long-term performance objectives of the Company which are aligned to the strategic goals and to retain executives.	Awards under the LTIP will usually be made in the form of a contingent award of shares or grant of nil-cost options or nominal value options. Vesting of the award is dependent on the achievement of performance targets, typically measured over a three-year period. ***Vested awards (relating to awards granted from 2019 onwards) will be subject to an additional two-year holding period.*** Dividend equivalents will be paid usually in additional shares when the LTIP awards are released.	The maximum LTIP award that may be made is up to 150% of base salary per annum as provided for in plan rules, but for the avoidance of doubt this excludes any nil-cost options issued pursuant to an award under the annual bonus scheme.	Vesting of LTIP awards is dependent on the achievement of performance measures determined by the Committee ahead of each award. These details will be disclosed in the Annual Report on Remuneration section of the Remuneration Report. Performance will usually be measured over a three-year performance period. For achieving a "threshold" level of performance against a performance measure, no more than 25% of the award will vest. Vesting then increases on a sliding scale to 100% for achieving a stretching maximum performance target.

Remuneration Committee Report continued

Component	*Purpose and link to strategy*	*Operation*	*Maximum*	*Performance framework*
VDP 2017–20 award ***(No further VDP awards will be granted during the duration of this Policy.)***	To align the incentives of participants with the objectives of the 2025 Plan, the long-term performance of the business and to motivate and retain key members of staff.	At the end of the four-year performance period, a reward pool will be generated based on the amount of shareholder value generated over the period. For this purpose, shareholder value will be defined as NAV growth plus compounded dividends. The value of the reward pool will be translated into Empiric shares and held for a further year before release to award holders (along with the value of any dividends accruing on those shares during the holding period). For the duration of this Policy, participants in the VDP will receive no further awards under the existing LTIP other than an award in respect of the deferred element of the annual bonus scheme.	Reward pool cap. The maximum value of the reward pool is capped at 5% of shareholder value generated over the four-year performance period. Cap on individual participation No individual can receive more than 40% of the reward pool.	Unless shareholder value of at least 8% per annum (the "threshold" target) is delivered in a four-year performance period, there will be no reward pool. If value is delivered above that "threshold" target, then a reward pool will be generated equivalent to 10% of the excess value (subject to the overall reward pool cap). Any value accruing under the VDP will be dependent upon the Remuneration Committee being satisfied that the related performance has been achieved in a manner that is consistent with the Board-approved risk profile.
Employee Share Option Plan Executive Directors will only be granted share options under the ESOP in exceptional circumstances.	To reward employees for the delivery of long-term shareholder value.	The ESOP permits the grant of share options with an exercise price of not less than the market value of a share (as determined by the Committee) at the time of grant. Options will usually be exercisable between three and ten years following the grant.	Share options may be granted under an HMRC-approved Company Share Option Plan to the extent possible.	If ESOP awards were, in exceptional circumstances, granted to an Executive Director, they would be subject to an appropriate performance condition as determined by the Committee.
All-employee share plans	To reward employees for the delivery of long-term shareholder value.	Executive Directors may participate on the same basis as other employees.	Participants may contribute up to the relevant limits set out in the plan.	None.
Shareholding guideline	To align interests of executives and shareholders.	The standard guideline is that Executive Directors are expected to build up and retain a shareholding worth at least 200% of salary. ***Directors are required to maintain their shareholding in accordance with this guideline for two years post employment. (Unless the Committee considers a lower limit to be appropriate in a particular participant's circumstances.)*** Directors participating in the VDP have an enhanced shareholding guideline of 400% of salary and are required to retain shares vesting under the VDP (net of shares sold to meet tax liabilities on vested shares) until they are compliant with the guideline. They will also be required to retain shares equivalent to 200% of salary for a minimum of two years post cessation of employment (unless the Committee considers a lower limit to be appropriate in a particular participant's circumstances).		

Notes to the Directors' Remuneration Policy Table

Malus and Clawback

Malus and clawback may be applied by the Remuneration Committee to any variable remuneration awarded to an Executive Director under this Remuneration Policy. Potential circumstances in which the Remuneration Committee could choose to apply malus and clawback are following a restatement of results, censure by a regulatory authority, any other circumstances where the Board considers that the reputation of the Company has been materially damaged or any other reason (including poor performance or misconduct on the part of the participant) that the Board considers appropriate.

Clawback may be applied to a cash bonus up to three years from the determination of the bonus. Malus and clawback may be applied to a deferred annual bonus up to three years from the date of their award and to a LTIP or VDP award up to five years from the date of their award.

Legacy Awards

The Remuneration Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before the 2015 AGM (the date the Company's first shareholder-approved Directors' Remuneration Policy came into effect); (ii) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Remuneration Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes "payments" includes the Remuneration Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted.

The Remuneration Committee will operate the annual bonus, LTIP and VDP in accordance with the relevant plan rules.

Discretions

The Remuneration Committee retains discretion as to the operation and administration of these plans as follows:

Annual Bonus

The Remuneration Committee may settle an award in shares; and the Remuneration Committee may amend the performance targets applying to an award in exceptional circumstances if the new performance targets are considered fair and reasonable and are neither materially more nor materially less challenging than the original performance targets.

Deferred Annual Bonus/LTIP/VDP

The Remuneration Committee may amend the performance conditions applying to an award in exceptional circumstances if the new performance conditions are considered fair and reasonable and are neither materially more nor materially less challenging than the original performance conditions; and in the event of a variation of share capital, demerger, special dividend, distribution or any other corporate event which may affect the current or future value of an award, the Remuneration Committee may adjust the number of shares or the option price.

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

Takeover or Other Corporate Event

Incentive awards will generally vest early on a takeover, merger or other corporate event to the extent that any performance condition is then satisfied. When an LTIP award vests in these circumstances, the number of shares in respect of which it vests will, unless the Remuneration Committee decides otherwise, be reduced to reflect the fact that it is vesting early. Alternatively, participants may be allowed or required to exchange their awards over shares in the acquiring company.

The Remuneration Committee has the discretion to take other action as appropriate if other events occur which may have an effect on awards. In the event that all-employee plans are operated, they would be expected to vest on a takeover or other corporate event and those which have to meet requirements to benefit from tax benefits would vest in accordance with those requirements.

Minor Changes

The Remuneration Committee may make minor amendments to the Directors' Remuneration Policy set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Performance Measures and Target Setting

The annual and deferred annual bonus is based on operating and financial performance measures which are aligned with the Company's annual strategic plan.

The LTIP and VDP are based on measures chosen to motivate and reward Directors for the successful achievement of long-term sustainable performance and to ensure maximum alignment with shareholders.

Targets for all incentive plans are set by the Remuneration Committee and take into account a number of reference points.

Remuneration Arrangements Throughout the Company

There are differences in the components of total remuneration packages for the Executive Directors and other employees generally. This reflects differences in market practice taking into account roles and seniority. The remuneration policies for Executive Directors and other senior executives are generally consistent in terms of structure and the approach to rewarding performance used. In particular we place emphasis throughout the business on reward being linked to performance and on encouraging share ownership.

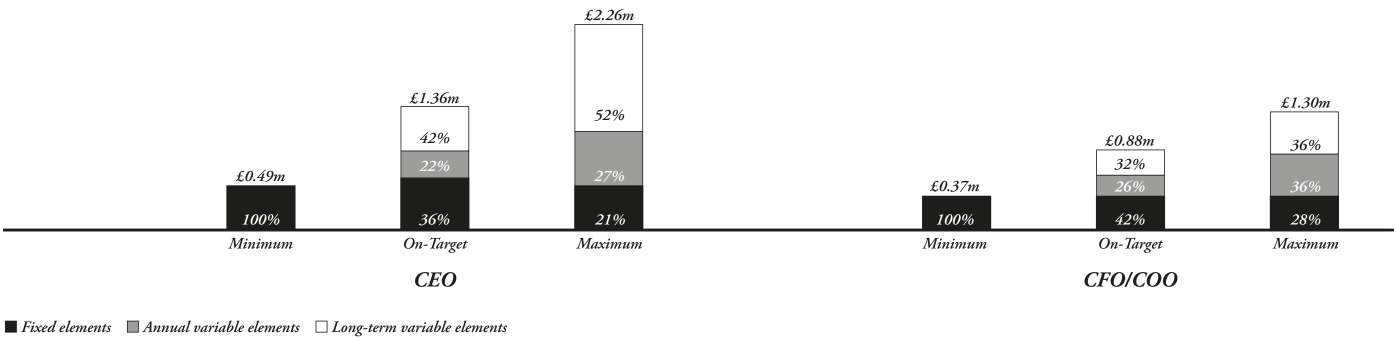
Remuneration Committee Report continued

Non-Executive Director Fees

Purpose and link to strategy	*Operation*	*Opportunity*
To attract and retain Non-Executive Directors of the required calibre by offering market-competitive fees.	The Chairman of the Board receives an all-inclusive fee. Non-Executive Directors receive a basic Board fee. Additional fees may be payable for additional Board responsibilities such as acting as the Senior Independent Director, chairmanship or membership of a Board Committee. The Remuneration Committee reviews the fees paid to the Chairman and the Board reviews the fees paid to the Non-Executive Directors periodically. Additional fees may be paid to Non-Executive Directors on a per diem basis to reflect increased time commitment in certain limited circumstances. Expenses incurred in the performance of non-executive duties for the Company may be reimbursed or paid directly by the Company, as appropriate, including any tax and social security contributions due on the expenses. Non-Executive Directors may be provided with benefits to enable them to undertake their duties.	Fees are set at an appropriate level that is market competitive and reflective of the responsibilities and time commitment associated with specific roles. The total aggregate fees payable to the Chairman and Non-Executive Directors will not exceed the limit stated in the Company's Articles of Association.

Illustrations of applications of the Directors' Remuneration Policy

The charts below have been updated to illustrate the application of the Directors' Remuneration Policy set out in the Policy Table for the current Executive Directors for 2019 and the potential split between the different elements of remuneration under three different performance scenarios: "Minimum", "On-target" and "Maximum".



Component		*Minimum*	*On-target*	*Maximum*
Fixed remuneration	Base salary	Annual base salary with effect from 1 January 2019		
	Pension	15% of base salary		
	Benefits	Annualised taxable value of annual benefits with effect from 1 January 2019		
Annual and deferred bonus	Maximum Policy opportunity	150% of salary for CEO ***and CFO/COO***		
	Assumed payout	Zero	50% of maximum opportunity	100% of maximum opportunity
VDP[1]	Maximum Policy opportunity	Up to 40% of the VDP reward pool for the CEO		
	Assumed level of shareholder value over performance period	<8% p.a.	10% p.a.	12% p.a.
LTIP[2]	Maximum Policy opportunity	150% of salary for ***CFO/COO***		
	Assumed payout	Zero	60% of award	100% of award

1 The VDP is a one-off award granted in 2017 with a four-year performance period. The values shown in the chart are the payouts that would be delivered for achieving the specified levels of shareholder value over the performance period (based on an assumed NAV at the start of the performance period of £550 million and assuming no capital raising during the performance period) divided by four to produce an annualised figure.
2 LTIP awards have been shown at face value with no share price growth, dividends or discount rate assumptions.

Approach to Recruitment Remuneration
In determining remuneration arrangements for new appointments to the Board (including internal promotions), the Remuneration Committee applies the following principles:

- The Committee considers all relevant factors, including the calibre and experience of the individual, the market from which they are recruited and existing arrangements for other Executive Directors, with a view that any arrangements should be in the best interests of the Company and our shareholders, without paying more than is necessary.
- Typically, the new appointment will have (or be transitioned onto) the same package structure as the other Executive Directors, in line with the Policy Table presented above.
- The maximum variable pay opportunity in respect of recruitment (excluding buy-outs) comprises a maximum annual bonus of 150% of annual salary and either a maximum LTIP award of 150% of base salary or a maximum 40% of the reward pool for an ongoing VDP award, as stated in the Policy Table above. The Remuneration Committee retains the flexibility to determine that for the first year after appointment any annual incentive award within this maximum will be subject to such terms as it may determine.
- Where an Executive Director is appointed from within the organisation, the normal policy of the Company is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, if an Executive Director is appointed following the Company's acquisition of, or merger with, another company or business, legacy terms and conditions would be honoured.
- Upon appointment, the Remuneration Committee may consider it appropriate to offer additional remuneration arrangements in order to secure the appointment. In particular, the Remuneration Committee may consider it appropriate to "buy out" terms or remuneration arrangements forfeited on leaving a previous employer. The overriding principle would be that the value of any replacement buy-out awards should be no more than the commercial value of awards which have been forfeited. The form of any award would be determined at the time and the Remuneration Committee may make buy-out awards under LR 9.4.2 of the Listing Rules.
- The Remuneration Committee may provide costs and support if the recruitment requires relocation of the individual.

Recruitment of Chairman and Non-Executive Directors
On the appointment of a new Chairman or Non-Executive Director, the fee will normally be consistent with the Directors' Remuneration Policy set out above. Where specific cash or share arrangements are delivered to the Chairman or Non-Executives, these will not include share options or any other performance-related elements.

However, if the Chairman or a Non-Executive Director takes on an Executive function on a short-term basis, they would be eligible to receive any of the standard elements of Executive Director pay.

Service Contracts
Key terms of the current Executive Directors' service agreements and Non-Executive Directors' letters of appointment are summarised in the table below. It is envisaged that any future appointments would have equivalent contractual arrangements unless otherwise stated in this Remuneration Policy Report.

Provision	*Policy*
Notice period	Executive Directors – 12 months' notice by either the Company or the Executive Director. Non-Executive Directors – No notice period by either the Company or the Non-Executive Director.
Termination pay	Executive Directors – None. Non-Executive Directors – None.
Expiry date	Executive Directors – None.

Each Director will retire and put themselves forward for re-election at the first Annual General Meeting of the Company following their appointment and thereafter in line with the Articles and the UK Corporate Governance Code.

Policy on Payment for Loss of Office
Where an Executive Director leaves employment, the Remuneration Committee's approach to determining any payment for loss of office will normally be based on the following principles:

- The Remuneration Committee's objective is to find an outcome which is in the best interests of both the Company and its shareholders while taking into account the specific circumstances of cessation of employment.
- The Remuneration Committee must satisfy any contractual obligations agreed with the Executive Director. This is dependent on the contractual obligations not being in contradiction with the Directors' Remuneration Policy set out in this Report.
- Any termination payment would be subject to negotiation although would not be expected in normal circumstances to exceed salary, pension and benefits in relation to the individual's outstanding notice period.
- The Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of a Director's office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his cessation of office or employment.

Remuneration Committee Report continued

The treatment of outstanding incentive awards will be governed by the relevant plan rules as set out in the table below:

Plan	*Automatic Good Leaver categories*	*Treatment for Good Leavers*	*Treatment for all other reasons for leaving*
Annual bonus	Death, ill-health, injury or disability, redundancy, transfer of employing company or business to which an individual's employment relates out of the Group, transfer of undertaking, any other reason, except summary dismissal, as the Remuneration Committee determines.	The participant will normally retain their entitlement to the bonus to the extent that the performance targets have been met. Bonuses will normally be subject to time prorating to reflect the period in employment, although the Remuneration Committee has the discretion to vary this. The Remuneration Committee may determine that the bonus payment is calculated and made, at their discretion, at cessation instead of at the end of the performance period.	All other leavers will forfeit their entitlement to an annual bonus payment.
Deferred annual bonus	Death, ill-health, injury or disability, redundancy, transfer of employing company or business to which an individual's employment relates out of the Group, transfer of undertaking, any other reason, except summary dismissal, as the Remuneration Committee determines.	The participant will normally retain their entitlement to receive their deferred annual bonus, which will vest on the normal vesting date. In the event of death or special circumstances, at the Remuneration Committee's discretion, awards may vest early either in part or in full.	All other leavers will forfeit their entitlement to receive any further vesting of deferred annual bonus awards.
LTIP	*Cessation during the performance period* Death, ill-health, injury or disability, redundancy, transfer of employing company or business to which an individual's employment relates out of the Group, transfer of undertaking, any other reason, except summary dismissal, as the Remuneration Committee determines. *Cessation during the holding period* All reasons except summary dismissal.	*Cessation during the performance period* In the event of death, or special circumstances at the Remuneration Committee's discretion, awards may ***be released*** upon cessation based on the Remuneration Committee's determination of the extent to which any relevant performance conditions are satisfied at that date. Otherwise, a Good Leaver's awards will be ***released at the end of the holding period (unless the Remuneration Committee exercises its discretion to release the award at the end of the performance period)*** subject to satisfaction of any relevant performance conditions measured over the full performance period. A Good Leaver's awards will normally vest on a time-apportioned basis although the Remuneration Committee has the discretion, acting fairly and reasonably, to disapply time apportionment. *Cessation during the holding period* ***Outstanding awards will be released at the end of the holding period or upon cessation at the Remuneration Committee's discretion.***	Awards lapse.

