

ESP

Creating homes, not halls

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We believe students should live in a safe, inspiring environment

At college and university, lifelong friendships are made and for young people it's often the time when they find their strengths, passion, direction and purpose in life. We believe students should live in a safe, inspiring environment and this is why we create homes for students which are a catalyst for positive, life-changing experiences. It's why we love coming to work and the reason we exist as a business.

We made significant progress in the operational transformation and are now looking to embed these changes and drive further performance improvements in 2020 targeting dividend cover in the region of 95%.

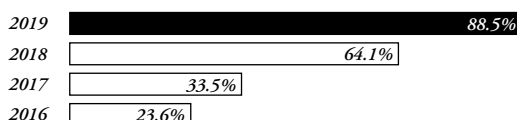
Operational Headlines

- Revenue up 11% on 2018 to £70.9 million as a result of new developments coming on line, higher occupancy and rental growth.
- We have exceeded the guidance we set out to shareholders at the beginning of the year with our Gross Margin of 67.1% against guidance of 67% and dividend cover at 88.5% against guidance of 85.0%.
- Facilities management for the remaining 57 operating assets was brought in-house at the end of March 2019.
- Significant progress has been made with our in-sourcing programme with revenue management on track for delivery in 2021.
- Reduction in the average cost per bed of 9% compared to 2018.
- 95 assets with 9,401 beds contracted as at 31 December 2019 (31 December 2018: 9,397 beds). 92 operating or revenue-generating assets with 8,830 beds at the year end.
- A portfolio value of £1,029 million and an average valuation yield of 5.55%.
- Development pipeline of 356 beds delivered in 2019, averaging a profit on cost of 14%.
- We are building a strong platform which will allow us to deliver sustainable growth and benefits to our shareholders.

Post Year End

- On 17 February 2020, the Board declared a dividend of 1.25 pence per ordinary share in respect of the quarter ended 31 December 2019, which is to be paid on 20 March 2020 to ordinary shareholders on the register on 27 February 2020.

Dividend Cover



Revenue (£m)

£70.9m

2018 — £64.2m Change — +11%

Gross Margin (%)

67.1%

2018 — 61.8% Change — +9%

Profit Before Tax (£m)

£54.8m

2018 — £40.3m Change — +36%

Dividend Cover (%)

88.5%

2018 — 64.1% Change — +38%

Property Valuation (£m)

£1,029m

2018 — £971m Change — +6%

EPRA NAV Per Share (p)

110.2p

2018 — 106.1p Change — +4%

Total Return (%)

8.6%

2018 — 6.5% Change — +32%

“

We have continued our trajectory of growth, growing dividend cover and total return.”

Tim Attlee
Chief Executive Officer

Chairman's Statement

Focused progress



MARK PAIN

Non-Executive Chairman
17 March 2020



We have once again improved performance against our key financial and operational metrics. This year we delivered double-digit revenue growth, reduced costs per bed, generated further improvements in our gross margin and achieved a material improvement in dividend cover. This stands us in strong stead to maximise our returns to shareholders by delivering sustainable future growth.

Our People

Our continued good progress is only possible because of the dedication and ability of our management team and all of our people. I would like to thank everyone in our business for their contribution over the past year. I would particularly like to welcome the 69 people who joined this year as we completed the in-sourcing of our Facilities Management (FM) activities in relation to 57 buildings.

The views of our people are important to the Board. We carried out two colleague engagement surveys in 2019. Response rates were strong and engagement scores were very encouraging as set out on [page 14](#). Additional comments provided by survey respondents helped the business to understand what needs to be done to make Empiric a great place to work.

Our Colleague Forum, established in May 2019 and formed of colleagues across the Group, met four times during the year to discuss a variety of topics including the design and results of the colleague engagement survey, new and revised HR policies, the in-housing of FM as well as a review of the summer turnaround process. Representatives from the Forum supported by the HR Director presented a colleague engagement update to the Board in November 2019. To further enhance the Board's engagement with colleagues, the Board appointed Alice Avis, our newest Non-Executive Director and a member of the Remuneration Committee, as the designated Non-Executive Director to support workforce engagement. Alice will attend at least one Colleague Forum meeting each year and will act as a contact point for Forum Representatives to update the Board in respect of any key issues raised at meetings. Individual representatives from the Colleague Forum will continue to be invited to attend an annual end-of-year Board meeting to update on what they have worked on, the key issues and changes made.

Health, Safety and the Environment

The in-sourcing of our FM activities also means we have complete control of our health and safety environment. We can continue to enhance our monitoring and make our buildings as safe as possible. See [page 29](#) for more detail on health and safety and fire safety.

During the year we have reviewed how we interact with our key stakeholder groups and fulfil our aim as a responsible, sustainable business. Whilst there is still work to do, good progress has been made with our key stakeholders and encouraging feedback has been obtained, highlighting that we are heading in the right direction. See [page 24](#) for more detail.

Board Appointments and Succession

At the beginning of 2019, we announced the appointment of Alice Avis as a Non-Executive Director. Alice brings a wealth of invaluable experience in driving digital transformation and operational excellence in customer-focused, multi-site businesses, which are important for the Board as Empiric focuses on further enhancing its operations.

At the same time, and, after nearly five years on the Board, we announced that Stephen Alston had 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 would like to thank Stephen for his contribution and time committed since the IPO.

No further appointments were made to the Board during the year. The Board effectiveness review (see [page 45](#) for more details) supported the view that following Alice's appointment the Board currently comprises the appropriate skills and experience to drive the delivery of our strategy forward.

Dividends

The Board has declared four quarterly dividends in respect of 2019, 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 4.43 pence, resulting in a marked improvement in dividend cover to 88.5% (2018: 64.1%).

Summary

We have continued to make significant progress with the Operational transformation of the business and we are now embedding and driving improved performance from our new operating model. There is still more to be done to deliver the performance we are capable of and we remain focused intensely on delivering for our shareholders and all other stakeholders in our business. At the time of writing, we are facing into the challenges being posed by the COVID-19 pandemic. As of today, bookings for the 2020/21 academic year are very much in line with the bookings we had taken for the 2019/ 20 at this time last year. The situation is rapidly evolving and it is not yet clear how the student population and University sector will respond to the impact of the virus. We remain vigilant and are closely monitoring the situation and will provide update as appropriate. Protecting and supporting our Customers, colleagues and other stakeholders whilst underpinning the value of our assets for shareholders will guide our actions over the coming months.

Our Values

The success of our business is grounded in our culture – the way we think, behave and act towards our key stakeholders (each other, our customers and our investors). Our culture is based on our core values listed below and behaviours demonstrated by our people across our business who are working towards our purpose detailed on the inside front cover. During 2019 we have spent a great deal of time aligning our purpose, our brand and our culture (see [pages 24 to 27](#)) and have held meetings across the business to ensure that everyone understands and is aligned behind what we are and how we want to operate.

Honest

We act with integrity and have courage to do the right things.

Creative

We do things differently, delighting our customers, colleagues and shareholders.

Open

We are transparent in what we do. We engage, involve and share.

Strive

We are always looking for better ways to do things for our customers, colleagues and shareholders.

“

Another successful year of transformation. Much of the heavy lifting has been completed and we are now embedding and driving improved performance from our new operating model.”

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

92

2018 — 91

Cities and Towns

29

2018 — 29

Assets Contracted

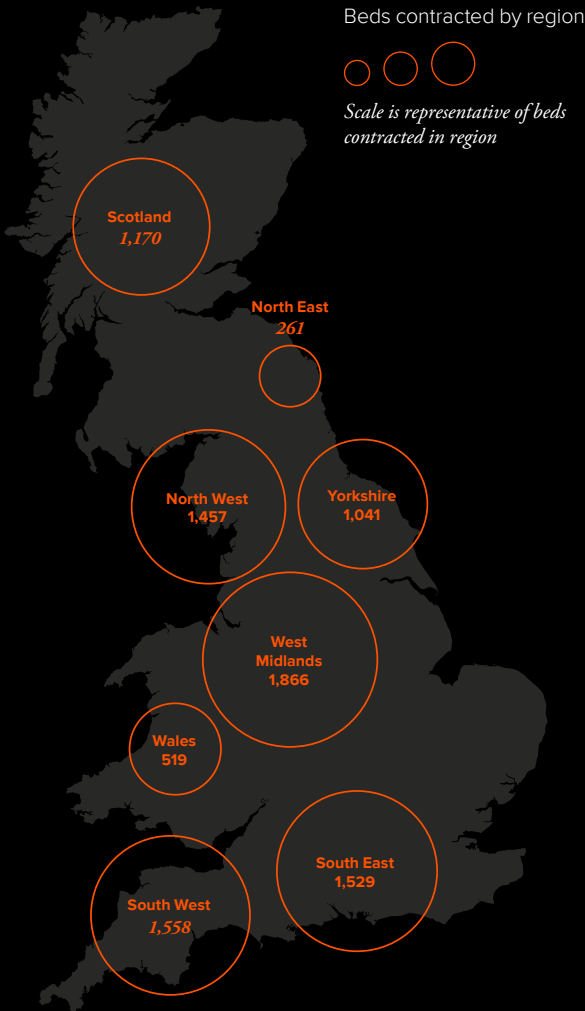
95

2018 — 95

Beds Contracted

9,401

2018 — 9,397



Reasons to Invest

1

Differentiated business model within the popular PBSA property sector

We target investment in regional cities which attract students from the growing pool of international, postgraduate and returning undergraduates, whose premium accommodation requirements are relatively under-served by the PBSA market. This segmented supply and demand imbalance drives both occupancy and rental growth, creating relatively high-yielding investment providing attractive total returns.

[Read more on page 8](#)

2

Industry-leading operating brand

Hello Student, our operating platform, has become one of the most recognisable in the sector. Its online presence continues to grow with 3.25 million page views of its website in 2019 compared with 2.00 million in 2018.

[Read more on page 20](#)

3

Sustainable long-term business model

There has been consistently strong growth in student numbers over the past decade, and our premium, smaller, characterful and collegiate accommodation with generous communal facilities help us stand out in the market.

[Read more on page 8](#)

4

Strengthening financial performance

We have produced a total return of 8.6% up from 6.5% in 2018 while remaining below our long-term gearing target of 35%.

[Read more on page 13](#)

5

Progressive culture embedded by core values and purpose

We believe in our strong culture which is supported by the core values we live by each day throughout the business from the Board down.

[Read more on page 3](#)

6

Socially and environmentally responsible

We seek to conduct and run our business in a socially and environmentally responsible way through charity partnerships and monitoring emissions.

[Read more on page 24](#)

Our Market

Rising demand for higher education

According to the latest HESA data, the number of full-time students exceeded 1.88 million in 2018/19. This is the largest number of students to have ever enrolled full time in UK higher education.

Understanding changing trends in applications and acceptances provides an indication of current and future demand for our accommodation. Ahead of the 2020/21 academic year, more than 568,330 students applied to UK universities to start a full-time undergraduate course (*Source: UCAS January 2020 Applicant Deadline Analysis*) – this is the first year-on-year rise for four years.

Despite 2020 being the lowest point in the population of 18-year olds in the UK – there are 771,000 this year. In 2015 there were 787,000 and by 2030 there will be 887,000 – participation rates are at their highest this year. According to UCAS research 39.5% of UK 18-year-olds applied for university. The growth in the participation rate and the absolute size of the 18-year old cohort in the UK are expected to drive growth in the full-time student population in the coming decade.

Meanwhile, this year, 20% of all applicants were from outside of the UK. (*Source: UCAS January 2019 Applicant Deadline Analysis*). Over 73,080 students from outside the EU had applied by January 2020, which represents an increase of 15% compared to 2019. Interestingly, international student numbers grew despite the heightened level of political uncertainty surrounding Brexit, highlighting the ongoing global appeal of UK higher education – and the relative value of Sterling.

The numbers of applicants from China, India, Hong Kong, the USA and Singapore continue to grow, with UCAS reporting a 30% year-on-year increase in applicants from China and India. Chinese students still make up the largest proportion of the UK's international student population.

Over the same time period, there was also a 1% increase in applications from within the EU – now

Full-time students in 2018/19

1.88
million

comprising 7% of the total student population. For the 2020/21 academic year, the UK government has extended the same terms of enrolment and finance to EU students as UK students enjoy, but future funding and admission arrangements for EU students will emerge from the Brexit trade discussions being conducted this year. The shape of that deal will determine the future of the EU's participation in the UK higher education sector including the fate of EU teaching and research staff employed in HE, and the Pan-European medical and science research programmes.

Government Policy

Over the past year, the UK government has begun to change the previously negative migration environment for skilled immigrants and has encouraged applications from overseas students. The International Education Strategy, announced in March 2019, aims to increase international student numbers in the UK to 600,000 by 2030. This would mark an increase in the present international student population of over 30% (*Source: International Education Strategy, March 2019*). As part of this strategy, more pragmatic post-study work visa arrangements have been reintroduced.

The UK is home to 18 of the world's top 100 universities, another factor that will entice the increasingly affluent and mobile global student population to Britain (*Source: International Education Strategy, March 2019*).

The UK government also published the Augar Review, in May 2019. This focused on lowering the maximum undergraduate tuition fee to £7,500 per annum, from the 2021/22 academic year. It also endorses the renewal of maintenance grants, which were ceased in 2016. These policy changes, should they be enacted, will provide further support to the existing high participation rates.

The introduction of student loans to UK residents wishing to embark on postgraduate study have also stimulated demand. Since these loans were introduced in the 2016/17 academic year, the annual growth rate in the number of full-time postgraduate student numbers has risen from 3% to 5%. The total number of full-time postgraduates has increased from 321,215 in AY 2016 to 356,650 in AY 2018 (*Source: HESA 2018/19*).

Demand for PBSA is set to remain strong and is reflected by the total number of students living in PBSA continuing to rise year-on-year. Whilst there are around 114,000 PBSA beds in the development pipeline, the demand for bed spaces in the UK is rising at a rate approximately 30% faster than the supply. 1.1 million students are now studying away from home, further supporting the PBSA market (*Source: Cushman & Wakefield/UK local authorities*). This recurring and growing demand drives the strong income streams that have stimulated investment activity in the PBSA sector.

All of this is positive news for the PBSA sector, and according to JLL's Q4 2019 Living Bulletin this combination of demographic growth and government stimuli could lead to a 500,000 increase in the number of HE students in the UK by 2030.

The growth feeds into all segments of the PBSA market, both for the majority of PBSA investors who specialise in providing accommodation for first-year undergraduates, and for us whose target market is returning UK undergraduate, postgraduate and international students.

Supply of PBSA

The supply of PBSA has continued to grow, with around 32,000 beds completing across the UK for the start of the 2019/20 academic year. This raises the overall number of PBSA beds to over 650,000.

According to JLL's Q4 2019 Living Bulletin, the national development pipeline has declined in size over the last three years by 25%. This decline in the delivery pipeline arises from the relative strength of competing land uses and planning policies which now seek to restrict the number of PBSA beds being built.

Analysis carried out by Knight Frank shows that the type of stock in the pipeline is also changing, with a shift towards the delivery of ensuite rooms arranged in cluster flats. This trend highlights a reduction in the delivery of studio bed spaces which is at 32% of stock in 2018.

This change in unit composition is partly a reaction to affordability pressures. A recent survey of students identified value for money as a key factor when deciding where to live. It also highlights the importance of quality and convenience (*Source: Knight Frank Research*).

Our own customer surveys consistently identify location, convenience, quality of service, and security as the key drivers of decision-making by residents. Value for money is more of a secondary concern than affordability for them.

Investment Demand for PBSA

Valued at over £50 billion by Knight Frank, the UK is the second largest PBSA market outside of North America. Investors remain attracted to the sector due to the favourable demand statistics and established nature of the UK PBSA market. More specifically, long-term and stable growth in rents, the popularity of the UK higher education sector and the continued undersupply of quality accommodation are all factors for the continuing rise in the number of investors (*Source: Global Student Property 2019, Knight Frank*).

Market Yields – Best in Class, Direct Let

| | December 2019 | | December 2018 | |
|----------------------|---------------|----------|---------------|----------|
| | Current | Trend | Current | Trend |
| Central London | 4.00% | Stronger | 4.00% | Stronger |
| Super Prime Regional | 5.00% | Stronger | 5.00% | Stronger |
| Prime Regional | 5.25% | Stronger | 5.50% | Stronger |
| Secondary Regional | 7.75% | Weaker | 7.00% | Weaker |

Source: CBRE Student Sector Investment Yields.

Whilst some property sectors have experienced a slowdown in transactions, largely due to Brexit-related uncertainty and challenges in the retail sector, PBSA has remained resilient.

JLL reports that £5.2 billion of PBSA investment transactions were completed in 2019. The acquisition of Liberty Living by Unite at £1.4 billion and 24,021 beds was the largest single transaction by far although not directly comparable to our own portfolio.