Plan	*Automatic Good Leaver categories*	*Treatment for Good Leavers*	*Treatment for all other reasons for leaving*
VDP	***Cessation during the performance period*** Death, ill-health, injury or disability, redundancy, transfer of employing company or business to which an individual's employment relates out of the Group, transfer of undertaking, any other reason, except summary dismissal, as the Remuneration Committee determines. ***Cessation during the holding period*** All reasons except summary dismissal.	***Cessation during the performance period*** In the event of death, or special circumstances at the Remuneration Committee's discretion, the value of a Good Leaver's entitlement under the VDP may be calculated and released upon cessation. Otherwise, a Good Leaver's entitlement under the VDP will be calculated and released at the end of the full performance period or at the end of the holding period at the Remuneration Committee's discretion. A Good Leaver's entitlement under the VDP will normally be subject to a time-apportioned adjustment although the Remuneration Committee has the discretion, acting fairly and reasonably, to disapply time apportionment. ***Cessation during the holding period*** Outstanding awards will be released at the end of the holding period or upon cessation at the Remuneration Committee's discretion.	Entitlements under the VDP will lapse.

Consideration of Employment Conditions Elsewhere in the Group
The Remuneration Committee does not formally consult with employees as part of its process when determining Executive Director pay. The Remuneration Committee is kept informed of general decisions made in relation to employee pay and related issues and is conscious of the importance of ensuring that its pay decisions for Executive Directors are regarded as fair and reasonable within the business. As outlined in the Policy Table, pay and conditions in the Company are two of the considerations taken into account when the Remuneration Committee is determining salary levels for the Executive Directors.

Consideration of Shareholders' Views
The Remuneration Committee takes an active interest in shareholders' views and regards these as one of the considerations when shaping the structure of the Directors' remuneration arrangements.

Annual Report on Remuneration

The Annual Report on Remuneration will be subject to an advisory shareholder vote at the 2019 Annual General Meeting.

Implementation of the Remuneration Policy in 2019
This section provides an overview of how the Committee is proposing to implement the Remuneration Policy during 2019.

Base Salary
As discussed in the Remuneration Committee Chairman's statement, the Executive Directors' salaries were reviewed during 2018. Tim Attlee was appointed Chief Executive Officer (no longer Acting CEO) in November 2018 and his salary was increased to £400,000 effective from 1 November 2018. His previous salary increase was effective from 1 July 2016. Lynne Fennah's salary was increased to £310,000 effective from 1 July 2018 when she was appointed to the dual roles of Chief Financial and Operating Officer. Her previous salary was effective from June 2017 when she joined the Group.

No review of base salaries was undertaken with effect from 1 January 2019 and the next effective review will be 1 January 2020. The prior and current salaries are set out below.

Executive Director	*Prior salary*	*Current salary*
Tim Attlee	£360,000 fixed 1 July 2016	£400,000 with effect from 1 November 2018
Lynne Fennah (Appointed 26 June 2017)	£225,000 fixed 26 June 2017	£310,000 with effect from 1 July 2018

Pension and Benefits
Executive Directors will be provided with a standard benefits package including 15% of salary pension provision, medical insurance, life insurance, London living allowance (CEO only) and car allowance (CEO £15,000, Chief Financial and Operating Officer £10,000).

Annual and Deferred Annual Bonus
The maximum payout under the annual bonus scheme is unchanged at 110% of salary, with at least 40% of any bonus satisfied by the issue of nil-cost options, which will be deferred for three years.

The annual bonus will be determined by three equally weighted performance measures:
– Dividend cover (one third of bonus)
– Operating model effectiveness and efficiency (one third of bonus)
– Director-specific objectives (one third of bonus)

The Remuneration Committee considers that these three performance objectives remain appropriate for 2019 and specific performance measures for each objective have been determined. Tim Attlee's specific objectives are to deliver the 2019 business plan, to develop a fully effective and integrated sales and marketing capability, and to create a Board-endorsed vision for the future growth of the Company. Lynne Fennah's specific objectives are to develop an internal revenue platform for full roll-out in the academic year 2020/21, to complete the in-housing of FM and HR and the rationalisation of the IT platform, and to develop a strategic cost plan for the Company.

The targets for these measures will be disclosed, and performance against them will be provided, in the next Remuneration Report. Any bonus payout will be subject to the Remuneration Committee confirming that, in its assessment, the financial outturns which determined the bonus were achieved within an acceptable risk profile. The Committee has discretion to override formulaic outcomes. Clawback may be applied to a cash bonus up to three years from the determination of the bonus and malus and clawback may be applied to a deferred annual bonus up to three years from the date of award.

LTIP
Lynne Fennah will be awarded an LTIP for 2019 equivalent to 150% of salary. Tim Attlee is a participant in the VDP (details of which are on *page 59*) and therefore will not receive a LTIP award in 2019.

The Committee has set a Total Return ("TR") target range for future LTIP awards whereby 25% of the awards vest for achieving 8% per annum TR increasing to 100% vesting for achieving 12% per annum TR with the Company's TR performance measured over a three-year period. TR is calculated by the change in NAV plus dividends.

Any LTIP vesting will be subject to the Remuneration Committee confirming that, in its assessment, the vesting outturn was achieved within an acceptable risk profile. The Committee has discretion to override formulaic outcomes.

Malus and clawback may be applied to LTIP awards up to five years from the date of award in line with the revised UK Corporate Governance Code.

Vested awards will be subject to an additional two-year holding period.

Non-Executive Director Remuneration
The unchanged fee structure applying from 1 January 2019 is outlined in the table below. Non-Executive Director fees are determined by the full Board, except for the fee for the Chairman of the Board, which is determined by the Remuneration Committee.

	Annual fees (£)
Basic fee	£40,000
Audit Committee Chairman additional fee	£8,000
Remuneration Committee Chairman additional fee	£8,000
Senior Independent Director additional fee	£9,000 (£4,500 if role is held by an individual who is also a Committee Chairman)
Chairman of the Board all-inclusive fee	£115,000

Single Total Figure of Remuneration (Audited)
The following table sets out the total remuneration for Executive Directors and Non-Executive Directors for the year ended 31 December 2018 alongside the equivalent data for the previous year.

	Year ended 31 December 2018							Year ended 31 December 2017					
	Salary and fees (£)	Benefits (£)	Annual bonus (£)	Long-term incentives (£)	Lapsed prior year bonuses (£)	Pension (£)	Total (£)	Salary and fees (£)	Benefits (£)	Annual bonus (£)	Long-term incentives (£)	Pension (£)	Total (£)
Executive Directors													
Tim Attlee	366,667	16,516	101,317	–	–	55,000	539,500	360,000	14,318	–	302,209	54,000	730,527
Lynne Fennah (Appointed 26 June 2017)	267,500	13,446	133,089	–	–	40,125	454,160	116,505	6,977	64,080	–	17,476	205,038
Paul Hadaway (Until 11 December 2017)	–	–	–	–	–	–	–	340,849	13,788	–	302,209	51,127	707,973
Michael Enright (Until 14 March 2017)[1]	–	–	–	–	(194,150)[3]	–	(194,150)	55,386	3,306	–	151,104	8,303	218,099
Non-Executive Directors													
Brenda Dean	28,750	–	–	–	–	–	28,750	115,000	–	–	–	–	115,000
Mark Pain	38,333	–	–	–	–	–	38,333	–	–	–	–	–	–
Jim Prower	52,500	–	–	–	–	–	52,500	52,500	–	–	–	–	52,500
Stuart Beevor	75,917[2]	–	–	–	–	–	75,917	48,000	–	–	–	–	48,000
Stephen Alston	43,333[2]	–	–	–	–	–	43,333	20,000	–	–	–	–	20,000

1 See Payments for Loss of Office section below for details of termination agreements with past Directors.
2 For the five months between 1 April and 1 September Stuart Beevor was acting Chairman of the Board and Stephen Alston was acting Chairman of the Remuneration Committee; as a result their fees were pro-rated for this period.
3 Following Michael Enright's cessation of office, this is the value of lapsed deferred bonuses that have been recorded in previous single figures (£79,750 for the year to 30 June 2015 and £114,400 for the year to 30 June 2016). More details are provided in the Payments for Loss of Office section below.

Notes to the Table – Methodology
Salary and fees – This represents the cash paid or receivable in respect of the relevant financial year.
Benefits – This represents the taxable value of all benefits paid or receivable in respect of the relevant financial year. Executive Directors receive a standard benefits package including medical insurance, life insurance, car allowance and London living allowance.
Annual bonus – Total bonus payable for the relevant financial year, whether payable in cash or as a deferred share award.
Long-term incentive – These columns relate to the value of long-term awards whose performance period ends in the period under review. The first long-term incentive award was granted in 2014 and had a performance period that ended in June 2017. The awards vested on 23 July 2017, when the Remuneration Committee determined whether the performance conditions had been met. The awards were then valued on the preceding trading day, using the closing mid-market share price of 109.3 pence.
Pension – Executive Directors receive a Company contribution worth 15% of base salary; during the year the Executive Directors have elected to receive a cash allowance in lieu of pension.

Additional Disclosures in Respect of the Single Figure Table (Audited)
Annual Bonus
The Executive Directors were participants in the annual bonus scheme. The maximum annual bonus opportunity for 2018 was 110% of salary. 40% of any bonus earned is deferred into shares for three years.

The maximum potential annual bonus that could be paid to Executive Directors in respect of the year ended 31 December 2018 was determined by a combination of three performance measures being dividend cover (one third), operating margin (one third) and specific individual objectives (one third).

Annual Report on Remuneration continued

The Remuneration Committee agreed that a key measure of the Directors' performance would be the occupancy rate achieved for the academic year 2018/19 which is reflected in Q4 2018 operating margin and dividend cover figures. The objectives for dividend cover and operating margin in 2018 were therefore each split equally between the period Q1-Q3 and Q4 in order to provide greater weighting in the bonus plan on Q4 performance (relative to previous quarters). The Committee considered that this appropriately reflects actual activity where the tone for Q1-Q3 is largely set by the letting position achieved at the commencement of the prior autumn academic year. The performance of Q4 is then set by the letting position as at the start of the then (now current) 2018/19 academic year.

Performance targets are set out below.

Performance measure	*Proportion of bonus determined by measure*	*Threshold performance 0% payable*	*Maximum performance 100% payable*	*Actual performance*	*% of maximum bonus payable*
Dividend cover Q1-Q3	*16.67%*	*50% div cover*	*58% div cover*	*54.7% div cover*	*59%*
Dividend cover Q4	*16.67%*	*100% div cover*	*108% div cover*	*<100% div cover*	*0%*
Operating margin Q1-Q3	*16.67%*	*55%*	*63%*	*59.8%*	*60%*
Operating margin Q4	*16.67%*	*70%*	*75%*	*<70%*	*0%*
Individual specific objectives					
Tim Attlee	*33.32%*		*See below*		*16%*
Lynne Fennah					*76%*

The Q4 period is typically the strongest quarter reflecting revenue for the forthcoming academic year, without any loss of income incurred in Q3 for the hand-over period between academic years. The bonus targets set for Q4 were stretching and the out-turn fell short of the targets set, reflecting the 96% occupancy achieved. The Committee is satisfied that the overall bonus result for Dividend cover and Operating margin objectives, measured over the full year are fair and appropriate.

Tim Attlee
A number of individual sub-objectives were agreed covering letting management information, the sale of a portfolio of assets and reinvestment of proceeds, the development programme and transitioning the Company to a growth phase from 2019 onwards. The Committee considered that positive progress was made on these objectives although actual results in a number of areas are yet to be achieved. Having considered each sub-objective in detail, the Committee recognises that these were particularly stretching and the percentage award reflects this.

Lynne Fennah
Four specific objectives were agreed covering letting management information, FM in-housing, managing operating costs and overhead control. The Committee considered strong progress had been made particularly in FM in-housing where 27 buildings were brought in-house ahead of the 2018/19 academic year with the rest of the portfolio to follow from 1 April 2019 and, administration costs reduced from £13.5 million to £9.1 million.

The table below sets out the resulting annual bonus awards made in respect of the period ended 31 December 2018.

	Bonus award percentage of maximum	*Bonus paid in cash*	*Bonus to be awarded in deferred shares[1]*	*Total bonus*
Tim Attlee	*25.12%*	*£60,790*	*£40,527*	*£101,317*
Lynne Fennah	*45.23%*	*£79,853*	*£53,236*	*£133,089*

1 Receipt of the shares will be deferred for three years.

LTIP Vesting
The vesting of the LTIP granted in respect of the year commencing 30 June 2015 was subject to Total Shareholder Return ("TSR") relative to threshold and maximum targets for the period 30 June 2015 to 30 June 2018. TSR means combined share price growth and dividends. 25% of the awards vest for meeting a threshold TSR target increasing to 100% vesting for meeting a maximum target. Actual performance was below the threshold level so no LTIP shares vested.

Scheme Interests Awarded During the Financial Period (Audited)
Long-Term Incentive Plan Awards
Long-term incentive plan awards are granted over the Company's shares with the number of shares under award determined by reference to a percentage of base salary. Vesting of the awards is conditional upon satisfaction of performance conditions and is usually also conditional upon continued employment until the awards vest on the third anniversary of grant. For awards made after 1 January 2019, vesting will be subject to an additional two-year holding period.

The following table provides details of the awards to Lynne Fennah granted on 1 May 2018 in respect of the annual LTIP and on 23 August in respect of a top-up LTIP calculated on the increase in salary for six months following her appointment as Chief Financial and Operating Officer. There were no other LTIP awards granted in 2018.

	Type of award	*Maximum number of shares*	*Face value £*	*Face value % salary[2]*	*Threshold vesting*	*End of performance period*
Lynne Fennah	*LTIP*	*343,861[1]*	*337,500*	*150% of salary earned in 2018 (£267,500)*	*25% of award*	*31 December 2020*
Lynne Fennah	*LTIP*	*69,046[2]*	*63,750*			*30 June 2021*

1 The maximum number of shares awarded has been calculated using the average Company share price for the 12-month period to 30 April 2018 of £0.9815 and is stated before the impact of reinvestment of the dividends paid since grant.
The award was equivalent to 150% of annual salary at the start of the year. Vesting of the 2018 LTIP award is subject to a performance condition based on total return (NAV per share growth and dividends) measured over a three-year performance peri od to 31 December 2020. 25% of the award will vest for meeting a threshold TR target of 8% per annum increasing to 100% vesting for meeting a maximum target of 12% per annum.
2 The maximum number of shares awarded has been calculated using the average Company share price for the 12-month period to 31 July 2018 of £0.9233 and is stated before the impact of reinvestment of the dividends paid since grant.
The award was equivalent to 150% of increase in salary pro-rated for six months. Vesting of the 2018 LTIP award is subject to a performance condition based on total return (NAV per share growth and dividends) measured over a three-year performance period to 30 June 2021. 25% of the award will vest for meeting a threshold TR target of 8% per annum increasing to 100% vesting for meeting a maximum target of 12% per annum.

Value Delivery Plan ("VDP")

Tim Attlee is now the only current participant in the VDP, which has a four-year performance period of 2017–2020 on the following terms:

- Subject to achievement of a threshold target of 8% per annum of shareholder value (measured as growth in NAV plus compound dividends paid), a reward pool will be created.
- The value of the reward pool will be the lower of i) 10% of value generated above the threshold; and ii) 5% of total value generated over the performance period.
- At the end of the four-year performance period, Tim Attlee will receive 40% of the reward pool in shares that will be subject to an additional minimum one-year holding period. 60% of the reward pool is currently unallocated.
- Malus and clawback may be applied to VDP awards up to five years from the date of award.

Payments to Past Directors (Audited)

There were no payments to past Directors during 2018 that have not been disclosed in previous Remuneration Reports.

Payments for Loss of Office (Audited) – Michael Enright

Michael Enright, the former CFO, stepped down from the Board on 14 March 2017 and ceased employment with the Company on 31 March 2017. Payments made following his stepping down from the Board were set out in the Annual Report for the year ending December 2017.

As part of the settlement with Michael Enright, it was agreed that outstanding incentives would vest according to the original schedules and terms, apart from an annual bonus for the period to 31 December 2016 and his 2015 and 2016 LTIP awards, which lapsed on cessation of employment.

As a result, the nil-cost share options relating to the annual deferred annual bonus awards from 2015 and 2016 remained outstanding. In view of the performance issues which were not apparent when Mr Enright's employment ceased, the Committee exercised its discretion during 2018 and lapsed these outstanding awards.

Statement of Directors' Shareholdings and Share Interests (Audited)

The tables below show the Directors' share ownership as at 31 December 2018.

The standard shareholding guideline is that Executive Directors are expected to build up and retain a shareholding worth at least 200% of salary. The guideline is expected to be satisfied within a five-year period of the introduction of the guideline or, if later, their appointment to the Board. Lynne Fennah is in the process of building up her shareholding and is within the grace period.

The shareholding guidelines also require Tim Attlee (as a participant in the VDP) to build up a shareholding worth at least 400% of salary and he is required to retain shares vesting under the VDP (net of shares sold to meet tax liabilities on vested shares) until he is compliant with the guideline.

VDP participants are also required to retain shares equivalent to 200% of salary for a minimum of two years post cessation of employment (unless the Committee considers a lower limit to be appropriate in a particular participant's circumstances).

Director	*Dividends received during the year ended 31 December 2018*	*Beneficially owned shares at 31 December 2018 (number of shares)*	*% of salary[1]*	*Outstanding LTIP awards subject to performance and employment conditions at 31 December 2018[2] (number of shares)*	*Outstanding annual bonus awards subject to employment conditions at 31 December 2018[3] (number of shares)*	*LTIP awards which have vested but not yet exercised at 31 December 2018[4] (number of shares)*
Brenda Dean	*604[5]*	*48,285[6]*	–	–	–	–
Mark Pain	*2,500*	*100,000*				
Tim Attlee	*41,734*	*834,674*	*193%*	*244,044*	*165,032*	*103,825*
Lynne Fennah	*2,770*	*55,400*	*17%*	*548,517*	*26,115*	–
Jim Prower	*1,897*	*37,935*	–	–	–	–
Stephen Alston	*1,940*	*38,800*	–	–	–	–
Stuart Beevor	*1,000*	*20,000*	–	–	–	–

1 Value-based on salary effective from 1 January 2019 and the closing share price on 31 December 2018 of £0.924.
2 These are LTIP awards subject to the performance conditions (see table below).
3 These are deferred awards granted on 9 September 2016 (pursuant to the 2015/16 annual bonus scheme, on 25 April 2017 (pursuant to the 2016/17 annual bonus scheme) and on 1 May 2018 (pursuant to the 2017 annual bonus scheme).
4 These are deferred awards granted on 9 November 2015 (pursuant to the 2014/15 annual bonus scheme).
5 Dividends received up to point of cessation as Director.
6 Number of shares held at cessation of period as Director.

	Grant date (see Note 2 above)				
Number of shares	*29 September 2016[1]*	*12 December 2017[2]*	*1 May 2018[2]*	*23 August 2018[2]*	*Total*
Tim Attlee	*244,044*	–	–	–	*244,044*
Lynne Fennah	–	*135,610*	*343,861*	*69,046*	*548,517*

1 The TSR performance condition for the 2016 award is as per the 2014 award, details of which are shown in the section LTIP Vesting on ***page 58***.
2 The TR performance condition for the 2017 and 2018 awards is set out in the section Long-Term Incentive Plan Awards on ***page 56***.

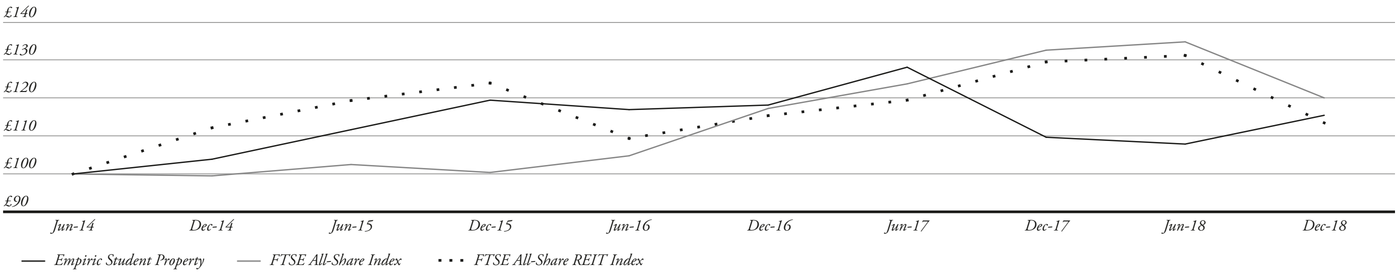
Between 31 December 2018 and the date of this Report, there were no changes in the shareholdings outlined in the above tables.

Annual Report on Remuneration continued

Performance Graph and CEO Remuneration Table

The chart below compares the TSR performance of the Company during the period since IPO to the FTSE All-Share Index and the FTSE All-Share REIT Index. These indices have been chosen because they are recognised equity market indices of which the Company is a member. The base point in the chart for the Company equates to the IPO price of 100 pence.

Total Shareholder Return vs the FTSE All-Share Index and the FTSE All-Share REIT Index



Chief Executive Officer Remuneration Outcomes

The table below shows the total remuneration payable to the CEO (including Acting CEO for period 1 January 2018 to 31 October 2018) for the five financial periods since IPO, as a percentage of the maximum opportunity.

	Financial year				
	12 months ended 30 June 2015	*12 months ended 30 June 2016*	*6 months ended 31 December 2016*	*12 months ended 31 December 2017*	***12 months ended 31 December 2018***
CEO single figure of remuneration	*£576,263*	*£748,160*	*£314,455*	*£731,442*	***£539,500***
Annual bonus payout (% of maximum)	*100%*	*100%*	*50%*	*0%*	***25.12%***
LTIP vesting	*n/a*	*n/a*	*n/a*	*63.7%*	***0%***

Percentage Change in Remuneration of the CEO

The table below shows the change in the various elements of CEO remuneration relative to the change in average employee remuneration between the last two financial periods.

	CEO change	*Average employee change*
Base salary	*+2%*	*+4%*
Benefits	*+15%*	*–*
Annual bonus	*+100%*	*–3%*

Calculated as percentage change in the figures within the table entitled Single Total Figure of Remuneration (Audited).

Relative Importance of the Spend on Pay

The table below sets out the total expenditure on pay for all of the Company's employees, compared to distributions to shareholders by way of dividend.

	Financial year	
	Year ended 31 December 2018	*Year ended 31 December 2017*
Total staff costs (further details are provided in Note 6 to the Group accounts (***page 80***)	***£3.4m***	*£4.3m*
Total dividends	***£30.1m***	*£30.6m*

Consideration by Directors of Matters Relating to Directors' Remuneration

The Remuneration Committee is responsible for reviewing and making recommendations to the Board regarding the Remuneration Policy of the Group and for reviewing compliance with Policy. During the year ended 31 December 2018, the Remuneration Committee consisted of the following Directors: Stuart Beevor, Brenda Dean, Mark Pain, Stephen Alston and Jim Prower. The Committee met nine times during the year ended 31 December 2018.

Internal Advice

Tim Attlee and Lynne Fennah additionally joined for part of some Remuneration Committee meetings to provide valuable input. No individual was present when their own remuneration was being discussed. The Company Secretary acted as secretary to the Remuneration Committee.

External Advice

Deloitte LLP was appointed by the Company in 2015 to provide advice on executive remuneration matters. During the year, the Committee received independent and objective advice from Deloitte, principally on the drafting of the Remuneration Report, incentive design and market practice. Deloitte was paid £17,600 in fees during the year ended 31 December 2018 for these services (charged on a time plus expenses basis). Deloitte is a founding member of the Remuneration Consultants Group and, as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK. Deloitte provided no other services to the Company during this period.

Shareholder Voting
Shareholder support was received for our resolutions on remuneration as summarised below:

	Votes for	*Votes against*	*Votes withheld*
Approval of the Directors' Remuneration Report (April 2018 Annual General Meeting)	*208,498,057 (98.1%)*	*4,105,809 (1.9%)*	*32,170,087*
Approval of the Directors' Remuneration Report (May 2017 Annual General Meeting)	*173,723,222 (98.2%)*	*3,206,357 (1.8%)*	*7,000*
Approval of the Remuneration Policy (December 2016 General Meeting)	*189,376,032 (59.2%)*	*130,291,527 (40.8%)*	*10,196,832*

External Board Appointments
Executive Directors are normally entitled to accept appointments outside the Company with the consent of the Board. Any fees received may be retained by the Director.

As at the date of this Report, none of the Executive Directors held an external appointment for which they received a fee.

This report was approved by the Board on 20 March 2019.

On behalf of the Board:

Stuart Beevor
Remuneration Committee Chairman | 20 March 2019

Directors' Report

Introduction
The Directors are pleased to present their Annual Report, including the Company's audited financial statements, for the year ended 31 December 2018.

The Directors' Report and the Strategic Report on *pages 1 to 63* comprise the "Management Report", for the purposes of Disclosure and Transparency Rule 4.1.5R.

Statutory Information Contained Elsewhere in the Annual Report
Information required to be part of this Directors' Report can be found elsewhere in the Annual Report and is incorporated into this Report by reference, as indicated below.

Financial Results and Dividends
The financial results for the year can be found in the Group Statement of Comprehensive Income on *page 68*.

The interim dividends declared and paid in relation to the year are set out on *page 20*.

Directors
The names of the Directors of the Company who served during the year are set out on *page 57*. The biographical details of the current Board are on *pages 34 and 35*.

Directors' and Officers' Liability Insurance
The Company maintains directors' and officers' liability insurance, at its expense, on behalf of the Directors.

Directors' Interests in Shares and Dividends
The Directors' interests in ordinary shares and dividends are disclosed in the Annual Report on Remuneration on *page 59*.

Future Developments
An indication of the likely future developments of the Company is set out in the Strategic Report on *page 14*.

Political Donations
The Company made no political donations and incurred no political expenditure during the year.

Employees
Information about the Group's employees can be found in the Strategic Report on *page 25* and in the Relations with Stakeholders section on *page 41*.

Financial Instruments
Details of the Group's financial risk management objectives and policies, together with its exposure to material financial risks, are set out in Note 28 to the consolidated financial statements.

Share Capital
At 31 December 2018, the total number of ordinary shares in issue was 602,887,740.

Restrictions on Transfer of Securities in the Company
There are no restrictions on the transfer of securities in the Company, except pursuant to:

- the Listing Rules of the Financial Conduct Authority (the "Listing Rules"), whereby certain individuals require approval to deal in the Company's shares; and
- the Company's Articles of Association, whereby the Board may decline to register a transfer of shares or otherwise impose a restriction on shares, to prevent the Company breaching any law or regulation.

The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities in the Company.

Securities Carrying Special Rights
No person holds securities in the Company carrying special rights with regard to control of the Company.

Going Concern
The Directors believe that the Company is well placed to manage its financing and other business risks. Greater detail on this is provided on *page 40*. The Board is, therefore, of the opinion that the going concern basis adopted in the preparation of the Annual Report is appropriate.

Greenhouse Gas Emissions Reporting
The information on emissions required by the Companies Act 2006 and the (Strategic Report and Directors' Report) Regulations 2013 is set out on *page 27*.

Substantial Shareholdings
As at 31 December 2018, the Company had been notified under the Disclosure and Transparency Rules (DTR 5) of the following substantial holdings in its ordinary shares:

	As at 31 December 2018	
Investor	*Number of ordinary shares*	*Percentage of ordinary shares*
Investec Wealth & Investment	53,166,120	8.82%
CCLA Investment Management	29,646,869	4.92%
BlackRock	29,106,385	4.83%
Cazenove Capital Management	28,528,611	4.73%
East Riding of Yorkshire	28,293,515	4.69%
Kleinwort Hambros	27,386,435	4.54%
Premier Asset Management	26,821,152	4.45%
Transact (EO)	20,898,870	3.47%
Avenue Capital Group CfD	19,369,867	3.21%

On 5 March 2019 the Group were notified that CCLA Investment Management had breached the 5% holding threshold. Apart from this, there were no changes to the above information received during the period from 1 January 2019 to the date of signing this Report. Notifications made to Empiric under DTR 5 are available on the Investor Information section of our website.

Amendment of Articles
The Articles may be amended by a special resolution of the Company's shareholders.

Powers of the Directors
Subject to the Articles, the Companies Act and any directions given by the Company by special resolution, the business of the Company will be managed by the Board, which may exercise all the powers of the Company.

Powers in Relation to the Company Issuing or Purchasing its Shares
At the Company's AGM held on 24 April 2018, the Directors were granted general authority to allot shares in the Company in accordance with section 551 of the Companies Act 2006 up to an aggregate nominal amount of £1,989,530. In addition, the Directors were granted authority to allot equity securities (as defined in section 560(1) of the Companies Act 2006) up to a further £3,979,059 in connection with an offer by way of rights issue. Of these ordinary shares, the Directors were granted authority to issue up to an aggregate nominal amount of £301,444 of equity securities non-pre-emptively and wholly for cash. In addition, the Directors were granted a further authority to issue up to an aggregate nominal amount of £301,444 of equity securities non-pre-emptively where such allotment or sale is used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Board determines to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights. These authorities expire at the conclusion of the Company's next AGM.

At the AGM, the Directors were granted authority to make one or more market purchases of ordinary shares in the Company, in accordance with sections 693 and 701 of the Companies Act 2006, up to an aggregate number of 60,288,774 ordinary shares, within certain price parameters. No ordinary shares have been purchased by the Company under this authority, which will expire at the conclusion of the Company's next AGM.

Appointment and Replacement of Directors
Details of the process by which Directors can be appointed or replaced are included in the Corporate Governance Statement on *page 37*.

Post Balance Sheet Events
For all details occurring since the balance sheet date, please refer to Note 26 on *page 92*.

Independent Auditor
BDO LLP has expressed its willingness to continue as auditor for the financial year ending 31 December 2019 and a resolution relating to this appointment will be tabled at the AGM on 2 May 2019.

Disclosure of Information to Auditor
The Directors who were members of the Board at the time of approving the Directors' Report have confirmed that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor is not aware; and
- each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AGM
Details of the Company's forthcoming AGM can be found on *page 41*.

This Report was approved by the Board on 20 March 2019.

Mark Pain
Chairman | 20 March 2019

Directors' Responsibilities

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

Company law requires the Directors to prepare the Group and Company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements and have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. 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 Company and of the profit or loss for the Group for that year.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business; and
- prepare a Directors' Report, a Strategic Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website Publication
The Directors are responsible for ensuring the Annual Report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the UK governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' Responsibilities Pursuant to DTR4
The Directors confirm that to the best of their knowledge:

- The Group financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group and the undertakings included in the consolidation as a whole;
- The Annual Report includes a fair review of the development and performance of the business and the financial position of the Group and the Parent Company, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and Accounts, taken as a whole, are fair, balanced, and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Mark Pain
Chairman | 20 March 2019

Independent Auditor's Report to the Members of Empiric Student Property plc

OPINION ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Empiric Student Property Plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2018 which comprise the Group Statement of Comprehensive Income, the Group Statement of Financial Position, the Company Statement of Financial Position, the Group Statement of Changes in Equity, the Company Statement of Changes in Equity, the Group Statement of Cash Flows, the Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2018 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 European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- 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.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our Report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO PRINCIPAL RISKS, GOING CONCERN AND LONGER-TERM VIABILITY

We are required to give a statement as to whether we have anything material to add or draw attention to in relation to:

- the disclosures in the Annual Report set out on *pages 28 to 33* that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on *page 36* in the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on *page 62* in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group and the Parent Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on *page 40* in the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing material to add or to draw attention to in respect of these matters.

OVERVIEW OF THE AUDIT APPROACH

Materiality	Overall Group materiality of £10.0 million which represents 1% of total assets.
Audit scope	The entire Group was subject to a full audit. We have obtained an understanding of the controls in place within the Group which assisted us in identifying and assessing risks of material misstatement due to fraud or error as well as assisting us in determining the most appropriate audit strategy.
Key audit matters	Valuation of the investment property portfolio (including properties under development), student rental income and property costs.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on the audit and in forming our opinion. Materiality is assessed on both quantitative and qualitative grounds.

Materiality	*Financial statement materiality*	*Specific materiality – EPRA earnings*
Materiality	*£10,000,000*	*£800,000*
Performance materiality	*£7,500,000*	*£600,000*
Clearly trivial	*£200,000*	*£40,000*

Materiality

We consider materiality to be the magnitude by which misstatements, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.

We determined the materiality for the Group financial statements as a whole to be £10,000,000 (2017: £9,000,000), which represents 1% of Group total assets (2017: 0.9%). This provides a basis for determining the nature and extent of our risk assessment procedures, identifying and assessing risk of material misstatement and determining the nature and extent of further audit procedures.

We determined that the Group total assets would be the most appropriate basis for determining overall materiality as we consider this to be one of the principal considerations for members of the Company in assessing the financial performance of the Group.

We also determined that for other classes of transactions, balances or disclosures not related to investment properties, a misstatement of less than materiality for the financial statements as a whole could influence the economic decisions of users. As a result, we determined that a materiality for items which may affect EPRA earnings should be £800,000 (2017: £500,000), Those items which may affect EPRA earnings include revenue, property expenses, administrative expenses, finance cost and income, share of results from joint ventures and taxation. The specific materiality represents 4.5% of EPRA earnings (2017: 1.0% of revenue), the most appropriate benchmark for a similar business that is moving towards expected profit levels as compared to in 2017 when the business was still maturing and was within its significant growth stage.

Performance materiality

The application of materiality at the individual account or balance level is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessment together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality for the Group should be 75% (2017: 75%) of materiality, namely £7,500,000 (2017: £6,750,000). We have used a similar basis for specific materiality on all items relating to EPRA earnings.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report all individual audit differences in excess of £200,000 (2017: £200,000) to the Audit Committee and any other differences that, in our view, warranted reporting on qualitative grounds. We have also agreed to report differences impacting EPRA earnings in excess of £40,000 (2017: £25,000).

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

OVERVIEW OF THE SCOPE OF OUR AUDIT
We designed our audit by determining materiality and assessing the risks of material misstatements in the financial statements. In particular, we looked at where the Directors make subjective judgements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement due to fraud.