More relevant was the purchase by Singapore Press Holdings in December of the 2,383-bed Student Castle Portfolio sold for £448 million at a NIY of 5.35%. This provides supportive comparable evidence for us since we operate in 71.4% of the cities in that portfolio. It follows the comparable sale in June 2019 of the 3,195-bed, £590 million Vita Student portfolio to DWS at a yield of 5.3%.

2020 looks set to be another big year as the sale of the iQ portfolio by its owners Goldman Sachs and Wellcome Trust to Blackstone has been agreed subject to regulatory approval. The portfolio comprises some 32,000 beds, with over 80% in Russell Group towns and a sale price of £4.7 billion. JLL suggests in its Q4 2019 Living Sector report that the value of transactions in 2020 could be as high as £7.5 billion, a record year.

This investment demand is not evenly spread, so it is important to own assets in the right markets where there is strong demand. During 2019, CBRE reported on a number of asset sales in secondary cities such as Dundee and Derby, all of which traded at yields of 6.50% or higher. As outlined above, this trend has been driven by investors – predominantly international funds and large investor operators – looking to move away from secondary locations and towards mature markets, with at least one strong university and compelling supply and demand characteristics (*Source: Student Sector Investment Yields, CBRE*).

The result of this trend – the continued shift in demand towards good-quality assets – has resulted in yield compression at the top end of the quality spectrum. CBRE reported that between Q4 2018 and Q4 2019, best-in-class direct let Prime Regional yields¹ compressed by 25 basis points, from 5.50% to 5.25%, whilst best-in-class² direct let Super Prime Regional³ yields stayed flat but continued to strengthen. Given that over 85% of Empiric's portfolio was classified as either Prime Regional or Super Prime Regional in December 2019, the trends outlined above support Empiric's investment strategy (*Source: CBRE Student Sector Investment Yields, 2019*).

PBSA investment transactions in 2019:

£5.2 billion

1 Mature markets with healthy supply and demand ratio and generally more than one university. There are a spread of towns and cities from this level to our secondary locations.

2 CBRE define "best-in-class" as: "well located modern purpose-built property of an operationally efficient scale with a strong letting track record and appropriate room mix". These yields are intended as a guide and we would emphasise the need to appraise individual schemes on a case-by-case basis.

3 Towns and cities with restricted supply or restrictive planning policies.

Our Business Model

Our business model combines an attractive portfolio of high-quality student homes with an efficient in-house operational platform. Together, our operations and assets enable us to create value for all our stakeholders. This in turn allows us to generate maximum returns for our shareholders and build a strong platform for future growth.

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

Our people are key to our customer journey. Our passionate and committed colleagues allow us to deliver a high level of service while maintaining cost control.

Specialist Knowledge

We have the knowledge to develop, acquire and operate successfully student accommodation assets.

Brand

The Hello Student® brand has continued to grow, becoming a leading brand and giving 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 6.6 years and average interest costs of 3.2%, 71% of our debt is fixed rate and the remainder is variable rate.

Technology

We continue to leverage technology to augment business processes that drive efficiencies operationally, financially, and commercially whilst also improving our user and customer experiences.

Our Culture

We put customers and our people at the heart of everything we do. We treat our customers and our people as individuals by building meaningful, long-term relationships based on happiness and creating amazing places to live.



Select Locations/Specifications

We are 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 and their proximity to universities and amenities.

[Read more on page 15](#)



Develop/Buy

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 proven track record in direct development.

We also buy standing assets when a specific opportunity arises which complements our portfolio.

[Read more on page 21](#)



Outputs

Customers

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

Customer Satisfaction

7.8 out of 10

Our People

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

Internal Promotions During the Year

19

Shareholders

Shareholders benefit from strong property sector leading total returns which are underpinned by income.

Total Return for 2019

8.6%

Communities

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

Jobs created in Falmouth and Edinburgh as a result of our completed developments

11



Operate

Our assets are marketed through our Hello Student® platform. This platform gives us a clearly identifiable brand which helps to offer our customers a range of options. Encouraging our people to follow our values helps to increase ownership and pride in our homes. This ensures that customers have the best experience possible, helping to drive occupancy, rents and profit.

Read more on page 22



Reinvest

We intend to hold our buildings 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.

Read more on page 28

Read more on page 19

Our Strategic Objectives

Our strategic objectives are designed so that we can create the maximum returns to shareholders and create long-term sustainable value growth.

1.

Customers

We want to achieve customer satisfaction by building welcoming communities in our homes and by giving our customers a sense of security and belonging.

Key Aims for 2020

Further focus on finding out what the students of today really want from their home. The market is ever evolving and we can never stop learning.

2.

Brand

We want to raise awareness of the Hello Student® consumer brand among students, to support our premium accommodation and service offering. We want to become known as the provider of homes not halls.

Key Aims for 2020

Launching a reinvigorated mystery shopper campaign across our buildings so we can ensure our customer service experience is positive and consistent across the Group.

4.

Buildings

We will maximise the value from the asset portfolio by growing the portfolio profitably and sustainably. This will be done by maintaining a portfolio of attractively high yielding investments with rental growth record and further growth potential.

Key Aims for 2020

284 beds across two developments due for completion for the 2020/21 academic year.

5.

Shareholders

We want to provide our shareholders with attractive sustainable returns. This is achieved through improving profitability and growing our portfolio.

Key Aims for 2020

In 2020 we are targeting dividend cover of around 95% and an improved gross margin.

3.

People and Operations

We will continue to develop a culture where our people are engaged and proud to continue to work for the business, making Empiric a destination choice for candidates wanting to work in the student accommodation sector and simply “a great place to work”.

We will aim to continually improve operational efficiency through enhancing our in-house functions and performance coaching our colleagues to help them provide the best and most efficient customer service experience.

Key Aims for 2020

We have invested in a Training and Development Manager who joined the HR team in January 2020 to develop our in-house Learning and Development offer across the business.

Key Performance Indicators

To see how our strategy links to our Key Performance Indicators see page 17

Principal Risks & Uncertainties

To see how our strategy links to our Principal Risks see page 32

Progress in the year

- | | |
|------------------|--|
| <i>1 2 3 4 5</i> | We achieved a customer rating of 7.8 out of 10 and a rebooker rate of 21.3% |
| <i>1 2 3 4 5</i> | We clearly defined our Purpose, Vision and Values – read more on <i>page 3</i> |
| <i>1 2 3 4 5</i> | We introduced the Colleague Forum – read more on <i>page 26</i> |
| <i>1 2 3 4 5</i> | This is the first year we have had all properties on the Hello Student® platform which helps us ensure a consistent approach to branding, operations and management, which will enhance the brand in the eyes of our customers |
| <i>1 2 3 4 5</i> | We completed two developments for the 2019/20 academic year providing an additional 356 beds in locations where we already have assets |
| <i>1 2 3 4 5</i> | Our portfolio achieved like-for-like valuation uplift of 3.6% |
| <i>1 2 3 4 5</i> | We completed two employee surveys in the year – read more on <i>page 13</i> |
| <i>1 2 3 4 5</i> | We launched the central Customer Relations Team in January, based in Glasgow – read more on <i>page 19</i> |
| <i>1 2 3 4 5</i> | We finalised bringing all FM in-house providing us with complete control of our cost base |
| <i>1 2 3 4 5</i> | We achieved rental growth of 3% for the 2018/19 academic year |
| <i>1 2 3 4 5</i> | We introduced Workplace by Facebook to all of our people – read more on <i>page 14</i> |

Chief Executive Officer's Review

Delivering our promise



TIM ATTLEE

Chief Executive Officer
17 March 2020



This is the second successive year of improved total return and dividend cover growth, financial indicators which clearly reflect the benefits of the continuing transformation of the business. The greatly improved colleague engagement scores during the year and positive customer satisfaction results show that the transformation is benefitting all stakeholders in the business: residents, colleagues and shareholders alike.

The revenue we generate drives the Group's gross margin and profit. Now that we have direct control of all of our assets, we have been able to implement a number of actions to ensure we maximise the revenue from our buildings.

In January 2019, we launched our Customer Relations Team ("CRT") to support customer relations and sales across our sites. This centralised team helps us to provide consistently high levels of service to all our residents and helps us to generate revenue during an academic year.

Now that we have a clear view of day-to-day occupancy across the whole operational portfolio, we can identify opportunities to "backfill" buildings with semester lets when vacancies arise during the academic year. We use the CRT to lead the effort to make these sales. The CRT follow up on and close leads generated by our digital marketing activity and the marketing is directed by the occupancy data we have.

Growing revenue is a top priority and we are encouraged in achieving like-for-like rental growth for the 2018/19 academic year of 3% – this compares with average growth of 2% in the previous academic years and is further evidence of the benefit of owner operation of this class of asset.

The CRT also helped to tackle areas where we could improve service, such as our website, which we developed further during the year. For example, we have enhanced the enquiries function which gives us an early warning if we are not dealing promptly with a resident's enquiry. Because we can now track the customer's booking journey we also know if we are losing potential bookings because of issues with process.

The biannual resident surveys we run give us great insight into our customers' views and opinions. Our customers are at the heart of what we do, so the detailed feedback from these surveys influences our future customer proposition. With a resident satisfaction rating of 7.8, our check-out score is very similar to last year. We have listened to the feedback we have been given and look forward to improving this score in 2020. We remain committed to providing the best service possible.

“

75% colleague engagement Score which is above the UK national average of 68%.

”

Timely management information ("MI") is key to making effective decisions, and we continue to develop reporting that fully supports the business. Our emerging suite of increasingly sophisticated MI reporting tools is transforming both the way we deliver service and how we respond to the changing needs of our customers.

Value-driven Culture

As a result of our in-housing programme we have nearly doubled our headcount since 31 December 2017. It has therefore become increasingly important to define and communicate our purpose, vision and values so that everyone can understand and align their behaviour and actions accordingly.

Our purpose is defined on the inside front cover of this report and this is at the heart of what we do, it's why we get excited about coming to work and why we exist as a business.

We deliver our vision of providing our residents with "homes not halls" through our four values, which are: Honest, Creative, Open and Strive and behaviours which form part of our performance development processes.

We treat our people and our customers as individuals and strive to create meaningful long-term relationships with both groups.

Our values drive our culture, ensuring that everyone knows how they are expected to act, even when no one is watching. These values will provide the foundation that the business needs to succeed.

Pride in Our People

From 1 May 2019, the HR function of our Group was brought in-house. As well as this being a cost-saving initiative, it also brought us a wealth of opportunities with new, skilled team members who have been able to provide value-adding HR services and support across the business.

We now have a Colleague Forum made up of volunteer elected representatives from across the business, supported by the HR team and a nominated Non-Executive Director. It has proved to be a highly effective channel of communication, encouraging the free flow of ideas and opinions.

The Colleague Forum helps us to meet our obligations under the Corporate Governance Code but more importantly it provides all our colleagues with a named representative who is able to raise matters on their behalf, and seek a response from the management team or Board. More information on the Colleague Forum can be found on [page 26](#).

In May, the HR team launched the Group's first ever colleague engagement survey which achieved a response rate of 66% and an overall colleague engagement score of 69% against the UK all-sector average of 68%. The full survey results were shared with all colleagues and with the help of the Colleague Forum an action plan has been developed to focus on key areas for improvement.

Developments Delivered in 2019

| Site | Development basis | Beds | Completed |
|--------------------------------|--------------------|------|----------------|
| King's Stables Road, Edinburgh | Forward funded | 166 | August 2019 |
| Ocean View, Falmouth | Direct development | 190 | September 2019 |

Future Development Pipeline

| Site | Development basis | Beds | Delivery year |
|-----------------------------|---------------------------------|------|---------------------|
| 140/142 New Walk, Leicester | Forward funded | 52 | Forecast April 2020 |
| Emily Davies, Southampton | Major refurbishment/development | 232 | 2020 |
| FISC, Canterbury | Major refurbishment/development | 134 | 2021 |
| St Mary's, Bristol | Direct development | 153 | 2021 |

Chief Executive Officer's Review continued



Courtesy of Staff



Efficiency of Check-in



Friendliness of Staff



Pre-arrival Information



Ease of Finding Buildings



Overall Quality of Welcome



Ease of Reporting Any Issues



An extract from our action plan is shown below:

| Area of focus | Action taken |
|---------------------------------------|--|
| Senior Leadership Team ("SLT") | We've increased the visibility of the SLT members as the majority were new to the business in 2019. A weekly communication from an SLT member provides a business update to all colleagues. |
| Caring | We launched an employee assistance programme, supported by a third party, to provide confidential 24/7 advice and support for our colleagues and their immediate family. |
| Communication | We promoted "Workplace by Facebook" to increase the number of active users and ran 14 roadshows across the business in the autumn to engage our colleagues in understanding our business strategy and direction as well as providing key updates on our full action plan aimed to make us a "great place to work". |
| Pay and Reward | We completed pay and benefit benchmarking across the Group supported by an external consultancy. We have also created a banding structure including revised terms and conditions as well as benefits in some instances so that we now offer a more competitive and market-aligned offer. |

A shorter "pulse" colleague engagement survey was conducted in November 2019 to review progress. This achieved a 5% higher response rate at 74% and an increase in the colleague engagement score of 6% to 75% which strongly confirmed we are on the right track. Our next survey will be in May 2020 and following the recent results we have refreshed our action plan, adding "cost control" and "summer turnaround planning" as new focus areas. The focus areas are each sponsored by a member of the Senior Leadership Team and we are committed to continued improvements.

Diversified Portfolio

Operating under the unifying Hello Student® platform we have a diversified portfolio of assets which are on average around 100 beds in size, occupying prime locations in strong university cities and with unique character. At 31 December 2019, we owned or were committed to owning 95 assets, representing 9,401 beds (31 December 2018: 95 assets, 9,397 beds). Of these, 92 were revenue generating (31 December 2018: 91 assets). Of our total beds 65% are in Russell Group university towns or cities. At this point, like-for-like revenue growth for the academic year 2019/20 averaged approximately 3% across the portfolio.

Independent 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 2019, the portfolio was valued at £1,028.6 million, an increase of 6% for the year (31 December 2018: £970.6 million).

The valuation benefited from increased income growth alongside modest positive yield shift. Yields in the Prime and Super Prime regional markets strengthened while secondary markets were weaker, reflecting demand and demonstrating why it is vital to have a well-located portfolio. The valuation also includes the recognition of development profit on the projects which reached practical completion ahead of the 2019/20 academic year (see overleaf). The like-for-like increase in the portfolio valuation was 3.6%.

Recycling Our Assets

Now we have full control of our buildings, we have a full suite of granular operational and financial management information which allows us to make informed decisions about the status and performance of all our assets in a market where both supply and demand change over time.

Applying this information, we have identified a small number of properties which are "non-core" to the Company's investment and operational strategy and we will make orderly disposals of these buildings over the coming months.

To safeguard and ultimately improve the financial KPIs of the business, the proceeds of these sales will be promptly deployed into the Company's core strategies through the purchase of standing assets, forward funding agreements and direct development.

Developments and Redevelopments

We completed two developments during 2019, adding 356 beds to our operating portfolio. One was a forward funded development in Edinburgh, showcased in our case studies on [page 15](#). The second was a direct development in Falmouth, adjacent to our existing site, Maritime Studios, providing us with a broader offering in the town while allowing us to gain economies of scale.

The forward funded development in Leicester did not complete in time for the 2019/20 academic year, as the site suffered from a series of delays. However, the development agreement protects our position with a rental guarantee. We suffered no reputational damage for the late site as the rooms were not marketed for the 2019/20 academic year.

The chart on [page 13](#) shows our future development pipeline, ensuring we have a steady supply of quality assets to add to our portfolio.

Outlook

In 2020 we expect to build on the progress we have made in 2019, as we continue to drive revenue and reduce costs, creating a solid base for sustainable growth.

For 2020, the Board is continuing to target a dividend of 5.0 pence per share, which it expects to be around 95% covered by adjusted earnings with an enhanced gross margin.

Despite the uncertainty caused by Brexit (further detail on [page 33](#)) we believe that the sector and our proposition are largely insulated from this potential impact and from other economic conditions.

At the time of writing, we are facing into the challenges being posed by the COVID-19 pandemic. Further detail on [page 3 and 33](#).

The market continues to polarise with a focus on prime locations and key university towns and cities. We believe we have the right portfolio and an improving operational platform.

The Board is positive about the outlook for the business and is excited about its potential.

“

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.”

Select Locations



More than just a location

We pride ourselves on the locations of our buildings. We aim to locate them in the areas which students want to live in, within walking distances of university while close to all the local amenities. This was supported by our recent resident survey which reconfirmed that while high-quality accommodation is a prerequisite, it is the location which is the most important factor for students when they choose their accommodation.