The Group operates solely in the UK and through one segment, investment property. The Group audit team performed all the work necessary to issue the Group and Parent Company audit opinions, including undertaking all of the audit work on the key audit matters.

We undertook audit procedures to respond to the risk of non-compliance with laws and regulations, focusing on those that could give rise to a material misstatement in the Group and Parent Company financial statements, including, but not limited to, the Companies Act 2006, the UK Listing Rules and the REIT regime requirements. We made enquiries of management to obtain further understanding of risks of non-compliance.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We consider that the audit procedures we planned and performed in accordance with ISAs (UK) have provided us with reasonable assurance that irregularities, including fraud, would have been detected to the extent that they could have resulted in material misstatements in the financial statements. Our audit was not designed to identify misstatements or other irregularities that would not be considered to be material to the financial statements.

KEY AUDIT MATTERS
Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The table below shows the key audit matters that we identified. This is not a complete list of all risks identified by our audit. The key audit matters are consistent with the prior year.

The Audit Committee's consideration of these matters is set out on ***pages 44 and 45***.

Key audit matter	*How the matter was addressed in our audit*
Valuation of investment property portfolio, including properties under development totalling £971.0 million (2017: £890.6 million) *Refer to the Audit Committee Report on **pages 44 and 45**, the significant estimates and judgements on **page 75** and Note 13 on **pages 85 to 87**.* The valuation of investment property (including properties under development) requires significant judgement and estimates by management and the independent external valuer and is therefore considered a significant risk due to the subjective nature of certain assumptions inherent in each valuation. The Group's investment portfolio includes: – Operational assets: these are existing properties that are currently let. – Development assets: these are properties being built under forward funded agreements with developers. Such assets have a different risk and investment profile to operational assets. Each valuation requires consideration of the individual nature of the property, its location, its cash flows and comparable market transactions. The valuation of these properties requires the discounting of estimated future cash flows with deductions for costs to complete and an appropriate developer's margin for those under development. Any input inaccuracies or unreasonable bases used in these judgements (such as in respect of estimated rental value and net initial yield applied and estimated costs to complete for assets under development) could result in a material misstatement of the Group Statement of Comprehensive Income or the Group Statement of Financial Position. There is also a risk that management may influence the significant judgements and estimates in respect of property valuations in order to achieve property valuation and other performance targets to meet market expectations or bonus targets. Additionally properties under development may involve licence fees receivable from the developer during the construction phase. Accounting for such assets is typically more complex than for operational assets.	We obtained an understanding of management's approach to the valuation of both investment properties and properties under development. We met with the Group's independent external valuer, who valued all of the Group's investment properties (including those under development), to understand the assumptions and methodologies used in valuing these properties, the market evidence supporting the valuation assumptions and the valuation movements in the year. We assessed the competency, independence and objectivity of the independent external valuer which included making enquiries regarding interests and relationships that may have created a threat to the valuer's objectivity. We used our knowledge and experience to evaluate and challenge the valuation assumptions, methodologies and the inputs used. This included establishing our own range of expectations for the valuation of investment property based on externally available metrics and wider economic and commercial factors. We assessed the valuation of all investment properties against our own expectation and challenged those valuations which fell outside of our range of expectation. We agreed a sample of key observable valuation inputs supplied to and used by the external valuer and Directors to supporting documentation, such as current achieved rental rates. For properties under development we agreed a sample of the costs incurred to date to supporting documentation and tested the forecasted costs to complete to supporting documentation, including budgeted development spend. We recomputed the licence fee receivable in the year based on the development contract for a sample of development properties and confirmed that the licence fee receivable from the developer was excluded from the valuation of the properties under development.

Independent Auditor's Report to the Members of Empiric Student Property plc continued

Key audit matter	*How the matter was addressed in our audit*
Revenue recognition – student rental income of £62.5 million (2017: £49.5 million) *Refer to the accounting policy on pages 75 to 78 and Note 2 on page 79.* While we do not consider the risk of material misstatement to be significant, owing to the large number of properties and property managers used by the Group, revenue recognition does have a significant impact on the allocation of resource and directing the efforts of the audit team. Rental income is recognised on a straight-line basis over the lease term for the Group's operational assets based upon rental agreements that are in place. The Group has several property managers and multiple tenants across its property portfolio. There is a risk that revenue is not supported by underlying tenancy agreements or is inappropriately recognised.	We obtained an understanding of the accounting policy for revenue recognition for student rental income and other revenue streams. We agreed a sample of revenue recognised to rental agreements across the portfolio of operational assets. We performed detailed analytical review procedures over revenue recognised for a sample of properties comparing the expectation based on the prior year as well as current student tenancy schedules to the actual revenue recognised in the year. We tested the deferred income recognised at 31 December 2018 for a sample of student rental units to ensure that income received in advance had been calculated in accordance with the rental contract and cash received.
Completeness of property expenses of £24.5 million (2017: £22.2 million) *Refer to the accounting policy on pages 75 to 78 and Note 3 on page 79.* Property costs are recognised in line with when the goods are received or the service is consumed by the Group. The Group incurs and manages property expenses on a property-by-property basis for each of the Group's properties. The Group uses several property managers and many suppliers which increases the risk over the completeness of the property expenses in any period. While each cost individually is not material, there is an aggregation risk of errors due to under-reporting of expenses.	We agreed that the property expenses were being accounted in accordance with the accounting policy. We have also obtained an understanding of the controls in place over the recognition and funding of these expenses. We agreed a sample of property expenses recognised during the period to supporting documentation. Each property manager prepares a detailed analysis of the expenses incurred during the year and the accruals at 31 December 2018 by property and type of expenditure accrued for. We agreed a sample of these accruals across the Group's properties and the type of expense accrued for to supporting documentation. We obtained details of expenditure recorded in January 2019 and agreed a sample of items to supporting documentation to confirm whether these costs had been recognised in the appropriate period. We obtained confirmations from each property manager that the costs incurred and accruals recorded were complete for each property. Finally, we reviewed trading results for January 2019 and challenged management on differences in the trading compared with budgets.

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.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

OTHER INFORMATION

The other information comprises the information included in the Annual Report set out on *pages 1 to 63*, including the Strategic Report, the Directors' Report, and the Governance section, other than the financial statements and our Auditor's Report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our Report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION
In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we are required to report by exception if we identify material misstatements in:

– the Strategic Report or the Directors' Report; or
– the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

We are required to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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; or
– 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; or
– certain disclosures of Directors' remuneration specified by law are not made; or
– we have not received all the information and explanations we require for our audit; or
– a Corporate Governance Statement has not been prepared by the Parent Company.

We have no exceptions to report.

We have a responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

– Fair, balanced and understandable set out on *page 36* – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
– Audit Committee reporting set out on *pages 44 and 45* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee is materially inconsistent with our knowledge obtained in the audit; or
– Directors' statement of compliance with the UK Corporate Governance Code set out on *page 36* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report from our review.

RESPONSIBILITIES OF DIRECTORS
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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS
Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 4 August 2015 to audit the financial statements for the year ended 30 June 2015. In respect of the financial year ended 31 December 2018 we were reappointed by resolution of the members of the Company at the Annual General Meeting held on 25 April 2018. The year of total uninterrupted engagement is five financial years, covering the years ending 30 June 2015 to 31 December 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remained independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee that we issued in accordance with ISAs (UK).

USE OF OUR REPORT
This Report is made solely to the members of the Parent Company, 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this Report, or for the opinions we have formed.

Richard Levy (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
20 March 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Group Statement of Comprehensive Income

	Note	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Continuing operations			
Revenue	2	**64,156**	51,205
Property expenses	3	**(24,500)**	(22,220)
Net rental income		**39,656**	28,985
Administrative expenses	4	**(9,071)**	(13,454)
Change in fair value of investment property	13	**22,375**	15,836
Gain on disposal of investment property		**–**	1,122
Operating profit		**52,960**	32,489
Finance cost		**(12,788)**	(11,882)
Finance income		**104**	87
Net finance costs	5	**(12,684)**	(11,795)
Share of results from joint ventures		**–**	56
Profit before income tax		**40,276**	20,750
Corporation tax	7	**–**	–
Profit for the year		**40,276**	20,750
Other comprehensive income			
Items that will be reclassified to Statement of Comprehensive Income			
Fair value gain on cash flow hedge		**402**	508
Total comprehensive income for the year		**40,678**	21,258
Earnings per share expressed in pence per share	8		
Basic		**6.68**	3.84
Diluted		**6.67**	3.83

Group Statement of Financial Position

	Note	At 31 December 2018 £'000	At 31 December 2017 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**366**	475
Intangible assets	12	**1,253**	1,423
Investment property – Operational assets	13	**929,371**	848,537
Investment property – Development assets	13	**41,670**	42,045
Derivative financial assets	18	**–**	1
Total non-current assets		**972,660**	892,481
Current assets			
Trade and other receivables	14	**13,747**	27,792
Fixed term deposit	15	**10,000**	–
Cash and cash equivalents	15	**23,473**	52,721
Total current assets		**47,220**	80,513
Total assets		**1,019,880**	972,994
LIABILITIES			
Current liabilities			
Trade and other payables	16	**28,535**	22,620
Borrowings	17	**55,260**	20,767
Derivative financial liability	18	**237**	424
Deferred income	16	**26,968**	22,286
Total current liabilities		**111,000**	66,097
Non-current liabilities			
Borrowings	17	**268,990**	277,382
Derivative financial liability	18	**–**	257
Total non-current liabilities		**268,990**	277,639
Total liabilities		**379,990**	343,736
Total net assets		**639,890**	629,258
Equity			
Called up share capital	19	**6,029**	6,029
Share premium	20	**467,268**	467,268
Capital reduction reserve	21	**45,458**	75,602
Retained earnings		**121,215**	80,841
Cash flow hedge reserve		**(80)**	(482)
Total equity		**639,890**	629,258
Total equity and liabilities		**1,019,880**	972,994
Net Asset Value per share basic (pence)	9	**106.14**	104.37
Net Asset Value per share diluted (pence)	9	**105.96**	104.15
EPRA Net Asset Value per share (pence)	9	**106.18**	104.49

These financial statements were approved by the Board of Directors on 20 March 2019 and signed on its behalf by:

Lynne Fennah
Chief Financial Officer

Company Statement of Financial Position

Company Registration Number: 08886906

	Note	At 31 December 2018 £'000	At 31 December 2017 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	11	**366**	475
Intangible assets	12	**627**	491
Investments in subsidiaries	30	**8,623**	12,571
Total non-current assets		**9,616**	13,537
Current assets			
Trade and other receivables	14	**202**	4,267
Amounts due from Group undertakings	14	**517,778**	807,451
Cash and cash equivalents	15	**15,955**	17,091
Total current assets		**533,935**	828,809
Total assets		**543,551**	842,346
LIABILITIES			
Current liabilities			
Trade and other payables	16	**2,198**	2,130
Amounts due to Group undertakings	16	**11**	306,173
Total current liabilities		**2,209**	308,303
Non-current liabilities			
Borrowings	17	**9,965**	9,933
Total non-current liabilities		**9,965**	9,933
Total liabilities		**12,174**	318,236
Total net assets		**531,377**	524,110
Equity			
Called up share capital	19	**6,029**	6,029
Share premium	20	**467,268**	467,268
Capital reduction reserve	21	**45,458**	75,602
Retained earnings		**12,622**	(24,789)
Total equity		**531,377**	524,110
Total equity and liabilities		**543,551**	842,346

The Company made a profit for the year of £37,313,000 (2017: £11,296,000 loss).

These financial statements were approved by the Board of Directors on 20 March 2019 and signed on its behalf by:

Lynne Fennah
Director

Group Statement of Changes in Equity

	Called-up share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Cash flow hedge reserve £'000	Total equity £'000
Year ended 31 December 2018						
Balance at 1 January 2018	**6,029**	**467,268**	**75,602**	**80,841**	**(482)**	**629,258**
Changes in equity						
Profit for the year	–	–	–	**40,276**	–	**40,276**
Fair value gain on cash flow hedge	–	–	–	–	**402**	**402**
Total comprehensive income for the year	–	–	–	**40,276**	**402**	**40,678**
Share-based payments	–	–	–	**98**	–	**98**
Dividends	–	–	**(30,144)**	–	–	**(30,144)**
Total contributions and distribution recognised directly in equity	–	–	**(30,144)**	**98**	–	**(30,046)**
Balance at 31 December 2018	**6,029**	**467,268**	**45,458**	**121,215**	**(80)**	**639,890**
Year ended 31 December 2017						
Balance at 1 January 2017	5,013	359,958	106,198	60,686	(990)	530,865
Changes in equity						
Profit for the year	–	–	–	20,750	–	20,750
Fair value gain on cash flow hedge	–	–	–	–	508	508
Total comprehensive income for the year	–	–	–	20,750	508	21,258
Issue of share capital	1,009	108,991	–	–	–	110,000
Share options exercised	7	749	–	(756)	–	–
Share issue costs	–	(2,430)	–	–	–	(2,430)
Share-based payments	–	–	–	161	–	161
Dividends	–	–	(30,596)	–	–	(30,596)
Total contributions and distribution recognised directly in equity	1,016	107,310	(30,596)	(595)	–	77,135
Balance at 31 December 2017	6,029	467,268	75,602	80,841	(482)	629,258

Company Statement of Changes in Equity

	Called-up share capital £'000	Share premium £'000	Capital reduction reserve £'000	Retained earnings £'000	Total equity £'000
Year ended 31 December 2018					
Balance at 1 January 2018	**6,029**	**467,268**	**75,602**	**(24,789)**	**524,110**
Changes in equity					
Profit for the year	–	–	–	**37,313**	**37,313**
Total comprehensive income for the year	–	–	–	**37,313**	**37,313**
Share-based payments	–	–	–	**98**	**98**
Dividends	–	–	**(30,144)**	–	**(30,144)**
Total contributions and distribution recognised directly in equity	–	–	**(30,144)**	**98**	**(30,046)**
Balance at 31 December 2018	**6,029**	**467,268**	**45,458**	**12,622**	**531,377**
Year ended 31 December 2017					
Balance at 1 January 2017	5,013	359,958	106,198	(12,898)	458,271
Changes in equity					
Loss for the year	–	–	–	(11,296)	(11,296)
Total comprehensive loss for the year	–	–	–	(11,296)	(11,296)
Issue of share capital	1,009	108,991	–	–	110,000
Share options exercised	7	749	–	(756)	–
Share issue costs	–	(2,430)	–	–	(2,430)
Share-based payments	–	–	–	161	161
Dividends	–	–	(30,596)	–	(30,596)
Total contributions and distribution recognised directly in equity	1,016	107,310	(30,596)	(595)	77,135
Balance at 31 December 2017	6,029	467,268	75,602	(24,789)	524,110

Group Statement of Cash Flows

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Cash flows from operating activities		
Profit before income tax	40,276	20,750
Share-based payments	98	161
Depreciation and amortisation	299	251
Finance income	(104)	(87)
Finance costs	12,788	11,882
Share of results from joint venture	–	(56)
Intangible asset impairment	248	–
Change in fair value of investment property	(22,375)	(15,836)
Gain in disposal of investment property	–	(1,122)
	31,230	15,943
Decrease/(increase) in trade and other receivables	15,451	(3,003)
Increase in trade and other payables	791	1,959
Increase in deferred rental income	4,682	6,526
	20,924	5,482
Net cash flows generated from operations	52,154	21,425
Cash flows from investing activities		
Purchases of tangible fixed assets	(1)	(88)
Purchases of intangible assets	(267)	(535)
Purchase of investment property	(54,169)	(154,479)
Disposal of investment property	–	2,000
Interest received	104	87
Fixed term deposit	(10,000)	–
Net cash flows from investing activities	(64,333)	(153,015)
Cash flows from financing activities		
Share issue proceeds	–	110,000
Share issue costs	–	(2,430)
Dividends paid	(30,144)	(30,596)
Bank borrowings drawn	66,801	69,446
Bank borrowings repaid	(40,630)	(9,534)
Loan arrangement fee paid	(2,058)	(2,016)
Finance cost (excluding fair value loss on derivatives)	(11,038)	(9,958)
Net cash flows from financing activities	(17,069)	124,912
Decrease in cash and cash equivalents	(29,248)	(6,678)
Cash and cash equivalents at beginning of year	52,721	59,399
Cash and cash equivalents at end of year	23,473	52,721

Company Statement of Cash Flows

	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Cash flows from operating activities		
Profit/(loss) before income tax	37,313	(11,296)
Share-based payments	98	161
Depreciation and amortisation	165	159
Dividends received	(44,000)	–
Gain on sale of subsidiaries	(1,571)	–
Finance income	(60)	(43)
Finance costs	285	197
	(7,770)	(10,822)
Decrease/(increase) in trade and other receivables	4,065	(3,665)
Increase in trade and other payables	68	544
	4,133	(3,121)
Net cash flows generated from operations	(3,637)	(13,943)
Cash flows from investing activities		
Purchases of tangible fixed assets	(1)	(88)
Purchases of intangible assets	(191)	(401)
Investments in subsidiaries	–	(4,650)
Payments to/on behalf of subsidiaries	325,051	89,868
Repayments from subsidiaries	(292,021)	(155,498)
Interest received	60	43
Net cash flows from investing activities	32,898	(70,726)
Cash flows from financing activities		
Share issue proceeds	–	110,000
Share issue costs	–	(2,430)
Dividends paid	(30,144)	(30,596)
Bank borrowings drawn	–	10,000
Loan arrangement fee paid	–	(93)
Finance cost (excluding fair value loss on derivatives)	(253)	(118)
Net cash flows from financing activities	(30,397)	86,763
Decrease in cash and cash equivalents	(1,136)	2,094
Cash and cash equivalents at beginning of year	17,091	14,997
Cash and cash equivalents at end of year	15,955	17,091

Notes to the Financial Statements

1. ACCOUNTING POLICIES

1.1 Period of Account

The consolidated financial statements of the Group are in respect of the reporting period from 1 January 2018 to 31 December 2018.