Edinburgh is a city with three universities and a student population in excess of 49,000 (HESA 2017/18). At the start of the year we had 152 beds operating in the city and in September 2019 a further 166 were added when we opened the King's Stables Road property.

Edinburgh King's Stables Road is situated just ten minutes' walk from the University of Edinburgh. As can be seen from the roof terrace, the property is situated in the heart of the city with fantastic views of the castle.

Edinburgh Student Population

49,000



Key Performance Indicators

Driving our performance

Non-Financial KPIs

| | | |
|----------------|---|--|
| | <div>Rebooker Rate (%)</div> <div>21.3%</div> <div><div>2019</div><div>2018</div></div> <div><div>21.3%</div><div>21.3%</div></div> | <div>Customer Happiness (Out of 10)</div> <div>7.8</div> <div><div>2019</div><div>2018</div></div> <div><div>7.8</div><div>8.1</div></div> |
| Performance | | |
| Purpose | The rebooker rate demonstrates our ability to retain customers within the Hello Student® brand, which in turn is an indicator of the quality of service we provide. | Student satisfaction reflects the quality of service we provide and the attractiveness of our buildings. |
| Strategic Link | 1 2 3 4 5 | 1 2 3 4 5 |

| | | |
|----------------|---|---|
| | <div>Revenue Occupancy (%)</div> <div>93.9%</div> <div><div>2019/20</div><div>2018/19</div></div> <div><div>As at the end of February 2020</div><div>As at the end of February 2019</div></div> <div><div>93.9%</div><div>93.3%</div></div> | <div>Safety – Number of Accidents</div> <div>3</div> <div><div>2019</div><div>2018</div></div> <div><div>3</div><div>N/A</div></div> |
| Performance | | |
| 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. | The number of reportable accidents throughout the Group each year. This is a key reporting metric to the Health & Safety Executive as well as a measure of our health and safety strategy and procedures. |
| Strategic Link | 1 2 3 4 5 | 1 2 3 4 5 |

| | | |
|----------------|---|--|
| | <div>Colleague Engagement</div> <div>75.0%</div> <div><div>2019</div><div>2018</div></div> <div><div>75.0%</div><div>N/A</div></div> | |
| Performance | | |
| Purpose | Colleague engagement scores provide an insight into the happiness of our people across a range of topics regarding their working environment. | |
| Strategic Link | 1 2 3 4 5 | |

Our key performance indicators (“KPIs”) are central to how we run our business and allow us to drive the performance of the business for our shareholders. During the year we have made two small changes to our KPIs. We have introduced one additional non-financial metric around colleague engagement. We have also amended our occupancy KPI so that it now reflects the revenue occupancy we have achieved for an academic year as a percentage of the gross annualised rent.

Financial KPIs

| | | |
|-----------------------|--|--|
| | Gross Margin (%) 67.1% | Adjusted Earnings per Share (p) 4.43P |
| <i>Performance</i> | 2019 <div><div></div></div> 67.1% 2018 <div><div></div></div> 61.8% | 2019 <div><div></div></div> 4.43 2018 <div><div></div></div> 3.20 |
| <i>Purpose</i> | The gross margin reflects our ability to drive occupancy and to rigorously control our operating costs. | Adjusted earnings per share is the earnings measure that best demonstrates our ability to reward shareholders through dividends. |
| <i>Strategic Link</i> | 1 2 3 4 5 | 1 2 3 4 5 |
| | Dividend Cover (%) 88.5% | Net Asset Value per Share (p) 110.21P |
| <i>Performance</i> | 2019 <div><div></div></div> 88.5% 2018 <div><div></div></div> 64.1% | 2019 <div><div></div></div> 110.21 2018 <div><div></div></div> 106.14 |
| <i>Purpose</i> | Dividend cover shows our ability to pay dividends out of current year earnings. | Growth in the NAV per share reflects the quality of our assets and our ability to generate revenue from them. |
| <i>Strategic Link</i> | 1 2 3 4 5 | 1 2 3 4 5 |
| | Total Return (%) 8.6% | |
| <i>Performance</i> | 2019 <div><div></div></div> 8.6% 2018 <div><div></div></div> 6.5% | |
| <i>Purpose</i> | The total return shows the aggregate value we have created for shareholders, through both capital growth of NAV and dividends. | |
| <i>Strategic Link</i> | 1 2 3 4 5 | |

Strategic Links

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

Definitions

For definitions see page 100

Operational and Financial Review

Driving efficiencies



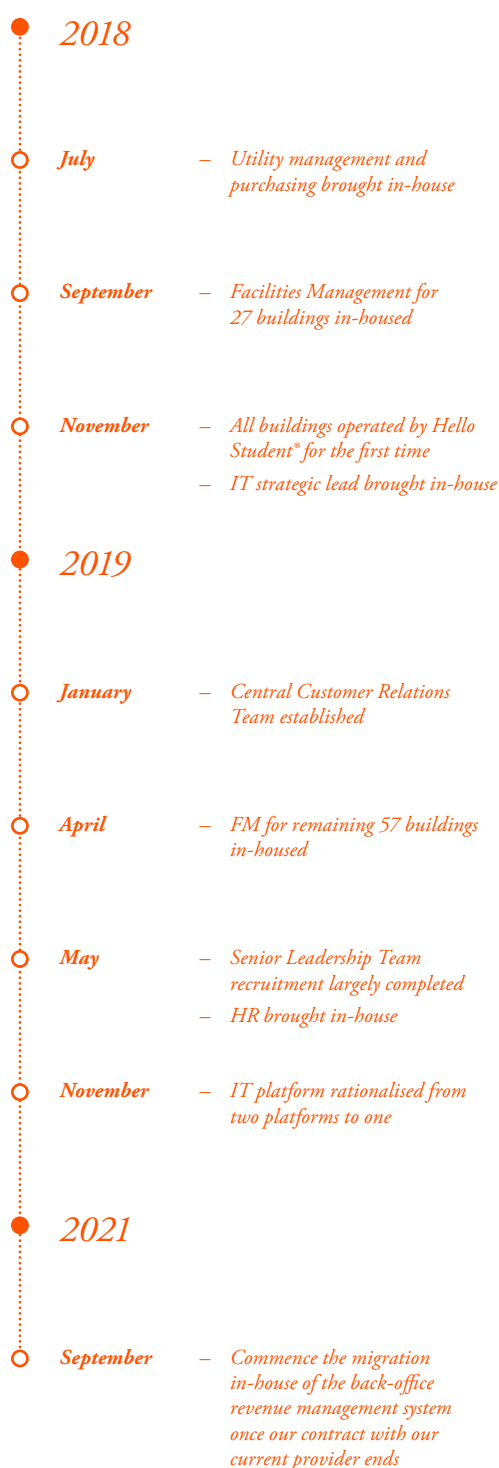
LYNNE FENNAH

Chief Financial and Operating Officer
17 March 2020

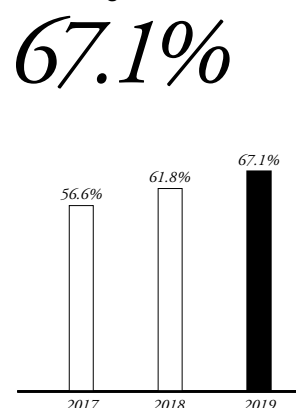


Our operational performance has continued to improve over the last year with a strong emphasis on controlling costs.

Our In-Housing Journey



Gross Margin



Our operational performance has continued to improve over the last year with a strong emphasis on controlling costs. We have reduced our average cost per bed by 9% as a result of our in-housing journey and a range of other initiatives we have implemented which are detailed below:

- In-housing means that we save both the outsourced providers, profit margin and the VAT which we cannot reclaim, while gaining complete control of our own properties, staff working in our buildings and data.
- Accurate and timely information has allowed us to target specific areas of savings on a property-by-property basis. This granularity has helped to identify a number of key supply streams which have been rationalised.

- For the first time the staff in all of our buildings work for us, rather than for an outsourced provider. This aligns all of our staff to the business objectives and means that they can truly support our revenue generation and cost-saving initiatives (see [page 13](#) for detail on bringing together our people). The finance team provides each building with a monthly update on the performance against their budget to help our people understand their buildings and ensure that our targets are met.

- Control over procurement allows us to benefit from economies of scale and serve our customers better. For example, our customer survey showed internet speed was one of the top three criteria for our customers. We have procured a national broadband contract which will double speeds up to 200 megabytes per second while reducing per unit costs.

- As well as the new and improved services the HR team are delivering set out on [page 13](#), having HR in-house allows us to develop and implement new initiatives. For example, we will be launching our own careers website in 2020 backed up by a new applicant tracking system to recruit a greater number of candidates directly as well as focusing on internal development to “grow our own”, with both approaches aimed at saving on agency recruitment fees.

- The rationalisation of our IT platform has provided another huge opportunity. During the year we completed an IT asset audit, which means for the first time we have a clear picture of the IT estate across our portfolio. This will allow us to ensure that we are using all of our resources as efficiently as possible.

- In November 2019 we moved all of our people onto a single managed IT service provider. This reduced cost and gave us the opportunity to enhance automation, and use our data to ensure our business is run as profitably as possible and is fit for the future.

- The last step of our in-housing journey is to bring the revenue management system in-house. The development of the revenue management system is on track for full rollout for the 2021/22 academic year. This system will allow us to process bookings, raise rent demands and handle rent collection in-house, resulting in a significant cost saving. We will then also be able to be even more dynamic in our revenue generation, allowing us to maximise the output of our portfolio.

As well as driving down direct property costs, we have also focused on our administrative expenses. The largest category after people costs are legal and professional fees. We have reduced this year-on-year by 30%, as a result of a greater capability within the finance team and the Group generally, meaning that we are less reliant on professional advisers.

Now that the majority of our systems, processes and infrastructure are internalised, our key focus is now on embedding the changes made to the business and ensuring efficiencies are maximised so that we can achieve our 2020 targets.

Operational and Financial Review continued

“

We seek to go above and beyond the statutory fire requirements to ensure the safety of our buildings. The safety of our customers and people is paramount.”

Health and Safety (“H&S”)

The data we now have access to not only leads to cost-savings but more importantly gives us greater control of the H&S environment. We have enhanced our H&S reporting and improved our compliance dashboard, which is reviewed daily to ensure that we are fully compliant across the Group on such things from fire safety to water testing. We want to ensure that all of our buildings are as safe as possible, giving comfort to our customers, our people and anyone who may visit our sites.

Fire safety management is critical and we aim above and beyond the statutory fire requirements to ensure the safety of our buildings. In the wake of Grenfell, we commissioned a report across our entire portfolio which found no buildings contained any ACM cladding material, and all are of sound construction.

In Q1 2020 we will commission a portfolio-wide survey on enhanced fire safety in our buildings as well as reviewing all building fire strategy documents. We also complete regular testing on fire alarms, sprinklers, emergency lighting, fire extinguishers and building evacuations. Our Fire Risk Assessments are completed annually on each building by our external H&S Consultants. We have a strong moral obligation and commitment to ensuring that our homes are safe for anyone to reside in.

See [page 29](#) for detail on our H&S environment and our responses to the outcome of the Hackitt Review.

Our Brand and Marketing

Our brand strength continues to grow, allowing us to attract and retain customers. We continue to invest in our online and social media marketing to reach potential customers in a cost-effective way. As well as the revenue-generating changes, discussed on [page 19](#) we have sought to ensure our branding is consistent across the Group. We have utilised mystery shopping and now also conduct on-site monthly audits to ensure we are following consistent processes across sites. In 2019 we had 3.25 million page views on the website, up 63% on 2018; this shows our targeted marketing strategy is adding value.

HelloStudent.co.uk page views

3.25m

2018 — 2.00m

Financial Performance

Revenue in 2019 was £70.9 million, up 11% from £64.2 million in 2018. The increase resulted from the initial contribution from developments completed in 2019, a full year of the developments completed in 2018, as well as increased occupancy and income growth, which benefited the final four months of the year.

Property costs were £23.4 million, down 5% overall and 9% on a cost per bed basis due to lower property management fees, procurement savings and other efficiencies. The gross margin for the year was 67.1% (2018: 61.8%).

Operating profit under IFRS was £67.5 million, an increase of 27% compared to the £53.0 million achieved in 2018. This included an aggregate revaluation uplift on our property portfolio at the year end of £29.2 million, net of property acquisition costs (2018: £22.4 million).

Administration expenses were £9.2 million in 2019, lower than our initial guidance of £10 million (2018: £9.1 million). For 2020, 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 (2018: £12.7 million and £0.1 million, respectively).

Profit before tax was £54.8 million, up 36% (2018: £40.3 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 9.08 pence (9.07 pence on a diluted basis) (2018: 6.68 pence and 6.67 pence (diluted)).

The Net Asset Value (“NAV”) per share as at 31 December 2019 was 110.21 pence, prior to adjusting for the interim dividend for the quarter ended 31 December 2019 of 1.25 pence per share (31 December 2018: 106.14 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.

Adjusted EPS is the most relevant measure of earnings when assessing dividend distributions. It increased by 38% from 3.20 pence in 2018 to 4.43 pence in 2019, to give dividend cover of 88.5% (2018: 64.1%). Adjusted EPS is defined on [page 100](#).

Develop



Purpose-built for students

Developing our own assets allows us to build the homes we want in the best locations.

King's Stables Road in Edinburgh comprises a mix of studio flats and is built to our premium specification, which helps us to target our market segment.

We developed King's Stables Road using a forward funded deal structure. Forward funded deals give us protection against any risk around late deliveries through the provision of a rental guarantee. We also receive a licence fee under the agreement which supports dividend cover through the development period of the building.

Across the PBSA sector nearly one third of student properties are completed late, which causes significant disruption to students. We do not advertise a building for bookings until we have a high degree of certainty that the buildings will be completed on time. King's Stables was completed on time, and Falmouth Ocean View was partially completed. However, we did not market the incomplete rooms ensuring there was no disruption to our customers.

Forward funding and developing our own assets also allows us to unlock additional value from our expertise in developments. On King's Stables Road we achieved a profit on cost of 14%. This helps deliver value to our shareholders by driving out total return.

Profit on cost

14%

Operate



Accommodating spaces

Statistics for King's Stables Road this year

Friendliness of Staff

9.0/10

Overall Quality of Welcome

8.5/10

Efficiency of Check-in

8.4/10

We want to make all of our customers feel as though they are living in homes not halls.

Therefore our biannual student surveys are crucial to us. They allow us to understand the customers' experience in each and every building.

These results are just a snapshot across our portfolio and are a testament to all the hard work our people put in to get to know each and every customer who lives in their building.

For example, we also host events in all of our buildings to foster a sense of community and ensure people do not feel lonely. Our people in King's Stables Road have already held eight events this year. These have ranged from Fruity Friday to Guy Fawkes night and received great feedback from our customers. The check-in survey indicated that 65% of King's Stables Road customers have attended at least one Hello Student® event.

Operational and Financial Review continued

Dividends

| <i>Quarter to</i> | <i>Declared</i> | <i>Paid</i> | <i>Amount (p)</i> |
|-------------------|------------------|-------------------|-------------------|
| 31 March 2019 | 29 May 2019 | 28 June 2019 | 1.25 |
| 30 June 2019 | 19 August 2019 | 20 September 2019 | 1.25 |
| 30 September 2019 | 27 November 2019 | 20 December 2019 | 1.25 |
| 31 December 2019 | 17 February 2020 | Due 20 March 2020 | 1.25 |
| | | | 5.00 |

Dividends

The dividends declared in respect of the 2019 financial year are shown in the table above.

Of the total dividends, 2.75 pence per share was declared as property income distributions and 2.25 pence per share was declared as ordinary UK dividends (2018: 1.32 pence per share and 3.68 pence per share, respectively).

At the period end, the Company had distributable reserves of over £500 million, offering substantial headroom for dividend payments. At the Annual General Meeting ("AGM") on 2 May 2019, shareholders approved a resolution to cancel the Company's share premium account, which stood at £467 million. The court order to confirm the cancellation was received on 4 June 2019, following which the share premium account was cancelled. Cancellation results in this capital being treated as distributable profit, giving us the flexibility to declare dividends, or make other distributions to shareholders, although there is no current intention to do so.

Debt Financing

Our debt facilities were unchanged during the period. At the year end, we had committed debt facilities of £390 million, of which £355 million (31 December 2018: £330 million) had been drawn down. This resulted in an LTV of 32.9% (31 December 2018: 30.6%). The aggregate cost of debt is 3.2%, with a weighted average term to maturity of 6.6 years at 31 December 2019. We fully complied with our covenants during the year.

Of our total drawn down facilities, £277 million is at fixed interest rates and £78 million is at floating rates.

In October 2019, we drew down the remaining £55.5 million of the facility we entered into with Scottish Widows Limited in December 2018. This was used to repay an expiring NatWest facility.

On 27 February 2020, we refinanced an expiring £10 million unsecured facility with First Commercial Bank on a three-year term and extended the facility value to £20 million.

On 16 March 2020, we entered into a four and a half-year £22.5 million development debt facility with RBS.

We have a further £32.8 million of debt due for repayment in October 2020 which we are in an advanced stage of refinancing on more favourable terms.

LTV

32.9%

2018 — 30.6%

Transfer of Listing Category

At IPO, Empiric was categorised as a premium listed closed-ended investment fund, under the Listing Rules. This required us to follow an investment policy, operating within specific parameters. Given our evolution into an operating business, the Board concluded that we would be better served by being classified as a commercial company. Shareholders approved the transfer of listing category at the AGM and it became effective on 3 June 2019.

The Board believes that the transfer of its listing category to that of a commercial company more appropriately reflects the current management and operating structure, improves comparability with the majority of internally managed REITs on the London Stock Exchange, and incurs lower compliance costs.

Corporate and Social Responsibility

At Empiric we believe in our duty to manage our business responsibly, ensuring through strong governance we always consider the social, environmental and economic impact our business has on our key stakeholders, local communities and beyond.

Encouraging engagement

Gender Diversity

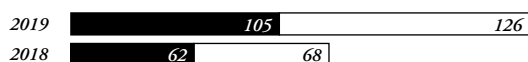
Board



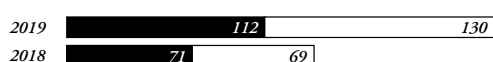
Senior Leadership Team



Other Employees¹



Total



■ Male □ Female

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

As we have continued our operational transformation of the business, the Board and Senior Leadership Team have clearly defined the vision, purpose and values of the Group. This also led to a review of how we interact with our key stakeholder groups and fulfil our aim to build a responsible, sustainable business with an open, honest, creative culture where our people strive to reach their full potential. Whilst there is still a lot of work to do, good progress has been made with our key stakeholders and encouraging feedback has been obtained.

One of our key pillars as a responsible business is wellbeing as it aligns with our purpose and the values of our key stakeholder groups. This year, we have undertaken an exercise to identify a number of mental health charities which align with our values. We are aiming to finalise and announce our charity partnership in early 2020.

This section provides more information on the various stakeholder engagement activities and our future plans. Please refer to the s.172 statement on [page 39](#) in the Governance Report for more detail on the Board's engagement with our key stakeholders.

| <i>Our key stakeholders</i> | <i>Why they are important to us?</i> | <i>Engagement actions</i> |
|-----------------------------|---|--|
| Customers | <p>Our customers are at the core of our purpose and provide useful insights into how we can build on our customer service to improve their experience at university. We have a responsibility to provide our customers with a safe home to live in and to support them through their journey at university.</p> | <p>Wellbeing</p> <p>We understand that the university experience can come with various challenges and demands that can impact the wellbeing of our customers. We are committed to providing a supportive positive environment to promote wellbeing and ensuring we support our customers through any difficulties they face.</p> <p>We have provided our site teams with guidance on how to support customers who might be facing a personal issue, including flagging the issue with the relevant university support groups. This is included in our induction training for employees joining our operational teams.</p> <p>We have also introduced formal mental health training for some roles in our operational teams. We aim to expand this to other roles within the business in 2020, through our partnership with ANUK.</p> <p>The charity we aim to partner with in 2020 will be able to support and help us promote the wellbeing of our customers.</p> <p>Customer Surveys</p> <p>We conduct both a check-in and check-out survey with our customers each academic year. These surveys allow us to obtain feedback on how we can improve our service offering to them and improve the operational performance of both our sites and our people.</p> |
| People | <p>Our people have been key to our operational transformation, working hard to deliver the brand experience for our customers. We have a responsibility to provide our people with a safe working environment and to support them in both their career and personal development.</p> <p>At the year end we had a total of 367 people within our workforce (2018: 248 people).</p> | <p>Equality, Diversity and Inclusion</p> <p>The business is fully committed to creating a working environment that makes people proud and engaged and values the contribution of all colleagues.</p> <p>We respect the differences that a diverse workforce brings and will not discriminate because of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (which includes colour, nationality and ethnic or national origins), religion or belief, sex or sexual orientation. This also extends to other factors if it results in someone feeling bullied or harassed.</p> <p>We remind all colleagues that they are responsible for the promotion and advancement of our Equality, Diversity and Inclusion Policy. Behaviour, actions or words that violate this policy will not be tolerated and will be dealt with in line with the Disciplinary Policy.</p> <p>When recruiting for all roles, we aim to have a balanced list of candidates and provide management with information to support our management team to monitor and promote throughout the workforce.</p> <p>The chart on page 24 analyses our gender diversity at the year end. Please refer to page 51 for our gender pay gap disclosure.</p> <p>Training and Development</p> <p>Bringing the HR function in-house from 1 May 2019 has increased the range of services, skills and support available to assist people managers in the business. This combined with a largely new management team for Hello Student® in 2019 has created revised conditions on our journey towards our stated aim of being a “great place to work”.</p> <p>A key element of our colleague engagement action plan remains to improve the training and development offered internally and in 2020 we will build on 2019 deliverables which have included:</p> <ul style="list-style-type: none"> – reviewing the Learning Management System (“LMS”) and concluding that it is fit for purpose but needs dedicated resource to focus on developing it further; – sales and customer training for key roles within Hello Student®; – Fire Marshall training (delivered as a priority); – commencing the design of an internal career progression framework; – investment in Page Tiger software to create interactive onboarding, induction and support collateral for new starters and our existing people; – recruiting a Training and Development Manager (as a new role investment); and – developing our high-level 2020 training plans which will include critical facilities management and people management programmes. <p>We want to support our people so that they can grow and develop while working with us and maximise their true potential. Our HR strategy includes a core element and commitment to establish a Performance & Learning Culture – one in which our people at all levels are encouraged to continuously seek, discuss, share and apply new knowledge and skills to improve their own performance as well as that of peers and the organisation. This helps our people to feel valued and rewarded.</p> |

Corporate and Social Responsibility continued

| Our key stakeholders | Why they are important to us? | Engagement actions |
|---|-------------------------------|---|
| <p><i>Our People</i> <i>continued</i></p> | | <p>Colleague Forum</p> <p>In line with our 2019 people plan, and the new requirements per the 2018 UK Corporate Governance Code, we set up a Colleague Forum – a formal workforce advisory panel consisting of 12 employee representatives from all levels and locations within the business. Its purpose is to give our people from across the business a voice. This improves two-way communication from the front line of our business all the way to the Board where issues can be raised and resolved. It also provides a forum for new initiatives to be implemented. This allows our people to feel much more valued and shows that their opinions matter and can be heard and considered at the highest level of the business.</p> <p>The forum has contributed to a wide range of projects including a review of updated HR policies, improving communications between the operational teams and support functions and supporting the Senior Leadership Team with their plans to address various outcomes from the colleague survey.</p> <p>The forum met four times during 2019, and plans to meet formally on a quarterly basis going forward. Alice Avis is the nominated Non-Executive Board member who will attend at least one committee meeting a year.</p> <p>For more information on how the Colleague Forum has supported the Board with their engagement with our people, please refer to the s.172 statement on page 39 in the Governance Report.</p> <p>Colleague Survey</p> <p>In May 2019, all colleagues (except Community Ambassadors) were invited to complete a colleague survey designed to measure colleague engagement and obtain feedback on various elements such as our values, working environment, communications and culture. See page 40 for more detail.</p> <p>The Colleague Forum assisted with the design of the survey, as well as the analysis of its results, and development and review of the action plan to address key improvement areas highlighted from the survey.</p> <p>Improvement areas include:</p> <ul style="list-style-type: none"> – enhancing the training and development programmes available to our people; – introducing a formal wellbeing programme for all our people and customers; and – introducing more efficient working practices within the business. <p>Wellbeing</p> <p>In 2019 we launched an Employee Assistance Programme to provide 24/7 confidential support on a wide range of issues for our employees and their immediate families.</p> <p>We have promoted the use of these initiatives within our workforce – both for personal assistance, and for our people to build on their personal skills through various volunteering opportunities. This ties in with the mental health training that our operations team require as part of their roles and interactions with our customers.</p> <p>Rewards and Recognition</p> <p>During 2019, the HR team worked with the Senior Leadership Team and the Colleague Forum to review and update elements of our employer value proposition (“EVP”). The EVP is the unique set of benefits (financial and non-financial) which a colleague receives in return for the skills, attributes and experience they contribute.</p> <p>This has included changes to HR policies across the Group, including our approach to reward and recognition, balancing a desire to be competitive, attract and retain talent and our commitment to be a “great place to work” with other factors such as statutory requirements, business affordability and comparisons with the market.</p> <p>Internal Communications</p> <p>We launched Workplace – an internal social media platform where our people can post informally about their achievements, social events with our customers, ideas for process efficiencies, and provide general updates. It has also provided a strong platform for the Senior Leadership Team to communicate business updates more regularly and fluidly across our people.</p> |

| <i>Our key stakeholders</i> | <i>Why they are important to us?</i> | <i>Engagement actions</i> |
|-----------------------------|--|---|
| Communities | <p>Our purpose to enhance the university experience for our customers also serves to support the local communities we operate in through the creation of jobs and assisting to reduce tensions in the local housing markets. We have a responsibility to give back to our local communities and support them in their local initiatives that help others.</p> <p>The provision of PBSA also helps to free up local HMO stock which benefits the local housing markets.</p> | <p>Summer Turnaround</p> <p>A key time in the year for our operations is the summer turnaround period which takes place when our customers change over from one academic year to the next. Our site teams utilise the opportunity to support and donate the items left by customers to various charities.</p> <p>During 2019, 43 sites supported the British Heart Foundation ("BHF") through donations of 3,566 bags (28.5 tonnes), totalling £50k in monetary value and contributing to over 290kg in carbon emission savings.</p> <p>We have set up a national partnership with the BHF for 2020 to enhance further our support and increase our contributions to the local communities and environment. This partnership will include:</p> <ul style="list-style-type: none"> – volunteering through the promotion to both our people and customers to volunteer at local shops and events; – CPR training sessions provided to all staff and customers; and – collection schedules during summer turnaround, as well as adhoc support throughout the year. <p>Supporting Local Charities</p> <p>We encourage our people and customers to support local charities and initiatives around them. Our site teams host several events during the year, providing an opportunity for our customers to get to know each other and for money to be raised for local charities.</p> <p>The BHF does not collect bedding, and so for 2020, we will encourage our site teams to donate any bedding left behind by our customers to local shelters.</p> |
| Shareholders | <p>Our shareholders are key to our long-term sustainable performance. We have a responsibility to manage the business in an ethical manner, ensuring that we value the interests of all our key stakeholder groups in order to enhance the value of the Group for the shareholders.</p> | <p>Annual and Interim Report</p> <p>These documents are written to provide information to our shareholders on the business operations, performance and key changes during the year.</p> <p>AGM</p> <p>We present a summary update on the Group's performance and its financial results at the AGM, which is attended by the Board. It is open for all shareholders to attend.</p> <p>Investor Meetings</p> <p>Following publication of our annual and interim report, the Executive Board members meet with shareholders to discuss business performance and address specific queries.</p> <p>Remuneration Policy Consultation</p> <p>As part of the Remuneration Committee developing the new Remuneration Policy for the Group, Stuart Beevor and Mark Pain consulted with the Group's largest shareholders to discuss and receive feedback on the new policy.</p> <p>Refer to <i>page 52</i> for the full Remuneration Policy.</p> |

Reinvest



An investment in education

There are many ways in which we reinvest as a Group, whether it is in our people, buying and selling buildings or redeveloping our existing units. We are currently renovating one of our buildings in Southampton and in August this year when the current lease with the university ends, we will renovate Edinburgh Southbridge.

This renovation will bring this building which is within a stone's throw from the University of Edinburgh in line with our specification. This will allow us to enhance rental values to drive the greatest value from the building. This helps us to cement our offering in Edinburgh, underlining it as one of our key target cities.

Corporate and Social Responsibility continued

Health and Safety

Health and safety is of paramount importance to the Group. We have a legal and moral responsibility to ensure that all those associated with our buildings are kept safe and healthy; our customers, staff, visitors and our service providers.

Our buildings are inspected on a regular basis by the site staff to ensure that we identify and eliminate hazards. To assess the buildings for significant issues we engage with specialist consultants to undertake thorough assessments of general safety/hazards, fire risks/prevention and water systems/treatment against legionella.

Other specialist companies are tasked with the inspection and certification of statutory/mandatory safety tasks, with all the documents loaded onto a portal that acts as a repository and a task planner. This enables our internal team to measure the level of safety and compliance of the property portfolio on a continual basis.

During 2019 we have improved our Accident and Incident reporting process that allows our staff to report issues that occur to a central team, who are responsible for maintaining accurate records and where necessary, informing the local authorities and the HSE. This enables analysis of the accidents and leads to the implementation of precautionary measures as required.

Looking forward to 2020, we will continue to build on the systems and procedures that we have set up. Importantly, there will be a comprehensive training programme launched at all levels within the business starting with the IOSH Leading Safely course for the Senior Leadership Team, then courses for the Site Teams: Managing Safely and Working Safely. Further specialist courses will be held for fire safety, asbestos and water treatment.

Following the Grenfell tragedy, the Hackitt Review recommendations (53 points) are now being considered by the government and will be brought into legislation in the near future. It is anticipated that there will be significant focus on the ability to provide fire safety information, fire risk assessments, fire strategy documents and building construction details. Further recommendations will require nominated individuals to be responsible, trained and competent in the safe management of buildings. Landlords will also be required to positively engage with local authorities and fire services to demonstrate their commitment to managing a safe and compliant building.

Empiric has already taken significant steps to remain compliant and gather all required information and will embrace the recommendations wholeheartedly; we are committed to our buildings being a safe environment.

Environment

The primary environmental impact from our business comes from the energy consumed by our customers. We have a responsibility to drive our electricity and water consumption levels down, and to take ownership of sustainable waste management in order to protect our environment.

Student Energy Project

During 2018, we signed up for the Student Energy Project, in conjunction with our energy consultant. This project promotes various methods to our customers to reduce their personal energy usage, for example, by turning the lights off, using less water or reducing their heating. A student ambassador is appointed at each site who is responsible for educating the other customers, and sites compete with each other for the lowest energy consumption levels. Rewards are given to sites for their performance.

This project reduces our energy costs with the savings being distributed back to the customers and donated to charity.

We are also members of Power2Africa – a funded project set up by our energy consultant which aims to make a real difference to the lives of communities in rural Africa. This year the project raised enough funds to contribute towards the successful build of a computer lab at a local school in Euthini, Malawi, including the provision of the computers, projectors, network and maintenance plans and intensive training for the computer lab teacher.

Corporate and Social Responsibility continued

In 2020 we aim to move all of our energy purchasing to renewable sources.

Green Energy

In addition to reducing energy consumption levels, we are also aiming to utilise more renewable sources of energy at our sites. We currently have a number of sites that already incorporate renewable sources of energy. For example, our Brunswick Apartments in Southampton uses solar power as its source of energy through the solar panels on the roof.

We have also planned a workshop with our energy consultant to identify new opportunities for green energy that can be implemented at our existing sites and how this will impact our energy consumption and costs.

Waste Management

All sites currently have recycling facilities that are used by our customers and people. We aim to review our overall waste management arrangement to identify more efficient ways to manage our recycling throughout the whole Group.

Energy Usage

Our total direct and indirect greenhouse gas emissions like-for-like have decreased by 4% to 8,708 tCO₂e as a result of a number of energy saving initiatives we have concluded.

During the year our electricity consumption like-for-like has dropped 3% against 2018 which is offset by a slightly higher use of natural gas within our portfolio.