The consolidated financial statements of the Group for the year ended 31 December 2018 comprise the results of Empiric Student Property plc ("the Company") and its subsidiaries and were approved by the Board for issue on 20 March 2019. The Company is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are admitted to the official list of the UK Listing Authority, a division of the Financial Conduct Authority, and traded on the London Stock Exchange. The registered address of the Company is disclosed in the Company Information.

1.2 Basis of Preparation

The consolidated financial statements of the Group for the year to 31 December 2018 comprise the results of Empiric Student Property plc (the "Company") and its subsidiaries (together, the "Group"). These financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as adopted by the European Union.

The Group's financial statements have been prepared on a historical cost basis, except for investment property and derivative financial instruments which have been measured at fair value. The consolidated financial statements are presented in Sterling which is also the Company's, and the Group's functional currency.

The Company has applied the exemption allowed under Section 408(1b) of the Companies Act 2006 and has therefore not presented its own Statement of Comprehensive Income in these financial statements. The Group profit for the year includes a profit after taxation of £37,313,000 (2017: loss of £11,296,000) for the Company, which is reflected in the financial statements of the Company.

Changes in Accounting Policies

New Standards, Interpretations and Amendments Effective from 1 January 2018

New standards impacting the Group that have been adopted in the annual financial statements for the year ended 31 December 2018, and which have given rise to changes in the Group's accounting policies are:

- IFRS 9 Financial Instruments (IFRS 9); and
- IFRS 15 Revenue from Contracts with Customers (IFRS 15).

Details of the impact these two standards have had are given in Note 1.5.

Details of the other new standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Group has decided not to adopt early are also given in Note 1.5.

1.3 Going Concern

The consolidated financial statements have been prepared on a going concern basis as discussed in the Directors' Report on *page 62*.

1.4 Significant Accounting Judgements, Estimates and Assumptions

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

(a) Fair Valuation of Investment Property

The market value of investment property is determined, by an independent external real estate valuation expert, to be the estimated amount for which a property should exchange on the date of the valuation in an arm's length transaction. Properties have been valued on an individual basis. The valuation experts use recognised valuation techniques and the principles of IFRS 13.

The valuations have been prepared in accordance with the RICS Valuation – Professional Standards January 2014 (the "Red Book"). Factors reflected include current market conditions, annual rentals, lease lengths, and location. The significant methods and assumptions used by valuers in estimating the fair value of investment property are set out in Note 13.

For properties under development the fair value is calculated by estimating the fair value of the completed property using the income capitalisation technique less estimated costs to completion and an appropriate developer's margin.

(b) Operating Lease Contracts – the Group as Lessor

The Group has acquired investment properties which have commercial property leases in place with tenants. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, particularly the lease terms and minimum lease payments, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2018. Subsidiaries are those investee entities where control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, it has:
(a) power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
(b) exposure, or rights, to variable returns from its involvement with the investee; and
(c) the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

Notes to the Financial Statements continued

1. ACCOUNTING POLICIES CONTINUED
(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-Group balances, transactions and unrealised gains and losses resulting from intra-Group transactions are eliminated in full.

Financial Assets
The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. Other than financial assets in a qualifying hedging relationship, the Group's accounting policy for each category is as follows:

Fair Value Through Profit or Loss
This category comprises only in-the-money derivatives (see "Financial liabilities" section for out-of-money derivatives). They are carried in the Statement of Financial Position at fair value with changes in fair value recognised in the Statement of Comprehensive Income in the finance income or expense line. Other than derivative financial instruments which are not designated as hedging instruments, the Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

Amortised Cost
These assets arise principally from the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions for trade receivables are recognised based on the simplified approach within IFRS 9 using the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the Statement of Comprehensive Income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward-looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, 12-month expected credit losses along with gross interest income are recognised. For those where the credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

From time to time, the Group elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and, in consequence, the new expected cash flows are discounted at the original effective interest rate and any resulting difference to the carrying value is recognised in the Statement of Comprehensive Income (operating profit).

The Group's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the Statement of Financial Position.

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and – for the purpose of the Statement of Cash Flows – bank overdrafts. Bank overdrafts are shown within loans and borrowings in current liabilities on the Statement of Financial Position.

Financial Liabilities
The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired.

Other than financial liabilities in a qualifying hedging relationship (see below), the Group's accounting policy for each category is as follows:

Fair Value Through Profit or Loss
This category comprises only out-of-the-money derivatives (see "Financial assets" for in the money derivatives). They are carried in the Statement of Financial Position at fair value with changes in fair value recognised in the Statement of Comprehensive Income. The Group does not hold or issue derivative instruments for speculative purposes, but for hedging purposes. Other than these derivative financial instruments, the Group does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit or loss.

1. ACCOUNTING POLICIES CONTINUED

Other Financial Liabilities

Other financial liabilities include the following items:

Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the Consolidated Statement of Financial Position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

- Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Hedge Accounting

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge; and
- The hedge relationship meets all of the hedge effectiveness requirements, including that an economic relationship exists between the hedged item and the hedging instrument, the credit risk effect does not dominate the value changes, and the hedge ratio is designated based on actual quantities of the hedged item and hedging instrument.

Cash Flow Hedges

The effective part of forward contracts designated as a hedge of the variability in cash flows of interest rate risk arising from firm commitments, and highly probable forecast transactions, are measured at fair value with changes in fair value recognised in Other Comprehensive Income and accumulated in the cash flow hedge reserve. The Group uses such contracts to fix the cost interest payments.

Intangible Assets

Intangible assets are initially recognised at cost and then subsequently carried at cost less accumulated amortisation and impairment losses.

Amortisation has been charged to the Statement of Comprehensive Income on a straight-line basis over ten years, except for the Hello Student® application, which is being amortised on a straight-line basis over five years due to the nature of the asset.

Investment Property

Investment property comprises property that is held to earn rentals or for capital appreciation, or both, and property under development rather than for sale in the ordinary course of business or for use in production or administrative functions.

Investment property is measured initially at cost including transaction costs and is included in the financial statements on unconditional exchange. Transaction costs include transfer taxes, professional fees and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating.

Once purchased, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in the Statement of Comprehensive Income in the period in which they arise.

Investment property is derecognised when it has been disposed of, or permanently withdrawn from use, and no future economic benefit is expected from its disposal. The investment property is derecognised when control is passed to the purchaser, expected to be on legal completion. The difference between the net disposal proceeds and the carrying amount of the asset would result in either gains or losses at the retirement or disposal of investment property. Any gains or losses are recognised in the Statement of Comprehensive Income in the period of retirement or disposal.

Operating Leases

Rentals paid under operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease within administrative expenses.

Property, Plant and Equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure which is directly attributable to the acquisition of the asset.

Depreciation has been charged to the Statement of Comprehensive Income on the following basis:

- Fixtures and fittings: 15% per annum on a reducing balance basis;
- Computer equipment: straight-line basis over three years.

Rental Income

The Group is the lessor in respect of operating leases. Rental income arising from operating leases on investment property is accounted for on a straight-line basis over the lease term and is included in gross rental income in the Statement of Comprehensive Income due to its operating nature.

Tenant lease incentives are recognised as a reduction of rental revenue on a straight-line basis over the term of the lease. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, the Directors are reasonably certain that the tenant will exercise that option.

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the Statement of Comprehensive Income when the right to receive them arises.

Notes to the Financial Statements continued

1. ACCOUNTING POLICIES CONTINUED

Rent and Other Receivables

Rent and other receivables are recognised at their original invoiced value net of VAT. A provision is made when there is objective evidence that the Group will not be able to recover balances in full.

Segmental Information

The Directors are of the opinion that the Group is engaged in a single segment business, being the investment in student and commercial lettings, within the UK.

Share-based Payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the Statement of Comprehensive Income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. So long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the Statement of Comprehensive Income over the remaining vesting period. National Insurance obligations with respect to equity-settled share-based payments awards are accrued over the vesting period.

Share Capital

Ordinary shares are classified as equity. External costs directly attributable to the issuance of shares are recognised as a deduction from equity.

Taxation

As the Group is a UK REIT, profits arising in respect of the property rental business are not subject to UK corporation tax.

Taxation in respect of profits and losses outside of the property rental business comprises current and deferred taxes. Taxation is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised as direct movement in equity, in which case it is also recognised as a direct movement in equity.

Current tax is the total of the expected corporation tax payable in respect of any non-REIT taxable income for the year and any adjustment in respect of previous periods, based on tax rates applicable to the periods.

Deferred tax is calculated in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases, based on tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are recognised in full (except to the extent that they relate to the initial recognition of assets and liabilities not acquired in a business combination). Deferred tax assets are only recognised to the extent that it is considered probable that the Group will obtain a tax benefit when the underlying temporary differences unwind.

1.5 New Standards Issued and Effective from 1 January 2018

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The Group had to change its accounting policies following the adoption of IFRS 9 and IFRS 15. As a result of the transition there was no requirement to make any retrospective amendments and the changes are not expected to significantly affect the current or future periods.

IFRS 9

IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement, and has had the following effect on the Group.

- Management has reviewed the requirements of IFRS 9. The Group's principal financial assets comprise interest rate derivatives which will continue to be measured at fair value, and trade receivables, which will continue to be measured at amortised cost. The following change has been identified:
  - The Group applied the expected credit loss model when calculating impairment losses on its financial assets measured at amortised cost (such as trade and other receivables). This resulted in greater judgement due to the need to factor in forward-looking information when estimating the appropriate amount of provisions. To measure expected credit losses the Group considered the probability of a default occurring over the contractual life of its trade receivables. This resulted in no change in impairment provisions so there is no retrospective adjustment.

1. ACCOUNTING POLICIES CONTINUED

1.6 Accounting Standards and Interpretations Issued But Not Yet Effective

At the date of authorisation of these financial statements, the following accounting standards had been issued which are not yet applicable to the Group:

IFRS 16 – Leases (effective year ending 31 December 2019)

As Lessee

The Group's lease commitment for head office space will be brought onto the Statement of Financial Position together with the corresponding asset. The expected impact has been quantified and will not be material to the Group.

As Lessor

The Group's accounting for lessors will not materially change as the Group only operates operating leases.

Other Amendments

Additionally, amendments to existing standards have been issued by the IASB, including:

- IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions
- IAS 7 (amendments) Disclosure Initiative
- IAS 12 (amendments) Recognition of Deferred Tax Assets for Unrealised Losses
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture

The Directors consider that these amendments will not materially impact the financial statements.

2. REVENUE

	Group	
	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Student rental income	**62,454**	49,450
Commercial rental income	**1,702**	1,755
Total revenue	**64,156**	51,205

3. PROPERTY EXPENSES

	Group	
	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Direct site costs	**10,413**	8,563
Technology services	**1,025**	1,001
Site office and utilities	**8,200**	8,500
Cleaning and service contracts	**2,591**	2,611
Repairs and maintenance	**2,271**	1,545
Total property expenses	**24,500**	22,220

4. ADMINISTRATIVE EXPENSES

	Group	
	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Salaries and Directors' remuneration	**3,372**	4,256
Legal and professional fees	**2,708**	3,642
Other administrative costs	**2,012**	2,295
IT expenses	**471**	414
Irrecoverable VAT	**–**	1,578
	8,563	12,185
Auditor's fees		
Fees payable for the audit of the Group's annual accounts	**210**	200
Fees payable for the review of the Group's interim accounts	**40**	40
Fees payable for the audit of the Group's subsidiaries	**125**	125
Total auditor's fees	**375**	365
Abortive acquisition costs	**133**	904
Total administrative expenses	**9,071**	13,454

Notes to the Financial Statements continued

5. NET FINANCE COST

	Group	
	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000
Finance costs		
Fair value loss on interest rate cap	**1**	18
Interest expense on bank borrowings	**11,037**	10,330
Amortisation of loan transaction costs	**1,750**	1,534
	12,788	11,882
Finance income		
Fair value gain on interest rate swap	**42**	43
Interest received on bank deposits	**62**	44
	104	87
Net finance cost	**12,684**	11,795

6. EMPLOYEES AND DIRECTORS

	Group		Company	
	Year ended 31 December 2018 £'000	Year ended 31 December 2017 £'000	**Year ended 31 December 2018 £'000**	Year ended 31 December 2017 £'000
Total wages and salaries	**4,954**	5,353	**2,455**	3,479
Less: Hello Student® wages and salaries included in property expenses	**(2,499)**	(2,005)	**–**	–
Total wages and salaries included in administrative expenses	**2,455**	3,348	**2,455**	3,479
Pension costs	**216**	245	**216**	114
Cash bonus	**243**	91	**243**	91
Share-based payments	**98**	161	**98**	161
National Insurance	**360**	411	**360**	411
	3,372	4,256	**3,372**	4,256

The average monthly number of employees of the Group during the year was as follows:

	Group		Company	
	Year ended 31 December 2018 Number	Year ended 31 December 2017 Number	**Year ended 31 December 2018 Number**	Year ended 31 December 2017 Number
Management	**4**	4	**4**	4
Administration – ESP	**22**	21	**22**	21
Administration – Hello Student®	**222**	113	**–**	–
	248	138	**26**	25

	Group and Company	
Directors' remuneration	**Year ended 31 December 2018 £'000**	Year ended 31 December 2017 £'000
Salaries and fees	**903**	1,147
Pension costs	**95**	131
Cash bonus	**145**	38
Share-based payments	**28**	161
Payments for loss of office	**–**	690
	1,171	2,167

A summary of the Directors' emoluments, including the disclosures required by the Companies Act 2006 is set out in the Directors' Remuneration Report.

7. CORPORATION TAX

The Group became a REIT on 1 July 2014 and as a result does not pay UK corporation tax on its profits and gains from its qualifying property rental business in the UK provided it meets certain conditions. Non-qualifying profits and gains of the Group continue to be subject to corporation tax as normal.

In order to achieve and retain REIT status, several conditions have to be met on entry to the regime and on an ongoing basis, including:

- at the start of each accounting period, the assets of the property rental business (plus any cash and certain readily realisable investments) must be at least 75% of the total value of the Group's assets;
- at least 75% of the Group's total profits must arise from the tax exempt property rental business; and
- at least 90% of the tax-exempt profit of the property rental business (excluding gains) of the accounting period must be distributed.

In addition, the full UK corporation tax exemption in respect of the profits of the property rental business will not be available if the profit: financing cost ratio in respect of the property rental business is less than 1.25.

The Group met all of the relevant REIT conditions for the year ended 31 December 2018.

The Directors intend that the Group should continue as a REIT for the foreseeable future, with the result that deferred tax is not required to be recognised in respect of temporary differences relating to the property rental business.

	Group	
	Year ended 31 December 2018 £'000	*Year ended 31 December 2017 £'000*
Current tax		
Income tax charge/(credit) for the year	–	–
Adjustment in respect of prior year	–	–
Total current income tax charge/(credit) in the income statement	–	–
Deferred tax		
Total deferred income tax charge/(credit) in the income statement	–	–
Total current income tax charge/(credit) in the income statement	–	–

The tax assessed for the year is lower than the standard rate of corporation tax in the year.

	Group	
	Year ended 31 December 2018 £'000	*Year ended 31 December 2017 £'000*
Profit for the year	***40,276***	*20,750*
Profit before tax multiplied by the rate of corporation tax in the UK of 19% (2017: 19.25%)	***7,652***	*3,994*
Exempt property rental profits in the year	***(4,836)***	*(3,526)*
Exempt property revaluations in the year	***(4,251)***	*(3,049)*
Effects of:	–	
Non-allowable expenses	***83***	*310*
Residual property revaluations in the year	–	–
Unutilised current year tax losses	***1,352***	*2,271*
Total current income tax charge/(credit) in the income statement	–	–

A deferred tax asset in respect of the tax losses generated by the residual (non-tax exempt) business of the Group amounting to £1,352,000 (31 December 2017: £2,271,000) in the current year will be recognised to the extent that their utilisation is probable. On the basis that the residual business is not expected to be income generating in future periods, a deferred tax asset totalling £3,823,000 (2017: £3,222,000) has not been recognised in respect of such losses.

Notes to the Financial Statements continued

8. EARNINGS PER SHARE

The ordinary number of shares is based on the time-weighted average number of shares throughout the period.