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

| Greenhouse Gas | EPRA Code | 2019 | 2018 |
|---|---------------|-------|-------|
| Like-for-like: | | | |
| Total direct GHG emissions (tCO ₂ e) | GHG-Dir-LfL | 4,075 | 3,768 |
| Total indirect GHG emissions (tCO ₂ e) | GHG-Indir-LfL | 4,633 | 5,313 |

| | | | |
|--|---------------|-------|-------|
| Absolute: | | | |
| Total direct and indirect GHG emissions (tCO ₂ e) | | 8,708 | 9,081 |
| Total direct GHG emissions (tCO ₂ e) | GHG-Dir-Abs | 4,244 | 3,829 |
| Total direct and indirect GHG emissions (tCO ₂ e) | | 9,291 | 9,315 |
| Total indirect GHG emissions (tCO ₂ e) | GHG-Indir-Abs | 5,047 | 5,486 |

| | | | |
|---|---------|------|------|
| Normalised: | | | |
| GHG intensity from building energy consumption (tCO ₂ e per operating bed) | GHG-Int | 1.07 | 1.11 |

2019 – % of total assets included: LfL – 100%, Abs – 100%
2019 – % of data estimated: LfL – 12%, Abs – 13%

| Energy | EPRA Code | 2019 | 2018 |
|--|-----------|------------|------------|
| Like-for-like: | | | |
| Total fuel consumption (kWh) | Fuels-LfL | 22,165,081 | 20,481,408 |
| Total district heating & cooling consumption (kWh) | DH&C-Abs | – | – |
| Total electricity consumption (kWh) | Elec-LfL | 18,124,761 | 18,769,377 |

| | | | |
|--|-----------|------------|------------|
| Absolute: | | | |
| Total fuel consumption (kWh) | Fuels-Abs | 23,081,615 | 20,815,640 |
| Total district heating & cooling consumption (kWh) | DH&C-Abs | – | – |
| Total electricity consumption (kWh) | Elec-Abs | 19,744,476 | 19,380,760 |

| | | | |
|---|------------|----------|----------|
| Normalised: | | | |
| Building energy intensity (kWh per operating bed) | Energy-Int | 4,915.19 | 4,809.91 |

2019 – % of total assets included: LfL – 100%, Abs – 100%
2019 – % of data estimated: LfL – 12%, Abs – 13%

| Water | EPRA Code | 2019 | 2018 |
|---|-----------|---------|---------|
| Like-for-like: | | | |
| Total water consumption (m ³) | Water-LfL | 308,634 | 293,579 |
| Absolute: | | | |
| Total water consumption (m ³) | Water-Abs | 333,064 | 301,944 |
| Normalised: | | | |
| Building water intensity (m ³ per operating bed) | Water-Int | 38.23 | 36.13 |

2019 – % of total assets included: LfL – 100%, Abs – 100%
2019 – % of data estimated: LfL – 58%, Abs – 61%

Ethical Business

We are committed to carrying out business fairly, honestly and openly. Our anti-bribery policy mandates a zero-tolerance approach, which all our people must read and consent to, both during their induction and when any updates are made to the policy. We require employees to take regular compliance training and to certify each year that they have complied with our policies.

Our people are important to our business maintaining the highest standards of honesty, openness and accountability. Our whistleblowing policy explains how our people can report a whistleblowing concern and reassures them that any such disclosure is made in full confidence. The Board monitors and reviews the policy on at least an annual basis to ensure it complies with UK legislation. There were no incidents of whistleblowing during the year.

Modern Slavery

Protecting human rights and preventing modern slavery is important to us. We are fundamentally opposed to slavery and committed to understanding the risk of it and ensuring it does not occur anywhere within our business or supply chain.

Our most significant risk area in relation to slavery and human trafficking is in our supply chain, particularly in connection with the sourcing by suppliers of construction material, certain goods and the provision of manual labour in property development and management services.

While nearly all our direct suppliers are based in the UK, some of these suppliers source some materials from around the world.

As part of our broader initiative to identify and mitigate risk in our supply chain, we have updated our consideration of factors such as:

- reviewing our current contractors and suppliers, particularly in relation to supply chain, with a view to developing preferred supplier list arrangements based on robust selection;
- centralising more contracts as a core part of our supplier management strategy;
- strengthening our compliance review processes within procurement practices;
- developing strong relationships with UK-based suppliers and contractors that align to our business code of conduct expectations; and
- ensuring systems are in place to encourage the reporting of concerns and the protection of whistleblowers in our supply chain.

We believe there is minimal risk of slavery and human trafficking in our colleague base.

We continue to review this risk assessment and monitor our activity as part of our broader approach to ensuring we are a responsible and sustainable business.

For our full statement please refer to www.hellostudent.co.uk.

Principal Risks and Uncertainties

Robust risk management

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.

The Audit Committee formally reviews the effectiveness of our risk management processes and internal control systems bi-annually, on the Board’s behalf. During the course of these reviews, the Committee 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. During the year the Audit Committee had the following considerations on the Group’s principal risks:

As a result of Empiric’s change in listing category (see *page 23* for more detail) the Group is no longer required to have a formal Investment Policy, and we therefore removed the risk of the Group not adhering to this.

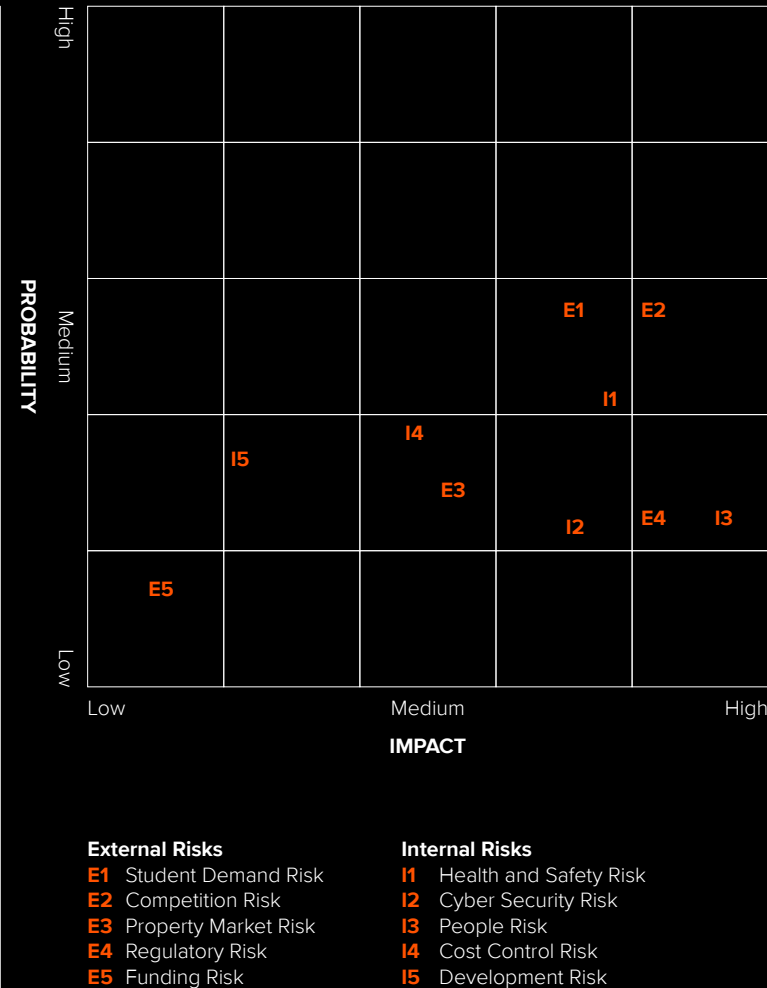
The prior year tax risk has been removed. The Group has significant headroom on all of its REIT tests and through an experienced finance team and the use of a professional tax adviser the Committee feel this risk should no longer be classed as a principal risk.

Given the recent events at Grenfell Tower and The Cube in Bolton, the Committee considered whether a further principal risk should be added for fire safety. However, it was agreed that this would be within the health and safety risk, where a specific sub-point will be raised around fire safety.

The Committee reviewed the occupancy risk, student demand risk and competition risk and agreed that the occupancy risk held last year comfortably fits in to the student demand risk and competition risk, and so would be removed. The Committee aims to ensure that the principal risks to the business remain concise and relevant.

The Committee did not consider there to be any additional risks which should be added to our principal risks at this time.

The trends relating to all the principal risks and uncertainties are set out in the table on *pages 34 to 35*.



Our Risk Appetite

The Board is ultimately responsible for defining the level and type of risk that the Group considers appropriate, ensuring it remains in line with our overall strategy of delivering sustainable shareholder returns.

The Board reviews the risk appetite of the business biannually and reassesses the internal and external information available and the relevant risk factors. This ensures our risk exposure remains appropriate when the risks we face are dynamic.

The Group is conservatively financed, with a target LTV ratio of 35% in the long term and a maximum of 40%. 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 29*. The safety of our people, customers and visitors to our sites is paramount.

Viability Statement

The Directors have assessed the prospects of the Group over a three-year period to December 2022 and confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due.

This period has been chosen for the assessment period as this is the horizon for reasonably predicting the following:

- occupancy levels;
- rental growth;
- interest rates;
- debt planning cycle;
- practical completion of development pipeline; and
- impact of principal risks.

The three-year plan review is underpinned by regular Board briefings provided by the Executive Directors and any new strategies which may be 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 and capital appreciation and the payment of dividends to shareholders, in line with the Company's obligations under the UK REIT regime.

We have assumed the refinancing of our current borrowings of £42.8 million during 2020. As at the date of this report we have already refinanced £10 million of this expiring debt with credit approved terms on the remaining £32.8 million. Our model assumes the Group enters into no further debt facilities other than the RBS development debt of £22.5 million (see note 26) or undertakes any asset disposals although the Group had £148.7 million of unencumbered assets at 31 December 2019 should further security be required. We expect to refinance the facility due in October 2020 in advance of our half year results.

The model is subject to sensitivity analysis, which involves flexing a number of key assumptions underlying the forecast, both individually and in aggregate as set out below:

| <i>Sensitised assumptions</i> | <i>Sensitivities</i> | <i>Associated principal risk</i> |
|--------------------------------|----------------------|----------------------------------|
| <i>Revenue occupancy</i> | <i>(4%)</i> | E1, E2, E3, |
| <i>Cost increase</i> | <i>10%</i> | E4, I1, I2, I3, I4 |
| <i>Fall in property values</i> | <i>(10%)</i> | E1, E2, E3, E5, I5 |

We model a worst-case scenario with all worst-case assumptions being applied. The results of these sensitised assumptions on the three-year plan led to the Director's conclusion on viability.

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 there are some risks that we currently regard as immaterial, and have therefore not included here, may become material in the future.

Brexit

Until Brexit negotiations are finalised it is hard to say what impact leaving the EU will have. This government is, however, committed to growing international student numbers – from the current level of almost 450,000 to 600,000 by 2030 – the Treasury has also recognised the value of higher education exports by making visa applications and postgraduate employment limitations less onerous. In the context of the previous administration these moves are positively enlightened, and we are inclined to hope that common sense will prevail in Brexit negotiations to preserve this forward momentum. Having said all of that, EU international students make up about 7.0% of the full-time student population in the UK – a relatively small proportion. Of equal potential significance to the sector is the fate of EU teaching and research staff employed in higher education, and the European medical and science research programmes.

Coronavirus

Since the outbreak of the coronavirus has worsened, there has been regular near-daily communication across the Group with the fundamental concern being the safety of our customers and our people.

We have been regularly reviewing the guidance issued by Public Health England and the World Health Organization as well as communicating with our peers.

We believe COVID-19 falls under our Student Demand risk, however to date, we have not seen a negative impact on reservations from international students for the 2020/21 academic year.

In addition to our sensitivity analysis we have modeled severe stress tests on all of our loan covenants and have significant headroom.

We will continue to develop our planned mitigations to this very dynamic situation and will provide update as appropriate.

Change in Risk Trends

Competition risk

The Directors believe the competition risk has increased during the year due to the consolidation in the market exemplified by Unite's acquisition of Liberty Living.

Regulatory Risk

The Directors believe the regulatory risk has increased due to the growing level of fire and safety legislation which is being applied to the property industry.

Cyber Security Risk

Cyber security attacks are becoming more frequent across the globe and as such has increased the risk profile.

Principal Risks and Uncertainties continued

External Risks

| | <i>Risk and brief description</i> | <i>Potential impact</i> | <i>Mitigation in place</i> | <i>Trend</i> |
|-----------|--|--|---|---|
| E1 | <p>Student Demand Risk There is a risk that the level of student demand will decrease.</p> <p>—</p> <p><i>Link to Strategy</i> 1 2 3 4 5</p> | <ul style="list-style-type: none"> – Loss of revenue – Erosion of asset values – High void costs – Potential breach in bank covenants | <ul style="list-style-type: none"> – Senior Leadership Team and the Board closely monitor government policy, student numbers and other micro and macro-economic factors. – Through a detailed selection process, we ensure our assets are well located serving established leading universities. – Where possible, we ensure our buildings are fit for alternative use, such as private residential, subject to planning. – High-quality management information is provided across the business. – All properties are now managed in-house under the Hello Student® brand. |  |
| E2 | <p>Competition Risk The risk of an increased level of competition and supply in the student sector.</p> <p>—</p> <p><i>Link to Strategy</i> 1 2 3 4 5</p> | <ul style="list-style-type: none"> – Oversupply of student accommodation – Reduction of student rental growth – Inflated asset and land prices | <ul style="list-style-type: none"> – UK student numbers are due to increase from 2021. See <i>page 6</i>. – Through a detailed selection process, we ensure our assets are well located serving established leading universities. – Assets in prime locations, in varying formats and at different price points. – High-quality management information is provided across the business. – All properties are now managed in-house under the Hello Student® brand helping to provide a unique identity. |  |
| E3 | <p>Property Market Risk The potential for a downturn in the property market.</p> <p>—</p> <p><i>Link to Strategy</i> 1 2 3 4 5</p> | <ul style="list-style-type: none"> – Erosion of asset values – Potential breach in bank covenants – Lower Total Return for shareholders | <ul style="list-style-type: none"> – Assets in multiple prime locations, diversifying the risk. – We maintain prudent levels of gearing, with a LTV limit of 40% and a long-term target of 35%. – The higher education sector is made up of a wide range of students from the UK, EU and non-EU countries. This range helps to insulate the student accommodation market. |  |
| E4 | <p>Regulatory Risk Large levels of regulation being applied to the student accommodation market.</p> <p>—</p> <p><i>Link to Strategy</i> 1 2 3 4 5</p> | <ul style="list-style-type: none"> – Potential impact on our Total Return – Reputational damage and penalties if we fall foul – Higher compliance costs | <ul style="list-style-type: none"> – Hello Student® is ANUK accredited, and Lynne Fennah sits on the Student Accommodation Committee of the British Property Federation. – Involvement with these bodies means that we are well informed of any potential upcoming regulatory change. It also provides a basis for industry lobbying if required. – Our operational teams try to build close working relationships with local authorities to keep abreast of any changes. |  |
| E5 | <p>Funding Risk The availability of debt or equity and ability to raise it on acceptable terms.</p> <p>—</p> <p><i>Link to Strategy</i> 1 2 3 4 5</p> | <ul style="list-style-type: none"> – Stifling of future growth potential – Forced sale of assets to repay debt – Reduction of profit | <ul style="list-style-type: none"> – Our average maturity of debt is 6.6 years with £35 million undrawn as at 31 December 2019. – We maintain prudent levels of gearing, with a LTV limit of 40% and a long-term target of 35%. – Experienced finance team with a strong track record in delivering both debt and equity. |  |

Strategic Links

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

Strategic Links

- ^ Increasing
 <> No change
 v Decreasing

Internal Risks

| | <i>Risk and brief description</i> | <i>Potential impact</i> | <i>Mitigation in place</i> | <i>Trend</i> |
|-----------|---|--|--|--------------|
| I1 | Health and Safety Risk The occurrence of a major health and safety incident including a fire. — Link to Strategy 1 2 3 4 5 | — Injury and impact on customers, contractors, staff and visitors — Compensation costs incurred — Reputational impact — Loss of life in a worst-case scenario | — Health and safety metrics are reported monthly. — Policies, procedures and training for all staff. — Ultimate Board responsibility involving regular Board reporting from the Head of FM. — Live compliance dashboard which is monitored daily. — Going above and beyond our statutory fire requirements. Read more on page 29 . | <> |
| I2 | Cyber Security Risk The Group suffering from a cyber security breach. — Link to Strategy 1 2 3 4 5 | — Reputational damage — Deteriorated customer experience — Higher costs and reduced profitability | — Developed a business continuity plan to enable Group operations to continue in the event of a breach. — Centralised our IT network across the Group and recruited an in-house IT team. — Deployed an updated training programme across all staff. — Implemented a data monitoring system to protect our platforms across the IT estate. | ^ |
| I3 | People Risk Inability to retain and attract top levels of staff. — Link to Strategy 1 2 3 4 5 | — Loss of key business knowledge — Higher costs — Impact on customer service | — HR department has been brought in-house, meaning greater support for our people. — Senior Leadership Team is largely in place, meaning less reliance on the Executive Directors. — Exit interviews are used to identify any areas for improvement within the business. | v |
| I4 | Cost Control Risk Costs rising out of control across the Group. — Link to Strategy 1 2 3 4 5 | — Higher costs and reduced profitability — Impact on dividend cover — Deterioration of asset values | — High-quality management information is provided across the business. — All properties are now managed in-house under the Hello Student® brand. — There is a detailed annual budget cycle with monthly annual reforecasting. This helps us stringently control costs. | <> |
| I5 | Development Risk The potential for developments to be delivered late or incomplete. — Link to Strategy 1 2 3 4 5 | — Customer experience would be disrupted — Loss of income — Reputational damage — Total Return would be impacted | — We put in place suitable contracts with our developers which afford us good levels of protection, contingencies and other arrangements to cover the impact of any delay. — Action plans are drafted for a site if there is any indication that a development may be delivered late or incomplete. — Experienced development team with a strong track record of on-time project delivery. | <> |