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated using the weighted average number of shares adjusted to assume the conversion of all dilutive potential ordinary shares.

EPRA EPS, reported on the basis recommended for real estate companies by EPRA, is a key measure of the Group's operating results.

Adjusted earnings is a performance measure used by the Board to assess the Group's dividend payments. Licence fees, development rebates, rental guarantees and cumulative gains made on disposals of assets are added to EPRA earnings on the basis noted below as the Board sees these cash flows as supportive of dividend payments.

- The adjustment for licence fee receivable is calculated by reference to the fraction of the total period of completed construction during the period, multiplied by the total licence fee receivable on a given forward funded asset.
- The development rebate is due from developers in relation to late completion on forward funded agreements as stipulated in development agreements.
- The discounts on acquisition are in respect of the vendor guaranteeing a rental shortfall for the first year of operation as stipulated in the sale and purchase agreement.
- Gains on disposal are the cumulative gains at the point of disposal.

Reconciliations are set out below:

	Calculation of basic EPS £'000	*Calculation of diluted EPS £'000*	*Calculation of EPRA basic EPS £'000*	*Calculation of EPRA diluted EPS £'000*	*Calculation of adjusted EPS £'000*
Year to 31 December 2018					
Earnings	***40,276***	***40,276***	***40,276***	***40,276***	***40,276***
Adjustment to include licence fee receivable on forward funded developments in the year	–	–	–	–	***1,406***
Adjustment to include discounts on acquisition due to rental guarantees in the year	–	–	–	–	***5***
Adjustments to remove:					
Changes in fair value of investment properties (Note 13)	–	–	***(22,375)***	***(22,375)***	***(22,375)***
Changes in fair value of interest rate derivatives (Note 18)	–	–	***1***	***1***	***1***
Earnings/adjusted earnings	***40,276***	***40,276***	***17,902***	***17,902***	***19,313***
Weighted average number of shares ('000)	***602,888***	***602,888***	***602,888***	***602,888***	***602,888***
Adjustment for employee share options ('000)	–	***984***	–	***984***	–
Total number shares ('000)	***602,888***	***603,872***	***602,888***	***603,872***	***602,888***
Per-share amount (pence)	***6.68***	***6.67***	***2.97***	***2.96***	***3.20***
Year to 31 December 2017					
Earnings	*20,750*	*20,750*	*20,750*	*20,750*	*20,750*
Adjustment to include licence fee receivable on forward funded developments in the year	–	–	–	–	*2,633*
Adjustment to include development rebate on forward funded developments in the year	–	–	–	–	*1,166*
Adjustment to include discounts on acquisition due to rental guarantees in the year					*1,346*
Adjustments to remove:					
Changes in fair value of investment properties (Note 13)	–	–	*(15,836)*	*(15,836)*	*(15,836)*
Gain on disposal of investment property	–	–	*(1,122)*	*(1,122)*	–
Changes in fair value of interest rate derivatives (Note 18)	–	–	*18*	*18*	*18*
Earnings/adjusted earnings	*20,750*	*20,750*	*3,810*	*3,810*	*10,077*
Weighted average number of shares ('000)	*540,521*	*540,521*	*540,521*	*540,521*	*540,521*
Adjustment for employee share options ('000)	–	*1,287*	–	*1,287*	–
Total number shares ('000)	*540,521*	*541,808*	*540,521*	*541,808*	*540,521*
Per-share amount (pence)	*3.84*	*3.83*	*0.70*	*0.70*	*1.86*

9. NET ASSET VALUE PER SHARE (NAV)

Basic NAV per share is calculated by dividing net assets in the Statement of Financial Position attributable to ordinary equity holders of the parent by the number of ordinary shares outstanding at the end of the year.

Diluted NAV per share is calculated using the number of shares adjusted to assume the conversion of all dilutive potential ordinary shares.

EPRA NAV is calculated as net assets per the Consolidated Statement of Financial Position excluding fair value adjustments for debt-related derivatives.

EPRA NNNAV is the EPRA NAV adjusted to include the fair values of financial instruments and debt.

Net asset values have been calculated as follows:

	Group	
	31 December 2018 £'000	*31 December 2017 £'000*
Net assets per Statement of Financial Position	***639,890***	*629,258*
Adjustment to exclude the fair value loss of financial instruments	***238***	*700*
EPRA NAV	***640,128***	*629,958*
Adjustment to include the fair value of debt	***(13,163)***	*(11,399)*
Adjustment to include the fair value loss of financial instruments	***(238)***	*(700)*
EPRA NNNAV	***626,727***	*617,859*
Ordinary shares	***Number***	*Number*
Issued share capital	***602,887,740***	*602,887,740*
Issued share capital plus employee options	***603,871,448***	*604,175,057*
	Pence	*Pence*
NAV per share basic	***106.14***	*104.37*
NAV per share diluted	***105.96***	*104.15*
EPRA NAV per share basic	***106.18***	*104.49*
EPRA NAV per share diluted	***106.00***	*104.27*
EPRA NNNAV per share basic	***103.95***	*102.48*
EPRA NNNAV per share diluted	***103.78***	*102.26*

10. DIVIDENDS PAID

	Group and Company	
	Year ended 31 December 2018 £'000	*Year ended 31 December 2017 £'000*
Interim dividend of 1.5 pence per ordinary share in respect of the quarter ended 31 December 2016	–	*7,770*
Interim dividend of 1.5 pence per ordinary share in respect of the quarter ended 31 March 2017	–	*7,645*
Interim dividend of 1.5 pence per ordinary share in respect of the quarter ended 30 June 2017	–	*7,645*
Interim dividend of 1.25 pence per ordinary share in respect of the quarter ended 30 September 2017	–	*7,536*
Interim dividend of 1.25 pence per ordinary share in respect of the quarter ended 31 December 2017	***7,536***	–
Interim dividend of 1.25 pence per ordinary share in respect of the quarter ended 31 March 2018	***7,536***	–
Interim dividend of 1.25 pence per ordinary share in respect of the quarter ended 30 June 2018	***7,536***	–
Interim dividend of 1.25 pence per ordinary share in respect of the quarter ended 30 September 2018	***7,536***	–
	30,144	*30,596*

On 20 February 2019, the Company announced the declaration of a final interim dividend in respect of the financial year ended 31 December 2018, of 1.25 pence per ordinary share amounting to £7.536 million, to be paid on 22 March 2019 to ordinary shareholders.

Notes to the Financial Statements continued

11. FIXED ASSETS

	Group			Company		
Year ended 31 December 2018	***Fixtures and fittings £'000***	***Computer equipment £'000***	***Total £'000***	***Fixtures and fittings £'000***	***Computer equipment £'000***	***Total £'000***
Costs						
As at 1 January 2018	***490***	***180***	***670***	***490***	***180***	***670***
Additions	–	***1***	***1***	–	***1***	***1***
As at 31 December 2018	***490***	***181***	***671***	***490***	***181***	***671***
Depreciation						
As at 1 January 2018	***108***	***87***	***195***	***108***	***87***	***195***
Charge for the year	***57***	***53***	***110***	***57***	***53***	***110***
As at 31 December 2018	***165***	***140***	***305***	***165***	***140***	***305***
Net book value						
As at 31 December 2018	***325***	***41***	***366***	***325***	***41***	***366***

	Group			Company		
Year ended 31 December 2017	*Fixtures and fittings £'000*	*Computer equipment £'000*	*Total £'000*	*Fixtures and fittings £'000*	*Computer equipment £'000*	*Total £'000*
Costs						
As at 1 January 2017	*455*	*127*	*582*	*455*	*127*	*582*
Additions	*35*	*53*	*88*	*35*	*53*	*88*
As at 31 December 2017	*490*	*180*	*670*	*490*	*180*	*670*
Depreciation						
As at 1 January 2017	*42*	*31*	*73*	*42*	*31*	*73*
Charge for the year	*66*	*56*	*122*	*66*	*56*	*122*
As at 31 December 2017	*108*	*87*	*195*	*108*	*87*	*195*
Net book value						
As at 31 December 2017	*382*	*93*	*475*	*382*	*93*	*475*

12. INTANGIBLE ASSETS

	Group				Company	
Year ended 31 December 2018	***Hello Student® application development £'000***	***Hello Student® website development £'000***	***NAVision development £'000***	***Total £'000***	***NAVision development £'000***	***Total £'000***
Costs						
As at 1 January 2018	***311***	***802***	***528***	***1,641***	***528***	***528***
Additions	–	***76***	***191***	***267***	***191***	***191***
As at 31 December 2018	***311***	***878***	***719***	***1,908***	***719***	***719***
Amortisation						
As at 1 January 2018	***16***	***165***	***37***	***218***	***37***	***37***
Charge for the year	***47***	***87***	***55***	***189***	***55***	***55***
Write-off	***248***	–	–	***248***	–	–
As at 31 December 2018	***311***	***252***	***92***	***655***	***92***	***92***
Net book value						
As at 31 December 2018	–	***626***	***627***	***1,253***	***627***	***627***

12. INTANGIBLE ASSETS CONTINUED

Year ended 31 December 2017	Group: Hello Student® application development £'000	Group: Hello Student® website development £'000	Group: NAVision development £'000	Group: Total £'000	Company: NAVision development £'000	Company: Total £'000
Costs						
As at 1 January 2017	187	792	127	1,106	127	127
Additions	124	10	401	535	401	401
As at 31 December 2017	311	802	528	1,641	528	528
Amortisation						
As at 1 January 2017	–	89	–	89	–	–
Charge for the year	16	76	37	129	37	37
As at 31 December 2017	16	165	37	218	37	37
Net book value						
As at 31 December 2017	295	637	491	1,423	491	491

13. INVESTMENT PROPERTY

Year ended 31 December 2018	*Group: Investment properties freehold £'000*	*Investment properties long leasehold £'000*	*Total operational assets £'000*	*Properties under development £'000*	*Total investment property £'000*
As at 1 January 2018	**735,355**	**113,182**	**848,537**	**42,045**	**890,582**
Property additions	**13,180**	**7,832**	**21,012**	**37,072**	**58,084**
Transfer of completed developments	**42,055**	**–**	**42,055**	**(42,055)**	**–**
Change in fair value during the year	**6,050**	**11,717**	**17,767**	**4,608**	**22,375**
As at 31 December 2018	**796,640**	**132,731**	**929,371**	**41,670**	**971,041**

Year ended 31 December 2017	Group: Investment properties freehold £'000	Investment properties long leasehold £'000	Total operational assets £'000	Properties under development £'000	Total investment property £'000
As at 1 January 2017	564,882	79,628	644,510	67,380	711,890
Property additions	77,846	7,890	85,736	77,935	163,671
Disposals	–	–	–	(815)	(815)
Transfer of completed developments	82,305	23,938	106,243	(106,243)	–
Change in fair value during the year	10,322	1,726	12,048	3,788	15,836
As at 31 December 2017	735,355	113,182	848,537	42,045	890,582

During the year £10,171,000 (31 December 2017: £17,367,000) of additions related to subsequent expenditure recognised in the carrying value of operating assets.

In accordance with IAS 40, the carrying value of investment property is their fair value as determined by independent external valuers. This valuation has been conducted by CBRE Limited, as external valuers, and has been prepared as at 31 December 2018, in accordance with the Appraisal & Valuation Standards of RICS, on the basis of market value. Properties have been valued on an individual basis. This value has been incorporated into the financial statements.

The valuation of all property assets uses market evidence and also includes assumptions regarding income expectations and yields that investors would expect to achieve on those assets over time. Many external economic and market factors, such as interest rate expectations, bond yields, the availability and cost of finance and the relative attraction of property against other asset classes, could lead to a reappraisal of the assumptions used to arrive at current valuations. In adverse conditions, this reappraisal can lead to a reduction in property values and a loss in Net Asset Value.

Notes to the Financial Statements continued

13. INVESTMENT PROPERTY CONTINUED
The table below reconciles between the fair value of the investment property per the Consolidated Group Statement of Financial Position and investment property per the independent valuation performed in respect of each period end.

	Group	
	As at 31 December 2018 £'000	*As at 31 December 2017 £'000*
Value per independent valuation report	***970,570***	*890,110*
Add:		
Head lease	***471***	*472*
Fair value per Group Statement of Financial Position	***971,041***	*890,582*

Fair Value Hierarchy
The following table provides the fair value measurement hierarchy for investment property:

Date of valuation 31 December 2018	***Total £'000***	***Quoted prices in active markets (Level 1) £'000***	***Significant observable inputs (Level 2) £'000***	***Significant unobservable inputs (Level 3) £'000***
Assets measured at fair value:				
Student properties	***945,990***	–	–	***945,990***
Commercial properties	***24,580***	–	–	***24,580***
As at 31 December 2018	***970,570***	–	–	***970,570***

Date of valuation 31 December 2017	*Total £'000*	*Quoted prices in active markets (Level 1) £'000*	*Significant observable inputs (Level 2) £'000*	*Significant unobservable inputs (Level 3) £'000*
Assets measured at fair value:				
Student properties	*865,870*	–	–	*865,870*
Commercial properties	*24,240*	–	–	*24,240*
As at 31 December 2017	*890,110*	–	–	*890,110*

There have been no transfers between Level 1 and Level 2 during the year, nor have there been any transfers between Level 2 and Level 3 during the year.

The valuations have been prepared on the basis of market value which is defined in the RICS Valuation Standards, as:

"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Market value as defined in the RICS Valuation Standards is the equivalent of fair value under IFRS.

The following descriptions and definitions relate to valuation techniques and key unobservable inputs made in determining fair values. The valuation techniques for student properties uses a discounted cash flow with the following inputs:

(a) Unobservable input: rental income
The rent at which space could be let in the market conditions prevailing at the date of valuation.
Range £92– £343 per week (31 December 2017: £95– £347 per week).

(b) Unobservable input: rental growth
The estimated average increase in rent based on both market estimations and contractual arrangements.
Assumed growth of 2.63% used in valuations (31 December 2017: 3.08%).

(c) Unobservable input: net initial yield
The net initial yield is defined as the initial gross income as a percentage of the market value (or purchase price as appropriate) plus standard costs of purchase.
Range: 4.50%– 6.75% per week (31 December 2017: 4.65%– 6.30%).

(d) Unobservable input: physical condition of the property.

(e) Unobservable input: planning consent
No planning enquiries undertaken for any of the development properties.

(f) Sensitivities of measurement of significant unobservable inputs
As set out in the significant accounting estimates and judgements, the Group's portfolio valuation is open to judgements and is inherently subjective by nature.

13. INVESTMENT PROPERTY CONTINUED

As a result, the following sensitivity analysis has been prepared by the valuer:

As at 31 December 2018	-3% Change in rental income £'000	+3% Change in rental income £'000	-0.25% Change in yield £'000	+0.25% Change in yield £'000
(Decrease)/increase in the fair value of the investment properties	(40,320)	40,290	47,270	(43,210)

As at 31 December 2017	-3% Change in rental income £'000	+3% Change in rental income £'000	-0.25% Change in yield £'000	+0.25% Change in yield £'000
(Decrease)/increase in the fair value of the investment properties	(36,260)	36,260	42,070	(38,500)

(g) The key assumptions for the commercial properties are net initial yield, current rent and rental growth. A movement of 3% in passing rent and 0.25% in the net initial yield will not have a material impact on the financial statements.

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	31 December 2018 £'000	31 December 2017 £'000	31 December 2018 £'000	31 December 2017 £'000
Trade receivables	704	470	–	–
Other receivables	2,112	2,412	90	154
Amounts owed by property managers	6,696	10,777	–	3,881
Prepayments	4,170	11,318	105	225
VAT recoverable	65	2,815	7	7
	13,747	27,792	202	4,267
Amounts due from Group undertakings	–	–	517,778	807,451
	13,747	27,792	517,980	811,718

At 31 December 2018, there were no material trade receivables overdue at the year end, and no aged analysis of trade receivables has been included. The carrying value of trade and other receivables classified at amortised cost approximates fair value.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets.

To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped together based on similar credit risk and ageing. The contract assets have similar risk characteristics to the trade receivables for similar types of contracts.

The expected loss rates are based on the Group's historical credit losses experienced over the three-year period prior to the year end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers. Both the expected credit loss provision and the incurred loss provision in the current and prior year are immaterial. No reasonably possible changes in the assumptions underpinning the expected credit loss provision would give rise to a material expected credit loss.

The Company applies the expected credit losses approach to amounts due from Group undertakings. These amounts are interest free and repayable on demand; however, as these amounts are primarily utilised to pay for the property acquisition and therefore are considered to not be immediately recoverable, they are deemed to be categorised as stage 3. The expected credit losses are based on management's assessment of the Group undertaking's ability to repay the funds.

The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the underlying companies, property value sensitivities alongside the potential sale values of the properties, cash flow projections arising from the underlying properties and the ability to hold the assets to ensure recovery of the amounts due from the Group undertakings. Both the expected credit loss provision and the incurred loss provision in the current and prior year are immaterial. No reasonably possible changes in the assumptions underpinning the expected credit loss provision would give rise to a material expected credit loss.