Board of Directors



Mark Pain

Non-Executive Chairman

Appointed

1 September 2018

Independent

Yes

Committee Memberships

☒ (N) ☒ (R) ☒ (A)

Relevant Skills and Experience

- Chartered accountant
- Strong financial, customer and shareholder focus
- Extensive experience of executive and non-executive roles in the real estate, financial services and consumer/leisure sectors

Principal External Appointments

- Non-executive director – AXA Insurance UK
- Vice chairman and senior independent director – Yorkshire Building Society
- Chairman – London Square

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



Tim Attlee

Chief Executive Officer

11 February 2014

No

None

- 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

None

- 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 LLP



Lynne Fennah

Chief Financial and Operating Officer

26 June 2017

No

None

- 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

- Member – the Student Accommodation Committee of the British Property Federation

- CFO – Palmer Capital Partners
- European CFO – TOGA Group
- Various senior roles including Group Financial and IT director of The Goodwood Estate Company Limited

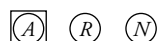


Jim Prower

*Senior Independent
Non-Executive Director*

28 May 2014

Yes



- 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

- Non-executive director and chairman of audit committee – Alternative Income REIT plc
- Non-executive director – The PRS REIT plc

- Finance director and company secretary at several companies, including Argent Group, Minty plc, Creston Land & Estates plc and NOBO Group plc
- Senior independent director – Tritax Big Box REIT plc

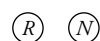


Alice Avis

Non-Executive Director

1 March 2019

Yes



- Experience of marketing, e-commerce, strategy and operational experience across the consumer goods and retail sectors
- Expertise ranges across both large FTSE 100 organisations as well as smaller, entrepreneurial businesses in the UK and internationally and in both executive and non-executive roles

- Non-executive director – BGF ("Business Growth Fund")
- Non-executive director – The Edrington Group Limited
- Non-executive director – Cyden Ltd

- Executive chairman – Lumene Oy
- CEO – The Sanctuary Spa Group
- director of marketing and e-commerce at Marks and Spencer Group Plc
- Global brand director – Johnnie Walker at Diageo PLC



Stuart Beever

Non-Executive Director

1 January 2016

Yes



- 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

Corporate Governance



Mark Pain
Non-Executive Chairman

Our Approach to Corporate Governance

In my role as Chairman I am responsible for leading the Board and ensuring that it maintains the highest standards of corporate governance whilst promoting long-term sustainable success. We have a clear framework in place for the way in which the Board operates to ensure we are working for the benefit of our shareholders, whilst taking into account all our other key stakeholders, in a legal, ethical and transparent manner.

Our approach to corporate governance is based upon the principles and provisions of the UK Corporate Governance Code (the "Code") published by the Financial Reporting Council ("FRC"). The current version of the Code was published in July 2018, for implementation from 1 January 2019.

The Company did not comply with Provision 24 of the Code as the Chairman of Board has been made a member of Audit Committee due to his significant level of experience as a chartered accountant.

The following Corporate Governance Report sets out how the Company has applied the Code during the 2019 financial year.

Board Leadership and Company Purpose The Board

The Board's role is to promote the long-term success of the Company, generating value for shareholders and contributing to its key wider stakeholder groups. The Board leads and provides direction for the Executive Directors, by setting our Company objectives and overseeing the implementation of key operational policies throughout the business. The Executive Directors are responsible for managing our daily business activities and operations.

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

Company Purpose and Culture

The Board defined the Company's purpose (as set out on the inside front cover), ensuring it aligned with the Company's strategic objectives (as set out on [page 10](#)) and the interests of the Company's key stakeholder groups.

The purpose, which is based around providing our customers with safe, inspiring homes where they are able to reach their full potential, helped the Board to define a clear culture and Company values (as defined on [page 3](#) of the Chairman's Statement in the Strategic Report). The Board and Senior Leadership Team have promoted these values throughout the business, ensuring they are implemented throughout our operational processes effectively.

The Board regularly assesses how the purpose and values have been embedded into the Company culture through enquiries of the Senior Leadership Team, review of business performance and engagement with our people. Any recommended changes to enhance the culture are reviewed and approved by the Board.

Engagement with Our Key Stakeholders

The new Code expects that the Board understands the views of the Company's key stakeholders and takes account of their interests in discussions and decision-making. In order to be a sustainable business, the Company is committed to being financially secure so our shareholders can rely on us for the long term. The Board's approach to corporate governance is also determined by, and takes account of, the interests of other key stakeholders, including customers, colleagues, and the communities in which we operate, as well as wider society.

As per Provision 5 of the Code, the Board has chosen to engage with our people through a formal workforce advisory panel – the Colleague Forum (as detailed on [page 26](#) of the Strategic Report). Further details of the Board's engagement with the Colleague Forum can be found within the s.172 statement on [page 39](#).

Section 172 Statement

This section serves as our Section 172 Statement as required under The Companies Act 2006 – it describes how the key decisions made by the Board during 2019 have had an impact on their engagement with our key stakeholder groups.

Our key stakeholder groups

The Board believes that the key stakeholder groups that have a significant impact on the key strategic decisions fall in line with those groups that add value or are significantly impacted by our business model (please refer to *pages 8 to 9* for more detail). Each of these groups add value to the way we operate our business and are thus directly impacted by our decisions. Their key interests are important to our strategic decisions and ultimately the successful delivery of our goals.

Over the past two years, the Board have had to make key decisions that have changed the business

significantly in order to restore shareholder returns and realign the strategy with our operations to ensure these returns continue over the longer term. These decisions were paramount to getting the business to where it is today.

The Board's number one priority is always health and safety (both of our customers and our people). As the operational changes have occurred over the past two years, the Board recognises its priorities have also shifted from being more focused on shareholder returns in the short term towards the more environmental and social factors that impact our business and our people. This shift in focus has come with our growth – the Board acknowledges that if our people and customers are happy, then we will be able to generate sustainable returns for our shareholders over the longer term.

The table below outlines our key stakeholder groups for the Board and how their specific interests impact the Board's decisions.

Key Stakeholder Group

Customers

The needs of our customers inspire our brand and provide insightful feedback on how we can improve our service offering to them and better fulfil our purpose.

We have a responsibility to provide our customers with a safe place to live and to care for their wellbeing, which is critical to the Board's strategic decision-making and our review of any operational changes.

People

Our people are vital to the successful delivery of our business performance.

We have a responsibility to provide our people with a safe place to work and to care for their wellbeing.

The tone and culture of our organisation comes alive through the actions of our people.

The Board's engagement with our people enables it to obtain practical ideas for changes to drive the business's performance to achieve the Group's objectives.

Strategic Decisions

Health and Safety

The safety of our customers is paramount and remains a high priority for the Board as part of its strategic review.

As part of the operational transformation of the business, the Board decided to focus on key aspects of health and safety including:

- the skills and training of our people;
- compliance with health and safety regulations;
- ways through which we can enhance our H&S processes throughout the business;
- the outcomes of the Hackitt Review and the Group's approach to fire safety. See *page 20* for more detail.

Customer Experience

As part of the operational transformation during 2019, the Board concluded that an overhaul of the marketing and customer experience functions was required in order to ensure we were delivering the best service for our customers and fulfilling our purpose and business strategy successfully.

The Board reviewed various operational processes in place throughout the business, to ensure they are enhancing the quality of our service provided throughout our properties.

There had been significant focus on shareholders in the eighteen months prior to the start of 2019. The Board recognised the importance of our people and the impact the wide ranging changes to the operational processes that were introduced to rebuild the business performance and trust from our shareholders.

To address this, along with the focus on driving efficient processes throughout the business, the Board made some key decisions that would impact the way our people work and the environment we create for them to work in. These decisions included:

- bringing the HR function in-house;
- clearly defining the vision and culture of the business;
- introducing the colleague engagement survey;
- supporting the establishment of a Colleague Forum (see *page 26* of the CSR section);
- approval of the robust action plan implemented by the Senior Leadership Team in response to the colleague survey results; and
- implementing a new pay and rewards policy, including the definition of a clear pay structure and consistent rewards and benefits for all role types within the Group.

Impact on Board's Engagement

Health and Safety

Our training and development programmes are currently being updated to introduce enhanced H&S training to the entire operations team.

All Executive Directors, along with one Non-Executive Director and two Senior Leadership Team members, received detailed and accredited H&S training during 2019.

The Board continues to review regularly the H&S policy and compliance levels across the Group to determine where more specific arrangements need to be made.

Customer Experience

The Board reviews the results of the customer surveys carried out during the year to identify areas where we provide the best service, as well as areas where we can improve our services. During 2019, this review enabled the Board and the business to implement a single internet service provider throughout all properties.

Colleague Forum

The Board has nominated one of its Non-Executives, Alice Avis, to be a direct contact for the Colleague Forum, thus providing the opportunity for the Colleague Forum and Board to consider new ideas independently from the Senior Leadership Team and therefore enhance communication throughout the Group.

Through engagement with the Colleague Forum, the Board gained a better understanding of the key challenges our people face (for example, the summer turnaround period) and how our people would like to change processes to improve overall operational efficiencies across the Group.

The Board's engagement with the Colleague Forum has also enhanced its understanding of the key challenges that our people face and the changes they would like to make their working life better. Key examples during 2019 include:

- summer turnaround – this was flagged to be one of the key challenges faced by our operational teams. The Board obtained feedback from the Colleague Forum on specific processes, and assisted the Senior Leadership Team in coming up with ideas on how we can plan for the summer turnaround period; and
- updates on key actions implemented by the Senior Leadership Team in response to the colleague engagement survey, and how the workforce are taking to these.

Corporate Governance continued

Key Stakeholder Group

Communities

Our communities help us to fulfil our purpose of enhancing the university experience for our customers.

The Board aims to understand the local markets in which we operate and the key issues we face which assists its decision-making around new opportunities through which we can contribute to our local communities.

Communities & Environment

Our communities help us to fulfil our purpose of enhancing the university experience for our customers.

The Board aims to understand the local markets in which we operate and the key issues we face which assists its decision-making around new opportunities through which we can contribute to our local communities.

We also have a duty to operate our business in an efficient way, giving specific regard to the impact of our operations on the environment and utilising methods throughout our properties (both development and operational sites) that mitigate the risk of environmental damage.

Strategic Decisions

Supporting Local Communities

Prior to new developments, the Board reviews the proposals and their likely impact on local communities, ensuring the plans support the growth of the communities in which we operate.

Student Accommodation Committee

In 2019, Lynne Fennah (CFO/COO) joined the Student Accommodation Committee of the British Property Federation. This Committee acts as a lobbying group, and focuses on key issues impacting the student accommodation market including such topics as:

- the potential impact of Brexit and government policy on the international student market;
- promotion of the PBSA sector in the UK; and
- engagement with local authorities to refine council tax obligations.

Supporting Local Communities

Prior to undertaking new developments, the Board reviews the proposals and their likely impact on local communities, ensuring the plans support the growth of the communities in which we operate.

During 2019, this review by the Board was specifically for our two most recent developments – Edinburgh King's Stables Road and Falmouth Ocean View. The Board identified how we would support the local markets, for example, through the creation of 11 new jobs.

Environmental Impact

During 2019, the Board has started to drive the focus on the impact that our operations have on the environment – both through our development properties, as well as driving energy efficiency through our operational properties.

Whilst this has not been a priority focus for the Board during 2019, we are keen to ensure it is embedded throughout our working practices effectively over the next few years.

Methods to enhance energy efficiency are constantly changing and the Board supports the use of the best possible practices throughout the portfolio.

Impact on Board's Engagement

- Update on the new HR policies implemented throughout 2019, specifically addressing how our people are responding to these and what they would like to see more of.

Colleague Survey

The Board has reviewed the results from the employee engagement survey that was carried out in May 2019, as well as the shorter pulse survey undertaken in November 2019. The Board uses the results to understand the key improvements our people would implement to enhance our culture and make our Group 'a great place to work'.

The engagement scores also form part of the balanced scorecard, which is reviewed by the Board and is used as a key performance indicator for the Senior Leadership Team and Executive Directors and is reflected in their reward framework.

Site Visits and Roadshows

The Executive Directors, along with the Senior Leadership Team, conducted a roadshow across the UK in November 2019, the aim of which was to present to our people the Group's vision, values and purpose, as well as the changes planned in the business.

This provided an opportunity for the Executive Directors to meet the operational teams on a more personal level. They obtained direct feedback on potential improvements to consider in business plans and communicated the Group's vision, values and purpose to the operational teams.

The Board also visited our properties in Cardiff during 2019. They met members of the operational team. It also allowed the Board to see how sites are managed on a day-to-day basis and understand the properties we manage in more detail.

Student Accommodation Committee

In 2019, Lynne Fennah (CFO/COO) joined the Student Accommodation Committee of the British Property Federation. This Committee acts as a lobbying group, and focuses on key issues impacting the student accommodation market including such topics as:

- the potential impact of Brexit and government policy on the international student market;
- promotion of the PBSA sector in the UK; and
- engagement with local authorities to refine council tax obligations.

Environmental Impact

The Board has started to review key elements of our environmental impact including:

- energy usage throughout the portfolio and how we can drive energy efficiency through the use of renewable sources;
- recycling across the portfolio and within our operational processes; and
- charities to support during key times of the year when waste levels are expected to be higher (such as summer turnaround).

*Key Stakeholder Group***Shareholders**

Our shareholders are key stakeholders in our business.

The Board has a responsibility and desire to communicate key matters relating to the Group openly and honestly to our shareholders.

The Group also has a wider responsibility to shareholders to enhance the value of the business and fulfil its purpose ethically.

Strategic Decisions

The Board's key priority towards our shareholders has been to restore their trust in our business and generate higher returns on their investment.

The key decisions made by Board during 2019 that support this focus for shareholders included:

- ensuring all communications with shareholders was transparent;
- reviewing the environmental, social and corporate governance factors within our business to ensure our strategy is sustainable over the long-term and meets the requirements for our ethical investors;
- ensuring the Remuneration Committee was more engaged with changes to the Remuneration Policy, as well as decisions made on the new pay and rewards policy;
- implementing operational changes that would enhance the financial returns for our investors. This included a focus on revenue generation through review of our sales strategy, as well as cost reduction through in-housing and taking control within the business;
- approving the Chapter listing move of the Company from an investment company to a commercial company in June 2019 – the Board recognises that this decision has allowed both cost savings and the new listing to better align with the Company's operations;
- reviewing the overall people strategy to ensure that all objectives within the business aligned with our strategy and that everyone is committed to achieving our goals and thus generating higher returns over the longer term.

Impact on Board's Engagement

These are our most significant outputs for informing shareholders about our progress.

Investor Meetings

We meet with major shareholders following the release of the interim and full year results. We also invite shareholders and analysts to our results presentations. We aim to use these meetings to obtain feedback from our shareholders on our business performance and respond to their queries in a timely manner.

The Chairman had direct dialogue with several shareholders during the year and is always available.

The Chairman of the Remuneration Committee has also written to our larger shareholders as part of the implementation of the new Remuneration Policy. See *page 52*.

News Announcements

We provide regular updates to shareholders on our progress throughout the year. We release any price sensitive information to all shareholders at the same time, in accordance with regulations.

Our Website

Our website is updated on a timely basis to provide shareholders with information on our business performance and property portfolio. It also provides them with access to current and archived documents, including our financial reports, trading updates and webcasts from the most recent results presentations.

Managing conflicts

The Board has a commitment to consider the interests of all key stakeholders to the business, ensuring it manages any conflicts effectively.

As discussed above, the key focus for the Board over the past couple of years has been on the interests of our shareholders. The Board, and senior management, have implemented various changes that have transformed the business to not only restore shareholder returns, but also place the business in a position where it is now able to grow sustainably and achieve our purpose.

With this transformation, the Board now has a more balanced view of all key stakeholder groups – the key ones now being our people and our customers. We understand that if our people are happy, and our customer service and product offering are of the best quality, then shareholder returns will rise as a natural result of better business performance.

As the business develops and grows, the Board understands that the interests of the key stakeholder groups will change.

However, we will aim to regularly engage with the key stakeholder groups, ensuring they prioritise the interests of these groups in line with the business strategy.

Whilst significant progress has been made from engagement with our key stakeholders in 2019, the Board acknowledges that work remains to be done by the Group to respond to the feedback received and successfully to enhance the operational performance of the business. The Board will continue to prioritise the interests of our key stakeholders in their decision-making process, ensuring that all changes support the strategy and generate returns over the longer term.

The revised Code reflects the significant interest which has been shown in the need for effective corporate governance and is just one of several developments in legislation, regulation and guidance over the past year. We are committed to ensuring we have the highest standards of corporate governance and during 2020 will continue to monitor all future developments, implementing changes to enhance our existing good practice if required.

Division of Responsibilities

Board Division

At the year end, the Board consisted of two Executive Directors and four Non-Executive Directors, including the Chairman. Changes to the Board membership during the year are discussed in the Chairman's Statement on *page 2* of the Strategic Report. Biographical information on each of the Directors is set out on *pages 36 and 37*.

Board Roles

There is a clear division of responsibilities 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 as follows:

| Board member | Primary responsibilities include: |
|--|--|
| Chairman – <i>Mark Pain</i> | <ul style="list-style-type: none"> – Leading the Board and ensuring its effectiveness; – Reviewing the Company's general progress and long-term development; and – Ensuring the Company is meeting its responsibilities to all stakeholders. |
| CEO – <i>Tim Attlee</i> | <ul style="list-style-type: none"> – Directing and promoting the Company's profitable operation and development; – Leading the property investment function; and – Ensuring the objectives are in line with operational activities and create shareholder value over the long term. |
| CFO & COO – <i>Lynne Fennah</i> | <ul style="list-style-type: none"> – 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 – <i>Jim Prower</i> | <ul style="list-style-type: none"> – Acting as a sounding board for the Chairman and intermediary for the other Directors; and – Being available to shareholders to raise their concerns if they cannot be resolved through other channels. |
| Non-Executive Directors – <i>Alice Avis,</i> <i>Stuart Beevor</i> | <ul style="list-style-type: none"> – Providing constructive challenge; – Overseeing the Senior Leadership Team's progress on implementing strategy and meeting objectives; and – Monitoring the reporting of performance. |

Director Independence

The Board reviews the independence of the Chairman and Non-Executive Directors on an annual basis. For the financial year ending 31 December 2019, all of the Non-Executive Directors, including the Chairman, are considered to be independent for the purposes of the Code.

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 have access to the advice and services of FIM Capital Limited, which acts as our Company Secretary.

Board and Committee Meetings

The Board holds regular formal, scheduled meetings and additional meetings as required. The agenda for each meeting is typically set by the Chairman, with assistance from the Executive Directors. This agenda, along with the Board papers are sent to all Directors three working days before the meetings. Any decisions and actions arising from the meetings are implemented by the Executive Directors and monitored by the Company Secretary.

During the year, there were 12 Board meetings, including three ad hoc meetings. The table below shows the Directors' attendance at Board and Committee meetings in 2019. The figures in brackets show the number of meetings each Director was eligible to attend:

| | Regular Board | Ad Hoc |
|--|---------------|-------------------|
| Mark Pain | 9 (9) | 1(3) ¹ |
| Tim Attlee | 9 (9) | 2(3) ² |
| Lynne Fennah | 9 (9) | 3(3) |
| Jim Prower | 9 (9) | 1(3) ¹ |
| Stephen Alston (Resigned 28 March 2019) | 3 (3) | N/A |
| Stuart Beevor | 9 (9) | 1(3) ¹ |
| Alice Avis (Appointed 1 March 2019) | 7 (7) | 1(3) ¹ |

1. Tim Attlee and Lynne Fennah held two ad hoc Board meetings to ratify and approve documentation for the Board-approved debt refinancing.
2. Tim Attlee did not attend one meeting due to the subject being his LTIP exercise.

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

The Non-Executive Directors also meet once without the Chairman to appraise his performance. This process is led by Jim Prower as the Senior Independent Director and considers the views of the Executive Directors.

Corporate Governance continued

Board Agenda and Board Papers

The formal agenda for regular Board meetings includes:

- health and safety;
- a review of the performance of our investments;
- an assessment of our progress with new investment opportunities (the detailed proposals are prepared by the Executive Directors and reviewed and approved by the Board, as appropriate);
- a review of our strategy;
- a review of our financial performance and forecasts;
- an update on the student accommodation sector;
- an update on investor relations and shareholder analysis;
- updates on regulatory, compliance or governance matters advised by the Company Secretary or other advisers; and
- a report on public relations and press commentary.

These agenda items are also included within a comprehensive set of Board papers ahead of each Board meeting.

Composition, Succession and Evaluation**Board Composition**

The Board has a combination of property, operational, financial and marketing skills and a variety of knowledge and experience for the Board to scrutinise business performance and propose changes accordingly.

Each Board member's length of service is reviewed on an annual basis and membership refreshed in line with the Code.

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. No appointments are proposed for election to the Board at the AGM on 7 May 2020.

All appointments to the Board are subject to a formal, rigorous and transparent process. Further details can be found on *page 47*.

Board Re-election

In line with leading practice, each Director will submit themselves annually for re-election at the AGM. Mark Pain, Tim Attlee, Lynne Fennah, Jim Prower, Stuart Beevor and Alice Avis will therefore stand for re-election at the AGM on 7 May 2020. The formal performance evaluation carried out in December 2019 confirmed that the performance of each of the Directors continues to be effective and that they demonstrate commitment to their roles.

Board Performance and Evaluation

In December 2019, the Chairman led an internal evaluation of the effectiveness of the Board and its Committees.

The key topics covered in the evaluation included:

- Board composition including the mix of skills, experience, knowledge and diversity;
- succession planning for the Board and the Senior Leadership Team;
- roles and responsibilities of the Board as a whole, and each of the Committees;
- Board discussions, including risk management and stakeholder engagement, and a review of the decisions arising from these discussions;
- conduct of Board meetings and access to information by the Board;
- induction for new Board members, and training and support available to all Board members;
- Chairman's performance; and
- effectiveness of all Committees.

The results of the evaluation were reviewed by the Chairman and reported to the Board in the January 2020 meeting.

The key findings and proposed plans to address these include:

- The Board needs to spend time developing a more comprehensive succession plan for both Executive and Non-Executive Directors while remaining mindful of continuing to deliver an effective and dynamic Board. A detailed succession planning exercise will be completed in 2020.
- The Audit and Risk Committee needs to increase its focus on embedding a fully functioning risk management framework and more fully documenting and evaluating the effectiveness of this internal control framework. These topics will be progressed at the Audit and Risk Committee in 2020.

Update on Actions Arising from the 2018 Board Evaluation

In December 2018, the Chairman conducted an internal evaluation of the effectiveness of the Board and its Committees. The table below outlines the improvement areas identified in this evaluation, and the progress made on these during 2019.

Key finding

Ensure that the Board benefited from a more diverse range of skills and capabilities.

Actions taken

The skills and experience of the Board are regularly reviewed by the Nomination Committee. Any gaps are highlighted to the Board with proposed actions for training or criteria of skills to look for in new Board members.

The appointment of Alice Avis from 1 March 2019 allowed the Board to fill the gap around marketing expertise, including digital marketing and branding. This tied in with the Company's transformation to becoming a fully operational business.

Continue to improve succession planning at senior executive and Board level.

At the start of 2019, the Board approved the placement of the Senior Leadership Team – a team of senior management with champions from each operational area of the business including Property, Finance, Human Resources, Facilities Management and Operations. Succession planning for both the Board and the Senior Leadership Team is reviewed on a regular basis by the Nomination Committee (please refer to *page 47* for more details).

Ensure that the Board and its Committees have sufficient induction and training made available to them.

The Board receives regular updates on regulatory, governance, compliance and property valuation matters from the external auditors and external valuers.

Each new Board member also completes a thorough induction training programme which includes an introductory meeting with the Company's professional advisers, Senior Leadership Team and all Board members, as well as visiting some of the key properties within the Group's portfolio. Please refer to *page 47* for more information on the induction training completed by the newly appointed Non-Executive Director, Alice Avis, in 2019.

Develop a more holistic approach to engaging with colleagues and other stakeholders.

A formal workforce advisory panel, the Colleague Forum, was set up in 2019 to discuss key workforce matters and communicate recommendations and issues to the Board. Alice Avis has also been appointed as the direct Board contact for the Colleague Forum, should they wish to discuss anything with the Board, outside of the Senior Leadership Team.

Please refer to the s.172 statement on *page 39* for detailed information on how the Board engages with the Company's key stakeholder groups.

Define, develop and oversee a more effective culture.

The Board defined the purpose and key values of our business in 2019. Please refer to *page 3* of the Strategic Report for more information.

The Board regularly reviews how the culture has been embedded into the business and approves any proposed changes from the Senior Leadership Team.

Develop a more balanced dialogue around medium and long-term strategy.

The Board attended a strategy day in November 2019. This included a review on the progress made with the Company's strategic objectives, and an update on changes for the medium to long-term strategy.

Corporate Governance continued

Audit, Risk and Internal Control***Internal Controls and Risk Management***

The Board is responsible for maintaining the Company's systems of internal controls and risk management, in order to safeguard the Company's assets. These processes are designed to identify, manage and mitigate both the key principal risks and emerging risks inherent to the 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. Please refer to *pages 32 to 35* for more information on our principal risks and uncertainties.

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 (for both principal and emerging risks) on an annual basis.

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

The Board does not currently consider that a full-time internal audit function is required. Please refer to *page 49* of the Audit Committee Report 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* including the debt due for repayment within 12 months and the actions taken.

As such, 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.

Compliance Statements

The Directors confirm that to the best of our knowledge:

- the Group 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 the previous paragraph 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 2022. Further details are set out in the Viability Statement on *page 33*, and in the Principal Risks and Uncertainties section on *pages 32 to 35*;
- the Company has a continuing process for identifying, evaluating and managing the risks it faces. Further details are set out on *page 33*.
- 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 32 to 35*; and
- the Annual Report and Accounts, taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. See *page 67* for more information.

Approval of the Strategic Report

The Strategic Report for the year ended 31 December 2019 has been approved by the Board and was signed off on its behalf by:

Tim Attlee

Chief Executive Officer
17 March 2020

Nomination Committee Report



Mark Pain
Nomination Committee
Chairman

During the year, the Committee oversaw the appointment of a Non-Executive Director, and oversaw a review of succession planning across the Group.

Committee Membership and Meetings

| | Meetings |
|---|-------------------|
| Mark Pain (Chairman) | 1(1) |
| Tim Attlee | 1(1) ¹ |
| Jim Prower | 0(0) ² |
| Stephen Alston (Resigned 28 March 2019) | 1(1) |
| Stuart Beevor | 0(0) ² |
| Alice Avis (Appointed 1 March 2019) | 0(0) ² |

1. Resigned from the Nomination Committee on 10 December 2019.
2. Appointed to the Nomination Committee on 10 December 2019.

Meetings and Activities

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

- the appointment of Alice Avis as Non-Executive Director;
- succession planning for the Board; and
- the mix of skills and experience required on the Board against the current makeup of the Board.

Appointment of a Non-Executive Director

Following the review of the outputs from the Board performance review (see [page 45](#)), specifically, the fact that the Group was transforming from a property company to an integrated operating and property business, the Board determined that it would benefit from a more diverse range of skills and capabilities available to it, specifically, digital, branding, marketing and operational expertise.

The Board put together a detailed role specification. The process was led by the Chairman. An external recruitment firm, Lygon Group, was appointed. Lygon Group has no connection with the Group, other than providing this type of service.

Having conducted a market-wide search, a long list was generated, following review by the Chairman, and a total of six candidates were initially interviewed. A short list of three candidates was taken through for final assessment which included interviews with all Board members. The Board unanimously agreed to the appointment of Alice Avis, who was appointed with effect from 1 March 2019.

Alice completed a thorough induction process which included meeting all of the Company's professional advisers, the Senior Leadership Team, and Board members. In addition, Alice spent time visiting several of the Group's properties. Alice has specifically focused on sales and

marketing functions and has provided invaluable support to the improvement of these functions across the Group.

Details of her principal external appointments and significant previous external experience can be found on [page 37](#).

Succession Planning

The Committee is responsible for reviewing the succession plans for the Board. The succession plans for the Executive Directors are prepared on a short and long-term basis, while the Non-Executive Directors succession planning mirrors the breadth of skills and experience the current Board holds.

Due to the importance of the succession planning to the business, the matter was discussed at a full Board meeting in December 2019, with further actions to be implemented.

The Committee will continue to review this in 2020.

Independence and Re-election

All Directors are subject to annual re-election at the AGM, and the Board will recommend reappointment as part of the AGM notice. Prior to recommending the reappointment of any Director to the Board, the Committee assesses their continued independence, the time commitment required and whether the reappointment would be in the best interests of the Group. Following the review, the Committee is recommending the reappointment of all Directors.

Biographies for each Director can be found on [pages 36 to 37](#).

Board Diversity

The Committee, Board and Group recognise the benefits of diversity in its broadest sense, including gender, ethnicity, age and educational and professional background. Diversity is key, both when searching for Board appointments and when the Group is searching for other appointments. However, we do not believe it is in the interests of the Group and its shareholders to set prescriptive targets for diversity on the Board. Where vacancies arise, we 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. At the year end, 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 the Group as a whole can be found on [page 24](#).

Mark Pain
Nomination Committee Chairman | 17 March 2020

Audit Committee Report



Jim Prower
Audit Committee Chairman

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

Committee Membership and Meetings

| | Meetings |
|---|-------------------|
| Jim Prower (Chairman) | 3(3) |
| Mark Pain | 3(3) ¹ |
| Stuart Beevor | 3(3) |
| Tim Attlee | 3(3) ² |
| Lynne Fennah | 3(3) ² |
| Stephen Alston (Resigned 28 March 2019) | 1(1) |

1. Appointed to the Audit Committee on 29 March 2019. Attended one meeting before appointment at the Committee's invitation.
2. Attended at the Committee's invitation.

Role and Responsibilities of the Audit Committee

- Monitoring the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance, and reviewing significant financial reporting judgements contained in them;
- Providing advice (where requested by the Board) on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and providing the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- Reviewing the Company's internal financial controls and internal control and risk management systems;
- Monitoring and reviewing whether there is a need for an internal function and making a recommendation to the Board;
- Reviewing and monitoring the external auditor's independence and objectivity and approving their fee;
- Reviewing the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements;
- Developing and implementing policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the Board on any improvement or action required; and
- Reporting to the Board on how it has discharged its responsibilities.

The Audit Committee's terms of reference are on Empiric's website at: <https://www.empiric.co.uk/investor-information/company-documents>.

Meetings and Activities

The Audit Committee met three times during the year, coinciding with key events in the annual financial reporting cycle. All the Committee members attended these meetings, as well as the CEO, the Chief Financial and Operating Officer and representatives of our external auditor BDO LLP ("BDO"), our external valuer CBRE and the Company Secretary, FIM Capital Limited. The Audit Committee also met with the auditor without any of the Executive Team present.

During the year, our work included:

- reviewing the financial statements for the year ended 31 December 2018 and the interim report for the six months ended 30 June 2019, 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;
- reviewing the forecasts and sensitivity analyses underlying the Group's Viability Statement; and
- reviewing and approving the external auditor's terms of engagement, remuneration and tenure of appointment.

External Auditor and Other Services

BDO has been our auditor since 2014 and during the 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 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.

Richard Levy, the lead audit partner since 2014, was due for rotation following the 2018 year-end audit. Thomas Edward Goodworth, who shadowed Richard Levy during the 2018 year-end audit has taken over the position as lead audit partner.

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 December 2019). 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, outside of the interim report.

KPMG LLP continues to support us as provider of tax compliance and advisory services to the Group.

Internal Audit

The Audit Committee has reviewed whether the Group needs an internal audit function. The Committee has again concluded that an internal audit function is unnecessary due to the Group's size and structure and the nature of its activities. 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.

The Audit Committee reviews the effectiveness of the internal controls through receiving reports by the Group Financial Controller on the internal controls in place within the Group. No significant weaknesses were identified through the course of the Audit Committee's reviews which gave the Committee comfort over the veracity of the controls in place.

The Audit Committee reviewed whether an internal audit function would therefore improve our risk environment and concluded at this stage that it would not. However, the Audit Committee will continue to consider the need for this function regularly and make suitable recommendations to the Board. The external auditor BDO does not place any reliance on the internal controls work completed by the Group Financial Controller.

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. During the year we have reviewed and updated our whistleblowing policy and ensured it has been widely published throughout the Group. 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 *page 65*.

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.

The Audit Committee considered the following matters in respect of the Group's financial statements, based upon its interaction with management and the external auditor during the year.

Investment Property Valuations

Investment property comprises the majority of the Group's balance sheet. As at 31 December 2019, the Group had property assets of £1,029 million, as detailed on *page 73* in the Group Statement of Financial Position.

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 and challenged them with management and our external valuer CBRE, and concluded that the valuation is appropriate.

Separately, our auditor has met with CBRE to challenge and independently audit their valuation.

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 2019, 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 67*.