Notes to the Financial Statements continued

15. FIXED TERM DEPOSITS AND CASH AND CASH EQUIVALENTS

Fixed term deposits are amounts held as part of our refinancing. This deposit is interest bearing and maturing in October 2019.

The amounts disclosed on the Statement of Cash Flow as cash and cash equivalents are in respect of the following amounts shown in the Statement of Financial Position:

	Group		Company	
	31 December 2018 £'000	31 December 2017 £'000	**31 December 2018 £'000**	31 December 2017 £'000
Cash and cash equivalents	**23,473**	52,721	**15,955**	17,091

16. TRADE AND OTHER PAYABLES

	Group		Company	
	31 December 2018 £'000	31 December 2017 £'000	**31 December 2018 £'000**	31 December 2017 £'000
Trade payables	**2,723**	2,376	**–**	484
Other payables	**2,408**	3,950	**146**	274
Accrued expenses	**23,013**	16,122	**1,661**	1,200
Directors' bonus accrual	**391**	172	**391**	172
	28,535	22,620	**2,198**	2,130
Amounts owed to Group undertakings	**–**	–	**11**	306,173
	28,535	22,620	**2,209**	308,303

At 31 December 2018, there was deferred rental income of £26,968,000 (31 December 2017: £22,286,000) which was rental income that had been booked that relates to future periods.

The Directors consider that the carrying value of trade and other payables approximates to their fair value.

Amounts due to Group undertakings are interest free and repayable on demand.

17. BANK BORROWINGS

A summary of the drawn and undrawn bank borrowings in the year is shown below:

	Group					
	Bank borrowings drawn 31 December 2018 £'000	**Bank borrowings undrawn 31 December 2018 £'000**	**Total 31 December 2018 £'000**	Bank borrowings drawn 31 December 2017 £'000	Bank borrowings undrawn 31 December 2017 £'000	Total 31 December 2017 £'000
At 1 January 2018	**303,829**	**86,201**	**390,030**	243,917	66,113	310,030
Bank borrowings from new facilities in the year	**30,600**	**–**	**30,600**	10,000	70,000	80,000
Bank borrowings assumed on acquisition of joint venture	**–**	**–**	**–**	9,534	–	9,534
Bank borrowings drawn in the year	**36,201**	**(26,201)**	**10,000**	49,912	(49,912)	–
Bank borrowings repaid during the year	**(40,630)**	**–**	**(40,630)**	(9,534)	–	(9,534)
At 31 December 2018	**330,000**	**60,000**	**390,000**	303,829	86,201	390,030

The Group has entered into one new separate banking facility during the year, fully repaid another facility and started to draw down on one existing available facility. A total of £66,801,000 (31 December 2017: £59,912,000) of additional debt was drawn and a total of £40,630,000 was repaid during the year. There is an undrawn debt facility available of £60,000,000 at 31 December 2018 (31 December 2017: £86,201,000).

The weighted average term to maturity of the Group's debt as at the year end is 7.6 years (31 December 2017: 6.71 years).

Bank borrowings are secured by charges over individual investment properties held by certain asset-holding subsidiaries. These assets have a fair value of £853,220,000 at 31 December 2018 (31 December 2017: £829,765,000). In some cases, the lenders also hold charges over the shares of the subsidiaries and the intermediary holding companies of those subsidiaries.

The Company has a £10 million facility (2017: £10 million) repayable in two years, fully drawn. The balance net of loan arrangement fees carried as at 31 December 2018 was £9,965,000 (31 December 2017: £9,933,000).

17. BANK BORROWINGS CONTINUED
The Group entered into a new facility during the year for £30,600,000 which it fully drew down. As at 31 December 2018 there were £1,075,000 of unamortised loan fees. The loan is due to be repaid during the year ended 31 December 2028.

Any associated fees in arranging the bank borrowings unamortised as at the period end are offset against amounts drawn on the facilities as shown in the table below:

	Group	
Non-current	**31 December 2018 £'000**	31 December 2017 £'000
Balance brought forward	**282,639**	243,917
Total bank borrowings in the year	**66,801**	69,446
Bank borrowings becoming non-current in the year	**21,190**	–
Less: Bank borrowings becoming current in the year	**(55,500)**	(21,190)
Less: Bank borrowings repaid in the year	**(40,630)**	(9,534)
Bank borrowings drawn: due in more than one year	**274,500**	282,639
Less: Unamortised costs	**(5,510)**	(5,257)
Bank borrowings due in more than one year	**268,990**	277,382

	Group	
Current	**31 December 2018 £'000**	31 December 2017 £'000
Balance brought forward	**21,190**	–
Total bank borrowings in the year	**9,440**	–
Less: Bank borrowings repaid in the year	**(30,630)**	–
Bank borrowings becoming current in the year	**55,500**	21,190
Bank borrowings drawn: due in less than one year	**55,500**	21,190
Less: Unamortised costs	**(240)**	(423)
Bank borrowings due in less than one year	**55,260**	20,767

Maturity of Bank Borrowings

	Group	
	31 December 2018 £'000	31 December 2017 £'000
Repayable between one and two years	**42,800**	55,500
Repayable between two and five years	**10,000**	36,039
Repayable in over five years	**221,700**	191,100
Bank borrowings drawn: due in more than one year	**274,500**	282,639

Each of the Group's facilities has an interest charge which is payable quarterly. Four of the facilities have an interest charge that is based on a margin above LIBOR whilst the other five facility interest charges are fixed at 3.97%, 3.52%, 3.24%, 3.64% and 3.20%. The weighted average margin payable by the Group on its debt portfolio as at the year end was 3.26% (31 December 2017: 3.25%).

Notes to the Financial Statements continued

18. INTEREST RATE DERIVATIVES

To mitigate the interest rate risk that arises as a result of entering into variable rate linked loans, the Group has entered into an interest rate cap and interest rate swap. The interest rate cap has been taken out to cap the rate to which three-month LIBOR can rise and is coterminous with the initial term of the facility. The premium of £238,500 is being settled over the five-year life of the loan.

On 24 October 2014 a derivative swap contract was taken out to hedge the interest rate risk on long-term debt. The change in valuation of this derivative at 31 December 2018 was £0.5 million gain (31 December 2017: £0.5 million gain) recognised in Other Comprehensive Income. £nil of this derivative liability has been recognised as a non-current liability (31 December 2017: £0.3 million).

The Group will continue to review the level of its hedging in the light of the current low interest rate environment.

Fair Value of Derivative Instruments

	31 December 2018 £'000	31 December 2017 £'000
Non-current assets: Interest rate derivatives – cap	–	1
Current liabilities: Interest rate derivatives – swap	(237)	(424)
Non-current liabilities: Interest rate derivatives – swap	–	(257)

The interest rate derivatives are marked to market by the relevant counterparty banks on a quarterly basis. Any movement in the fair values of the interest rate cap are taken to the net finance costs in the Group Statement of Comprehensive Income.

	31 December 2018 £'000	31 December 2017 £'000
Interest rate cap premium – opening fair value	1	19
Changes in fair value of interest rate derivatives	(1)	(18)
Closing fair value	–	1

	31 December 2018 £'000	31 December 2017 £'000
Total bank borrowings	330,000	303,829
Total fixed borrowings	(221,700)	(191,100)
Total floating rate borrowings	108,300	112,729
Notional value of borrowings hedged by interest rate derivative – swap	35,500	35,500
Proportion of notional value of interest rate swap derivative to floating rate bank borrowings	32.8%	31.5%

Fair Value of Debt

	Group		
	Fair value £'000	Book value £'000	Fair value less book value £'000
At 31 December 2018	230,677	217,514	13,163
At 31 December 2017	199,039	187,640	11,399

The fair value of the fixed rate debt has been valued by the independent valuation expert, JCRA. The floating rate debt has been excluded as it is assumed that the carrying value will be similar to the fair value.

The fair value of these contracts is determined by discounting the future cash flows estimated to be paid or received under these contracts using a valuation technique based on forward rates derived from short-term rates, futures, swap rates and implied option volatility.

18. INTEREST RATE DERIVATIVES CONTINUED

Fair Value Hierarchy

The following table provides the fair value measurement hierarchy for interest rate derivatives:

		Group			
Assets/(liability) measured at fair value:	*Date of valuation*	*£'000*	*Quoted prices in active markets (Level 1) £'000*	*Significant observable inputs (Level 2) £'000*	*Significant unobservable inputs (Level 3) £'000*
	31 December 2018				
Interest rate derivative – cap		**–**	**–**	**–**	**–**
Interest rate derivative – swap		**(237)**	**–**	**(237)**	**–**
	31 December 2017				
Interest rate derivative – cap		1	–	1	–
Interest rate derivative – swap		(681)	–	(681)	–

The fair value of these contracts is recorded in the Group Statement of Financial Position and is determined by forming an expectation that interest rates will exceed strike rates and discounting these future cash flows at the prevailing market rates as at the period end.

There have been no transfers between Level 1 and Level 2 during the period, nor have there been any transfers between Level 2 and Level 3 during the year.

19. SHARE CAPITAL

Ordinary Shares Issued and Fully Paid at 1 Pence Each

	Group and Company		Group and Company	
	31 December 2018 Number	***31 December 2018 £'000***	*31 December 2017 Number*	*31 December 2017 £'000*
Balance brought forward	**602,887,740**	**6,029**	501,279,071	5,013
Issue in relation to an equity issuance	**–**	**–**	100,917,432	1,009
Issue in relation to LTIP equity issuance	**–**	**–**	691,237	7
Balance carried forward	**602,887,740**	**6,029**	602,887,740	6,029

There have been no share issues during the year.

20. SHARE PREMIUM

The share premium relates to amounts subscribed for share capital in excess of nominal value:

	Group and Company	
	31 December 2018 £'000	*31 December 2017 £'000*
Balance brought forward	**467,268**	359,958
Share premium on ordinary shares issued in relation to further equity share issuance	**–**	108,991
Costs associated with the issue of ordinary shares	**–**	(2,430)
Share premium on share options exercised	**–**	749
Balance carried forward	**467,268**	467,268

21. CAPITAL REDUCTION RESERVE

	Group and Company	
	31 December 2018 £'000	*31 December 2017 £'000*
Balance brought forward	**75,602**	106,198
Less interim dividends declared and paid per Note 10	**(30,144)**	(30,596)
Balance carried forward	**45,458**	75,602

The capital reduction reserve account is a distributable reserve.

Refer to Note 10 for details of the declaration of dividends to shareholders.

Notes to the Financial Statements continued

22. LEASING AGREEMENTS

Future total minimum lease payments under non-cancellable operating leases fall due as follows:

On Office Space Currently Rented

	Group	
	31 December 2018 £'000	31 December 2017 £'000
Less than one year	**361**	361
Between one and five years	**1,446**	1,446
More than five years	**994**	1,355
Total	**2,801**	**3,162**

Future total minimum lease receivables under non-cancellable operating leases on investment properties are as follows:

	Group	
	31 December 2018 £'000	31 December 2017 £'000
Less than one year	**45,564**	41,180
Between one and five years	**9,757**	12,648
More than five years	**10,630**	11,887
Total	**65,951**	65,715

The above relates to commercial leases and nomination agreements with UK universities in place as at 31 December 2018. The impact of student leases for the forthcoming academic year signed by 31 December 2018 have not been included as the certainty of income does not arise until the tenant takes occupation of the accommodation.

23. CONTINGENT LIABILITIES

There were no contingent liabilities at 31 December 2018 (31 December 2017: £nil).

24. CAPITAL COMMITMENTS

The Group had capital commitments relating to forward funded developments totalling £37,950,000 at 31 December 2018 (31 December 2017: £22,821,000).

25. RELATED PARTY DISCLOSURES

Key Management Personnel

Key management personnel are considered to comprise the Board of Directors. Please refer to Note 6 for details of the remuneration for the key management.

Share Capital

Share transactions of related parties during the year ended 31 December 2018 were as follows:

Name	*How related*	*No of shares*	*Transaction*	*Date*
Mark Pain	Director	100,000	Acquisition	21 August 2018

Share-based Payments

On 1 May 2018, nil-cost options were granted to Executive Directors in the amounts of:

Lynne Fennah 369,976 shares

On 23 August 2018, Executive Directors exercised vested nil-cost options in the amounts of:

Lynne Fennah 69,046 shares

During the year the Remuneration Committee exercised its discretion and lapsed any outstanding payments to Michael Enright.

Details of the shares granted and lapsed are outlined in Note 27 – Share-based Payments.

Dividends paid to Directors

Dividends amounting to £52,445 (31 December 2017: £145,947) were paid to Directors during the year.

26. SUBSEQUENT EVENTS

Since the year end there have been no subsequent events to report.

27. SHARE-BASED PAYMENTS

The Company operates three equity-settled share-based remuneration schemes for Executive Directors under the deferred annual bonus, long-term incentive plan and the Value Delivery Plan. The details of the schemes are included in the Remuneration Committee Report.

Issued

On 1 May 2018, the Company granted Lynne Fennah, the Company's Chief Financial Officer, nil-cost options over a total of 26,115 in the Company ("ordinary shares") relating to the deferred shares element of the annual bonus award for the financial period to 31 December 2017 (the "Annual Bonus Award") as well as 343,861 ordinary shares pursuant to the LTIP pursuant to the 2018 financial year.

On 23 August 2018, the Company granted Lynne Fennah, an Executive Director of the Company, nil-cost options over a total of 69,046 ordinary shares in the Company ("ordinary shares") pursuant to the LTIP.

Lapsed Awards

Michael Enright was the Chief Financial Officer until March 2017. As part of his termination agreement, he retained the nil-cost share options relating to the annual deferred annual bonus awards from 2015 and 2016. In view of the performance issues which were not apparent when Michael Enright's employment ceased, the Committee exercised its discretion and lapsed these outstanding awards.

At the year end Tim Attlee had vested but not exercised 129,253 nil-cost options. The weighted average remaining contractual life of these options was 1.6 years (2017: 1.5 years).

During the year to 31 December 2018, the amount recognised relating to the options was £98,000.

The awards have the benefit of dividend equivalence. The Remuneration Committee will determine on or before vesting whether the dividend equivalent will be provided in the form of cash and/or shares.

	31 December 2018	*31 December 2017*	*31 December 2016*	*30 June 2016*
Outstanding number brought forward	***1,477,817***	*3,913,420*	*2,880,391*	*1,220,423*
Granted during the year	***439,022***	*207,198*	*1,033,029*	*1,659,968*
Vested and exercised during the year	***(139,325)***	*(691,237)*	–	–
Lapsed during the year	***(725,806)***	*(1,951,564)*	–	–
Outstanding number carried forward	***1,051,708***	*1,477,817*	*3,913,420*	*2,880,391*

The fair value for the nil-cost options under the 2017–2020 LTIP Awards will be fixed at 100% of the share price when the respective awards were granted.

The fair value on date of grant for the nil-cost options under the Annual Bonus Awards were priced using the Monte Carlo pricing model.

The following information is relevant in the determination of the fair value of these nil-cost options in the year:

		Annual Bonus Award
(a)	Weighted average share price at grant date	*£0.85*
(b)	Exercise price	*£nil*
(c)	Contractual life	*3 years*
(d)	Expected volatility	*15.29%*
(e)	Expected dividend yield	*7.10%*
(f)	Risk-free rate	*1.17%*
(g)	The volatility assumption is based on a statistical analysis of daily share prices of comparator companies over the last three years.	
(h)	The TSR performance conditions have been considered when assessing the fair value of the options.	

28. FINANCIAL RISK MANAGEMENT

Financial Instruments

The Group's principal financial assets and liabilities are those which arise directly from its operations: trade and other receivables, trade and other payables and cash and cash equivalents.

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are shown in the financial statements:

Risk Management

The Group is exposed to market risk (including interest rate risk), credit risk and liquidity risk.

The Board of Directors oversees the management of these risks.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

(a) Market Risk

Market risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices. The financial instruments held by the Group that are affected by market risk are principally the Group's bank balances along with the interest rate derivatives (swap and cap) entered into to mitigate interest rate risk.

(b) 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. The Group is exposed to credit risks from both its leasing activities and financing activities, including deposits with banks and financial institutions.

Notes to the Financial Statements continued

28. FINANCIAL RISK MANAGEMENT CONTINUED

The Group has established a credit policy under which each new tenant is assessed based on an extensive credit rating scorecard at the time of entering into a lease agreement.

The Group's review includes external ratings, when available, and in some cases bank references.

The Group determines concentrations of credit risk by monthly monitoring the creditworthiness rating of existing customers and through a monthly review of the trade receivables' ageing analysis.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating "B" are accepted.

Further disclosures regarding trade and other receivables, which are neither past due nor impaired, are provided in Note 14.

(i) Tenant Receivables

Tenant receivables, primarily tenant rentals, are presented in the Group Statement of Financial Position net of allowances for doubtful receivables and are monitored on a case-by-case basis. Credit risk is primarily managed by requiring tenants to pay rentals in advance and performing tests around strength of covenant prior to acquisition. There are no trade receivables past due as at the year end.

(ii) Credit Risk Related to Financial Instruments and Cash Deposits

One of the principal credit risks of the Group arises with the banks and financial institutions. The Board of Directors believes that the credit risk on short-term deposits and current account cash balances are limited because the counterparties are banks, which are committed lenders to the Group, with high credit ratings assigned by international credit rating agencies.

Credit ratings (Moody's)	*Long term*	*Outlook*
AIB Group	*Baa3*	*Positive*
Canada Life	*Aa3*	*Stable*
Mass Mutual	*Aa2*	*Negative*
Royal Bank of Scotland Plc	*Baa2*	*Positive*
Lloyds Bank Plc	*Aa3*	*Stable*

(c) Liquidity Risk

Liquidity risk arises from the Group's management of working capital and going forward, the finance charges and principal repayments on any borrowings, of which currently there are none. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due as the majority of the Group's assets are property investments and are therefore not readily realisable. The Group's objective is to ensure that it has sufficient available funds for its operations and to fund its capital expenditure. This is achieved by continuous monitoring of forecast and actual cash flows by management.

The following table sets out the contractual obligations (representing undiscounted contractual cash flows) of financial liabilities:

	Group					
	On demand £'000	***Less than 3 months £'000***	***3 to 12 months £'000***	***1 to 5 years £'000***	***> 5 years £'000***	***Total £'000***
At 31 December 2018						
Bank borrowings and interest	–	***3,183***	***65,048***	***87,895***	***262,435***	***418,561***
Swap derivatives	–	***94***	***282***	–	–	***376***
Trade and other payables	–	***28,535***	–	–	–	***28,535***
	–	***31,812***	***65,330***	***87,895***	***262,435***	***447,472***

	Group					
	On demand £'000	*Less than 3 months £'000*	*3 to 12 months £'000*	*1 to 5 years £'000*	*> 5 years £'000*	*Total £'000*
At 31 December 2017						
Bank borrowings and interest	–	*2,608*	*29,015*	*121,685*	*233,663*	*386,971*
Swap derivatives	–	*123*	*365*	*342*	–	*830*
Trade and other payables	–	*22,620*	–	–	–	*22,620*
	–	*25,351*	*29,380*	*122,027*	*233,663*	*410,421*

28. FINANCIAL RISK MANAGEMENT CONTINUED

	Company					
	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
At 31 December 2018						
Bank borrowings and interest	**–**	**68**	**203**	**10,046**	**–**	**10,317**
Swap derivatives	**–**	**–**	**–**	**–**	**–**	**–**
Trade and other payables	**–**	**2,198**	**–**	**–**	**–**	**2,198**
	–	**2,266**	**203**	**10,046**	**–**	**12,515**

	Company					
	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
At 31 December 2017						
Bank borrowings and interest	–	54	161	10,252	–	10,467
Swap derivatives	–	–	–	–	–	–
Trade and other payables	–	2,130	–	–	–	2,130
	–	2,184	161	10,252	–	12,597

29. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management is to ensure that it remains a going concern and continues to qualify for UK REIT status.

The Board of Directors monitors and reviews the Group's capital so as to promote the long-term success of the business, facilitate expansion and maintain sustainable returns for shareholders.

Capital consists of ordinary shares, other capital reserves and retained earnings.

30. SUBSIDIARIES

Those subsidiaries listed on the following pages are considered to be all subsidiaries of the Company at 31 December 2018, with the shares issued being ordinary shares. All subsidiaries are registered in London at the following address: 6th Floor, Swan House, 17-19 Stratford Place, London, England, W1C 1BQ.

The only subsidiaries exempt from audit are those which are dormant.

In each case the country of incorporation is England and Wales.

	Company	
	31 December 2018 £'000	31 December 2017 £'000
As at 1 January 2017	**12,571**	5,118
Additions in the year	**8,622**	7,453
Disposals	**(12,570)**	–
Balance at 31 December 2018	**8,623**	12,571

During the year there were a number of subsidiaries which moved around the Group, due to reorganisations relating to debt, these were all non cash movements.

Notes to the Financial Statements continued

30. SUBSIDIARIES CONTINUED

	Status	*Ownership*	*Principal Activity*
Brunswick Contracting Limited	Active	100%	Property Contracting
Empiric (Alwyn Court) Limited	Active	100%	Property Investment
Empiric (Baptist Chapel) Limited	Active	100%	Property Investment
Empiric (Bath Canalside) Limited	Active	100%	Property Investment
Empiric (Bath James House) Limited	Active	100%	Property Investment
Empiric (Bath JSW) Limited	Active	100%	Property Investment
Empiric (Bath Oolite Road)	Active	100%	Property Investment
Empiric (Bath Piccadilly Place)	Active	100%	Property Investment
Empiric (Birmingham Emporium) Limited	Active	100%	Property Investment
Empiric (Birmingham) Limited	Active	100%	Property Investment
Empiric (Bristol St Mary's) Limited	Active	100%	Property Investment
Empiric (Bristol) Leasing Limited	Dormant	100%	Property Leasing
Empiric (Bristol) Limited	Active	100%	Property Investment
Empiric (Buccleuch Street) Leasing Limited	Dormant	100%	Property Leasing
Empiric (Buccleuch Street) Limited	Active	100%	Property Investment
Empiric (Canterbury Franciscans Court) Limited	Active	100%	Property Investment
Empiric (Canterbury Pavilion Court) Limited	Active	100%	Property Investment
Empiric (Cardiff Wndsr House) Leasing Limited	Dormant	100%	Property Leasing
Empiric (Cardiff Wndsr House) Limited	Active	100%	Property Investment
Empiric (Centro Court) Limited	Active	100%	Property Investment
Empiric (Claremont Newcastle) Limited	Active	100%	Property Investment
Empiric (College Green) Limited	Active	100%	Property Investment
Empiric (Developments) Limited	Active	100%	Development Management
Empiric (Durham St Margarets) Limited	Active	100%	Property Investment
Empiric (Edge Apartments) Limited	Active	100%	Property Investment
Empiric (Edinburgh KSR) Limited	Active	100%	Property Investment
Empiric (Edinburgh South Bridge) Limited	Active	100%	Property Investment
Empiric (Egham High Street) Limited	Dormant	100%	Property Investment
Empiric (Exeter Bishop Blackall School) Limited	Active	100%	Property Investment
Empiric (Exeter Bonhay Road) Leasing Limited	Dormant	100%	Property Leasing
Empiric (Exeter Bonhay Road) Limited	Active	100%	Property Investment
Empiric (Exeter City Service) Limited	Active	100%	Property Investment
Empiric (Exeter DCL) Limited	Active	100%	Property Investment
Empiric (Exeter Isca Lofts) Limited	Active	100%	Property Investment
Empiric (Exeter LL) Limited	Active	100%	Property Investment
Empiric (Falmouth Maritime Studios) Limited	Active	100%	Property Investment
Empiric (Falmouth Ocean Bowl) Limited	Active	100%	Property Investment
Empiric (Glasgow Ballet School) Limited	Active	100%	Property Investment
Empiric (Glasgow Bath St) Limited	Active	100%	Property Investment
Empiric (Glasgow George Square) Leasing Limited	Dormant	100%	Property Leasing
Empiric (Glasgow George Square) Limited	Active	100%	Property Investment
Empiric (Glasgow George St) Leasing Limited	Active	100%	Property Leasing
Empiric (Glasgow George St) Limited	Active	100%	Property Investment
Empiric (Glasgow Otago Street) Limited	Dormant	100%	Property Investment
Empiric (Glasgow) Leasing Limited	Active	100%	Property Leasing
Empiric (Glasgow) Limited	Active	100%	Property Investment
Empiric (Hatfield CP) Limited	Active	100%	Property Investment
Empiric (Huddersfield Oldgate House) Leasing Limited	Dormant	100%	Property Leasing
Empiric (Huddersfield Oldgate House) Limited	Active	100%	Property Investment
Empiric (Huddersfield Snow Island) Leasing Limited	Active	100%	Property Leasing
Empiric (Lancaster Penny Street 1) Limited	Active	100%	Property Investment
Empiric (Lancaster Penny Street 2) Limited	Active	100%	Property Investment
Empiric (Lancaster Penny Street 3) Limited	Active	100%	Property Investment
Empiric (Leeds Algernon) Limited	Active	100%	Property Investment
Empiric (Leeds Mary Morris) Limited	Dormant	100%	Property Investment
Empiric (Leeds Pennine House) Limited	Active	100%	Property Investment
Empiric (Leeds St Marks) Limited	Active	100%	Property Investment
Empiric (Leicester 134 New Walk) Limited	Active	100%	Property Investment
Empiric (Leicester 136-138 New Walk) Limited	Active	100%	Property Investment
Empiric (Leicester 140-142 New Walk Limited)	Active	100%	Property Investment
Empiric (Leicester 160 Upper New Walk) Limited	Active	100%	Property Investment
Empiric (Leicester Bede Park) Limited	Active	100%	Property Investment
Empiric (Leicester De Montfort Square) Limited	Active	100%	Property Investment
Empiric (Leicester Hosiery Factory) Limited	Active	100%	Property Investment

30. SUBSIDIARIES CONTINUED

	Status	*Ownership*	*Principal Activity*
Empiric (Leicester Peacock Lane) Limited	Active	100%	Property Investment
Empiric (Leicester Shoe & Boot Factory) Limited	Active	100%	Property Investment
Empiric (Liverpool Art School/Maple House) Limited	Active	100%	Property Investment
Empiric (Liverpool Chatham Lodge) Limited	Active	100%	Property Investment
Empiric (Liverpool Grove Street) Limited	Active	100%	Property Investment
Empiric (Liverpool Hahnemann Building) Limited	Active	100%	Property Investment
Empiric (Liverpool Octagon/Hayward) Limited	Active	100%	Property Investment
Empiric (London Camberwell) Limited	Active	100%	Property Investment
Empiric (London Francis Gardner) Limited	Active	100%	Property Investment
Empiric (London Road) Limited	Active	100%	Property Investment
Empiric (Manchester Ladybarn) Limited	Active	100%	Property Investment
Empiric (Manchester Victoria Point) Limited	Active	100%	Property Investment
Empiric (Newcastle Metrovick) Limited	Active	100%	Property Investment
Empiric (Northgate House) Limited	Active	100%	Property Investment
Empiric (Norwich Edwin Gooch) Limited	Dormant	100%	Property Investment
Empiric (Nottingham 95 Talbot) Limited	Active	100%	Property Investment
Empiric (Nottingham Frontage) Leasing Limited	Dormant	100%	Property Leasing
Empiric (Nottingham Frontage) Limited	Active	100%	Property Investment
Empiric (Oxford Stonemason) Limited	Active	100%	Property Investment
Empiric (Picturehouse Apartments) Limited	Active	100%	Property Investment
Empiric (Portobello House) Limited	Active	100%	Property Investment
Empiric (Portsmouth Elm Grove Library) Limited	Active	100%	Property Investment
Empiric (Portsmouth Europa House) Leasing Limited	Active	100%	Property Leasing
Empiric (Portsmouth Europa House) Limited	Active	100%	Property Investment
Empiric (Portsmouth Kingsway House) Limited	Active	100%	Property Investment
Empiric (Portsmouth Registry) Limited	Active	100%	Property Investment
Empiric (Provincial House) Leasing Limited	Active	100%	Property Leasing
Empiric (Provincial House) Limited	Active	100%	Property Investment
Empiric (Reading Saxon Court) Leasing Limited	Active	100%	Property Leasing
Empiric (Reading Saxon Court) Limited	Active	100%	Property Investment
Empiric (Snow Island) Limited	Active	100%	Property Investment
Empiric (Southampton) Leasing Limited	Active	100%	Property Leasing
Empiric (Southampton) Limited	Active	100%	Property Investment
Empiric (Southampton Emily Davies) Limited	Active	100%	Property Investment
Empiric (St Andrews Ayton House) Leasing Limited	Active	100%	Property Leasing
Empiric (St Andrews Ayton House) Limited	Active	100%	Property Investment
Empiric (St Peter Street) Leasing Limited	Dormant	100%	Property Leasing
Empiric (St Peter Street) Limited	Active	100%	Property Investment
Empiric (Stirling Forthside) Leasing Limited	Dormant	100%	Property Leasing
Empiric (Stirling Forthside) Limited	Active	100%	Property Investment
Empiric (Stoke Caledonia Mill) Limited	Active	100%	Property Investment
Empiric (Summit House) Limited	Active	100%	Property Investment
Empiric (Talbot Studios) Limited	Active	100%	Property Investment
Empiric (Trippet Lane) Leasing Limited	Active	100%	Property Leasing
Empiric (Trippet Lane) Limited	Active	100%	Property Investment
Empiric (Twickenham Grosvenor Hall) Limited	Active	100%	Property Investment
Empiric (York Foss Studios 1) Limited	Active	100%	Property Investment
Empiric (York Lawrence Street) Limited	Active	100%	Property Investment
Empiric (York Percy's Lane) Limited	Active	100%	Property Investment
Empiric Acquisitions Limited	Active	100%	Intermediate Holding Company
Empiric Investment Holdings (Four) Limited	Active	100%	Holding Company
Empiric Investment Holdings (Three) Limited	Active	100%	Holding Company
Empiric Investment Holdings (Two) Limited	Active	100%	Holding Company
Empiric Investment Holdings (Five) Limited	Active	100%	Holding Company
Empiric Investment Holdings (Six) Limited	Active	100%	Holding Company
Empiric Investments (Five) Limited	Active	100%	Immediate Holding Company
Empiric Investments (Three) Limited	Active	100%	Immediate Holding Company
Empiric Investments (Four) Limited	Active	100%	Immediate Holding Company
Empiric Investments (One) Limited	Active	100%	Immediate Holding Company
Empiric Investments (Six) Limited	Active	100%	Immediate Holding Company
Empiric Investments (Two) Limited	Active	100%	Immediate Holding Company
Empiric Student Property Limited	Active	100%	Property Management
Empiric Student Property Trustees Limited	Active	100%	Trustee of EBT
Hello Student Management Limited	Active	100%	Property Management

Definitions

Adjusted EPS – Adjusted earnings per share is a performance measure used by the Board to assess the Group's dividend payments. Licence fees, development rebates, rental guarantees and cumulative gains made on disposals of assets are added to EPRA earnings on the basis noted below as the Board sees these cash flows as supportive of dividend payments. This is then divided by the weighted average number of ordinary shares outstanding during the period (refer to Note 8).

AIFM – Alternative Investment Fund Manager

AIFMD – Alternative Investment Fund Managers Directive

ANUK – Accreditation Network UK is a central resource for tenants, landlords and scheme operators interested in accreditation of private rented housing.

Average Interest Cost – The weighted interest cost of our drawn debt portfolio at the balance sheet date.

Average term of debt – The weighted average term of our debt facilities at the balance sheet date.

Basic EPS – The earnings attributed to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the period (refer to Note 8).

Company – Empiric Student Property plc

Dividend Cover – Adjusted earnings divided by dividend paid during the year.

EPRA– European Public Real Estate Association.

EPRA EPS – Reported on the basis recommended for real estate companies by EPRA (refer to Note 8).

EPRA NAV – EPRA NAV is calculated as net assets per the Consolidated Statement of Financial Position excluding fair value adjustments for debt-related derivatives (refer to Note 9).

EU – European Union

Executive Team – The Executive Directors made up of the CEO and CFO/COO.

GHG – Greenhouse gas

Gross Rent – The total rents achievable if the portfolio was 100% occupied for an academic year.

Gross Asset Value or GAV – The total value of the Group's wholly owned property portfolio (refer to Note 13).

Gross Margin – Gross profit expressed as a percentage of rental income.

Group – Empiric Student Property plc and its subsidiaries.

Hello Student® platform – Our customer-facing brand and operating system which we operate all of our buildings under.

HMO – Homes of multiple occupants

IASB – International Accounting Standards Board

IFRS – International Financial Reporting Standards

Investment Policy – The Group's Investment Policy as approved by shareholders at the December 2016 General Meeting. Refer to *page 24*.

IPO – The Group's Initial Public Offering in June 2014.

LIBOR – London interbank offered rate

Loan-to-value or LTV – A measure of borrowings used by property investment companies calculated as total drawn borrowings, net of cash and fixed term deposits, as a percentage of Gross Asset Value (refer to Notes 13 and 17).

Net Asset Value or NAV – Net Asset Value is the net assets in the Statement of Financial Position attributable to ordinary equity holders.

Non-PID – Non-property income distribution

PBSA – Purpose Built Student Accommodation

PID – Property income distribution

RCF – Revolving credit facility

REIT – Real estate investment trust

RICS – Royal Institution of Chartered Surveyors

Senior Leadership Team – The senior management team which sits beneath the Executive Team and is made up of the six department heads.

Total Shareholder return – Share price growth with dividends deemed to be reinvested on the dividend payment date.

The Code – UK Code of Corporate Governance, as published in 2018.

UKLA – United Kingdom Listing Authority

VDP – Value Delivery Plan

Company Information and Corporate Advisers

Company Registration Number: 08886906
Incorporated in the UK
(Registered in England)

Empiric Student Property plc is a public company limited by shares

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Tim Attlee (Chief Executive Officer)
Lynne Fennah (Chief Financial and Operating Officer)
Jim Prower (Non-Executive Director)
Stuart Beevor (Non-Executive Director)
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