Jim Prower

Audit Committee Chairman | 17 March 2020

Statement from the Chairman of the Remuneration Committee



Stuart Beevor
Remuneration Committee
Chairman

The Company remained focused in 2019 on its transition to becoming an owner and in-house operator of premium student accommodation. 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

| | Meetings |
|---|--------------------|
| Mark Pain | 5 (5) |
| Jim Prower | 5 (5) |
| Stephen Alston (Resigned 29 March 2019) | 1 (1) ¹ |
| Stuart Beevor | 5 (5) |
| Alice Avis (Appointed 1 March 2019) | 4 (4) |

1. Attended at the Committee's invitation.

Activities

- Consideration of new Remuneration Policy
- Reward decisions
- Gender pay
- CEO pay ratio and internal proportionality
- Strategic and shareholder alignment

Consideration of New Remuneration Policy

The current Remuneration Policy applies for the period 2017–19 and was extended, with shareholder approval, by five months at last year's AGM until May 2020. During 2019, the Committee has reviewed the Policy in light of the Company's strategic priorities, market developments and governance developments including the revised UK Corporate Governance Code. We then consulted with major shareholders in autumn 2019 and are recommending a new policy for the period 2020–22 for shareholder approval at the 2020 AGM.

Our original intention was for a further award to the CEO under the Value Delivery Plan ("VDP") for the period 2021–24. However, following the aforementioned review, the Committee concluded that it would be more appropriate to simplify our remuneration structure by removing the VDP from our new Policy. Future long-term incentive awards will therefore be solely under the Long-Term Incentive Plan (LTIP). In coming to its decision, the Committee took into particular consideration the substantial vote against the VDP in 2016 by more than 40% of shareholders.

Our current Policy is already compliant with key remuneration requirements of the revised UK Corporate Governance Code including discretion for Committee override of formulaic outcomes from incentive plans, a minimum five-year release period for LTIP awards, alignment of pension provision for new Executive Directors with the rate available to the majority of the workforce and a post-employment shareholding requirement. All of these features remain integral elements of the new Policy.

Reward Decisions

Executive salaries were reviewed effective from 1 January 2020 and increased by 2%. Bonus objectives for 2019 continued to be aligned to materially improving operating margin (one third), dividend cover (one third) and specific individual executive objectives (one third). As a result of the outturn against objectives set, the Committee determined that the overall bonus payout should be 42.2% of maximum for Tim Attlee and 49.2% of maximum for Lynne Fennah. Full details are on [page 60-61](#). The bonus plan arrangements for 2020 follow the same structure and components as 2019.

Lynne Fennah was granted LTIP awards in April 2019 over shares worth in aggregate 150% of her 2019 salary. Both Executive Directors will receive a similar award in 2020. As there will be a one-year overlap between the performance periods of the CEO's 2017 VDP award and his 2020 LTIP award, the Committee has determined that any value delivered to the CEO under his 2017 VDP award should be netted off the vested value (if any) of his 2020 LTIP award. All LTIP awards are subject to Total Return (NAV plus dividends) performance targets.

Gender Pay

The Group believes in creating a diverse and gender balanced workforce which reflects the customers and communities we serve and we provide training and support that ensures our colleagues can deliver their best at work. This year represents the first time we are required to report upon the gender pay gap within our subsidiary, Hello Student® Management Limited. Our analysis based on data available on 5 April 2019 shows that the mean gender pay gap is at 1.65% (with males paid marginally more than females) whereas the mean gender bonus gap is -15.59% (females paid higher bonuses than males). This reflects a greater proportion of females than males who were in roles eligible for and subsequently awarded a bonus payment. We are committed to further minimising any gender pay and bonus gaps, to providing fair and competitive pay and benefits as well as continuously improving the experience of all colleagues in respect of equality, diversity and inclusion. Full details with a supporting narrative is published on Hello Student® website, www.hellostudent.co.uk, in accordance with the reporting required under the UK Equality Act 2010 (Gender Pay Gap Information) Regulations Act 2017.

CEO Pay Ratio and Internal Proportionality

We seek to be transparent regarding our Executive Directors' pay and under the new requirements introduced by The Companies (Miscellaneous Reporting) Regulations 2018 we have calculated the CEO to employee pay ratio for the Group.

Using the methodology, the CEO pay ratio when compared against the median employee is 31:1; full details are set out on [page 63](#). The Remuneration Committee believes in reward packages that are externally competitive and internally proportionate, meaning the CEO is the employee with the highest proportion of variable pay as he has the highest level of responsibility.

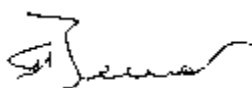
Strategic and Shareholder Alignment

In setting executive remuneration in 2020, the Committee has continued to seek alignment with Empiric's strategic priorities and shareholder interests. In particular:

- annual bonus performance measures continue to be focused on objectives critical to delivering the improvement in corporate performance (achieving dividend cover and creating an efficient operating model) and individual executive-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; and
- the Directors are required to build up and retain significant holdings of Empiric shares which directly align them with other shareholders.

Full details of how the Remuneration Policy will be applied during 2020, as well as how Directors were paid in 2019, are set out on [pages 59 to 64](#). There will be an advisory shareholder vote on this section of the Remuneration Report at our 2020 AGM.

As always, 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 | 17 March 2020

Remuneration Committee Report

The Remuneration Policy as set out below will be subject to shareholder approval at the 2020 AGM.

Summary of Policy Report

The current Remuneration Policy came into operation in 2017 for the period January 2017 to December 2019 and was subsequently extended, with revisions, to May 2020 at the 2019 AGM. The Remuneration Committee has recently reviewed the Policy in light of our strategic priorities, market developments and governance developments including the revised UK Corporate Governance Code (the "Code").

Following that review, we consulted with our largest shareholders with our proposals. Following strong support from those consulted, we will seek approval to the new Policy at the 2020 AGM, that will apply for the three-year period following the AGM.

The new Policy is set out below. Whilst broadly unchanged from the current Policy, there are two particular elements to identify.

1) Removal of the Value Delivery Plan ("VDP") from the New Policy

Under the current Policy, Executive Directors have received awards under two separate long-term incentive plans:

- VDP – Two Directors, including Tim Attlee the current CEO, received a one-off award in 2017 linked to shareholder value generated over the four-year performance period 2017–20. Tim is now the only remaining participant in the VDP.
- LTIP – In common with standard market practice Lynne Fennah, the current CFO/COO, has received annual LTIP awards in 2017, 2018 and 2019, each of which is subject to performance measured over a three-year period.

Our original intention was that there would be a further award to the CEO under the VDP for the period 2021–24. However, following the aforementioned review, the Committee has concluded that it would be more appropriate to simplify our remuneration structure by removing the VDP from our new Policy. In coming to its decision, the Committee took into particular consideration the substantial vote against the VDP in 2016 by more than 40% of shareholders.

In the proposed new Policy, the CEO will instead receive annual awards under the LTIP plan starting from 2020. As there will be a one-year overlap between the performance periods of the 2017 VDP award and his proposed 2020 LTIP award, the Committee has determined that any value delivered to the CEO under the 2017 VDP award should be netted off the vested value (if any) of his proposed 2020 LTIP award.

2) Compliance with the Revised Code in the New Policy

Our current Policy is already compliant with key remuneration requirements of the revised Code including discretion for Committee override of formulaic outcomes from incentive plans, a minimum five-year release period for LTIP awards, alignment of pension provision for new Executive Directors with the rate available to the majority of the workforce and a post-employment shareholding requirement. These features all remain integral elements of the proposed new Policy.

Policy Table for Executive Directors

Fixed Pay

| Component | Purpose and link to strategy | Operation | Maximum | Performance framework |
|--------------------|--|---|--|-----------------------|
| 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. | <p>Fixed cash paid monthly generally reviewed annually.</p> <p>The review takes into consideration a number of factors, including but not limited to:</p> <ul style="list-style-type: none"> – 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. | <p>To avoid setting the expectations of Executive Directors and other employees, there is no overall maximum salary for Executive Directors under the Remuneration Policy.</p> <p>Any increase in salaries will be determined by the Remuneration Committee, taking into account the factors stated in this table and the following principles:</p> <ul style="list-style-type: none"> – 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: <ul style="list-style-type: none"> – 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. |

| <i>Component</i> | <i>Purpose and link to strategy</i> | <i>Operation</i> | <i>Maximum</i> | <i>Performance framework</i> |
|------------------|--|--|---|------------------------------|
| 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. |
| 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

| <i>Component</i> | <i>Purpose and link to strategy</i> | <i>Operation</i> | <i>Maximum</i> | <i>Performance framework</i> |
|---|---|--|--|---|
| 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, strategic and personal performance measures. The selected measures for the next financial year will be set out in the Remuneration section of the Annual Report for that year. |

Remuneration Committee Report continued

| <i>Component</i> | <i>Purpose and link to strategy</i> | <i>Operation</i> | <i>Maximum</i> | <i>Performance framework</i> |
|------------------|---|--|--|---|
| 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. | <p>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.</p> <p>Vesting of the award is dependent on the achievement of performance targets, typically measured over a three-year period.</p> <p>Vested awards (relating to awards granted from 2019 onwards) will be subject to an additional two-year holding period.</p> <p>Dividend equivalents will be paid usually in additional shares when the LTIP awards are released.</p> | 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. | <p>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 Remuneration section of the Annual Report for that year.</p> <p>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.</p> <p>Vesting then increases on a sliding scale to 100% for achieving a stretching maximum performance target.</p> |

VDP – Removed from Policy. No further VDP awards will be granted.

| | | | | |
|---|--|---|---|--|
| 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. | <p>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.</p> <p>Options will usually be exercisable between three and ten years following the grant.</p> | 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. | |
| Shareholding guideline | To align interests of executives and shareholders. | <p>The standard guideline is that Executive Directors are expected to build up and retain a shareholding worth at least 200% of salary.</p> <p>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).</p> <p>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).</p> | | |

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 an LTIP award up to five years from the date of their award (or to any VDP 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 and 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 bonus is based on operating, financial and personal performance measures which are aligned with the Company's annual strategic plan.

The LTIP awards 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.

Value Delivery Plan

To the extent the 2017–20 VDP award pays out, if at all, the Remuneration Committee will exercise discretion on a basis consistent with the VDP rules and the above arrangements.

Remuneration Committee Report continued

Non-Executive Director Fees

Purpose and link to strategy

To attract and retain Non-Executive Directors of the required calibre by offering market-competitive fees.

Operation

The Chairman of the Board receives an all-inclusive fee. 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.

Opportunity

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 2020 and the potential split between the different elements of remuneration under three different performance scenarios: "Minimum", "On-target" and "Maximum".

CEO

| | | |
|-------------------------------------|--|--------|
| Minimum | <div><div></div></div> 100% | £0.49m |
| On-target | <div><div></div><div></div><div></div></div> 42% 26% 32% | £1.16m |
| Maximum | <div><div></div><div></div><div></div></div> 28% 36% 36% | £1.71m |
| Maximum with 50% share price growth | <div><div></div><div></div><div></div></div> 22% 39% 39% | £2.33m |

■ Fixed elements ■ Annual variable elements □ Long-term variable elements

CFO and COO

| | | |
|-------------------------------------|--|--------|
| Minimum | <div><div></div></div> 100% | £0.37m |
| On-target | <div><div></div><div></div><div></div></div> 42% 26% 32% | £0.90m |
| Maximum | <div><div></div><div></div><div></div></div> 28% 36% 36% | £1.32m |
| Maximum with 50% share price growth | <div><div></div><div></div><div></div></div> 20% 40% 40% | £1.80m |

■ Fixed elements ■ Annual variable elements □ Long-term variable elements

On target and maximum for illustrative purposes includes the Annual and Deferred Bonus at 110% and 150% of salary respectively.

Component

| | | Minimum | On-target | Maximum |
|---------------------------|----------------------------|---|----------------------------|-----------------------------|
| Fixed | Base salary | Annual base salary with effect from 1 January 2020 | | |
| | Pension | 15% of base salary | | |
| | Benefits | Annualised taxable value of annual benefits with effect from 1 January 2020 | | |
| Annual and Deferred Bonus | Maximum Policy opportunity | 150% of salary for CEO and CFO/COO ¹ | | |
| | Assumed payout | Zero | 50% of maximum opportunity | 100% of maximum opportunity |
| LTIP ² | Maximum Policy opportunity | 150% of salary for CEO and CFO/COO | | |
| | Assumed payout | Zero | 60% of award | 100% of award |

1 2020 Bonus Maximum has been set at 110%.

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 a maximum LTIP award of 150% of base salary 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.

| <i>Provision</i> | <i>Policy</i> |
|------------------------|---|
| 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 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:

| <i>Plan</i> | <i>Automatic Good Leaver categories</i> | <i>Treatment for Good Leavers</i> | <i>Treatment for all other reasons for leaving</i> |
|------------------------------|--|--|--|
| 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 and/or pay the bonus entirely in cash. 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. |

Consideration of Employment Conditions Elsewhere in the Group

The Remuneration Committee reviews general levels of 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. The Remuneration Committee does not formally consult with employees as part of its process when determining Executive Director pay.

Consideration of Shareholders' Views

The Remuneration Committee actively consults with major shareholders and takes into account views expressed 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 2020 Annual General Meeting.

Implementation of the Remuneration Policy in 2020

This section provides an overview of how the Committee is proposing to implement the Remuneration Policy during 2020.

Base Salary

As discussed in the Remuneration Committee Chairman's statement, the Executive Directors' salaries were reviewed in January 2020. Tim Attlee was appointed Chief Executive Officer in November 2018 and his salary was increased to £400,000 effective from 1 November 2018. His salary with effect from 1 January 2020 will be increased by 2% to £408,000. 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 salary with effect from 1 January 2020 will be increased by 2% to £316,200. The next effective review will be on 1 January 2021. The prior and current salaries are set out below.

| <i>Executive Director</i> | <i>Prior salary</i> | <i>Current salary</i> |
|---------------------------|--------------------------------|--|
| Tim Attlee | £400,000 fixed 1 November 2018 | £408,000 with effect from 1 January 2020 |
| Lynne Fennah | £310,000 fixed 1 July 2018 | £316,200 with effect from 1 January 2020 |

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 £5,000) 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 2020 and specific performance measures for each objective have been determined. Tim Attlee's specific objectives are to deliver key elements of the 2020 business plan, to optimise the operating platform, to develop and implement a Board-endorsed business plan and vision for future growth, and to develop the workplace culture. Lynne Fennah's specific objectives are to deliver key elements of the 2020 business plan, to optimise specified elements of the operating platform, to develop and implement the sales and marketing plan that contributes to the vision for future growth and to develop the workplace culture.

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

Tim Attlee and Lynne Fennah will be awarded an LTIP for 2020 equivalent to 150% of salary.

The Committee has set a Total Return ("TR") target range for 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. In particular, any value delivered to the CEO under his 2017 VDP award in relation to the 2017–20 performance period will be netted off the vested value of his 2020 LTIP award.

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

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.

Non-Executive Director Remuneration

The unchanged fee structure applying from 1 January 2020 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.

| | <i>Annual fees (£)</i> |
|--|--|
| Base 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 | £115,000 |

Annual Report on Remuneration continued

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 2019 alongside the equivalent data for the previous year.

| | Year ended 31 December 2019 | | | | | | Year ended 31 December 2018 | | | | | | |
|--|-----------------------------|--------------|------------------|--------------------------|-------------|-----------|-----------------------------|--------------|------------------|--------------------------|-------------------------------|-------------|-----------|
| | Salary and fees (£) | Benefits (£) | Annual bonus (£) | Long-term incentives (£) | Pension (£) | Total (£) | Salary and fees (£) | Benefits (£) | Annual bonus (£) | Long-term incentives (£) | Lapsed prior year bonuses (£) | Pension (£) | Total (£) |
| Executive Directors | | | | | | | | | | | | | |
| Tim Attlee | 400,000 | 25,018 | 185,548 | – | 60,000 | 670,566 | 366,667 | 16,516 | 101,317 | – | – | 55,000 | 539,500 |
| Lynne Fennah | 310,000 | 13,561 | 167,670 | – | 46,500 | 537,731 | 267,500 | 13,446 | 133,089 | – | – | 40,125 | 454,160 |
| Michael Enright (Until 14 March 2017) | – | – | – | – | – | – | – | – | – | – | (194,150) ¹ | – | (194,150) |
| Non-Executive Directors | | | | | | | | | | | | | |
| Brenda Dean (Until 29 March 2018) | – | – | – | – | – | – | 28,750 | – | – | – | – | – | 28,750 |
| Mark Pain | 115,000 | – | – | – | – | 115,000 | 38,333 | – | – | – | – | – | 38,333 |
| Jim Prower | 52,500 | – | – | – | – | 52,500 | 52,500 | – | – | – | – | – | 52,500 |
| Stuart Beevor | 48,000 | – | – | – | – | 48,000 | 75,917 | – | – | – | – | – | 75,917 |
| Stephen Alston (Until 29 March 2019) | 10,000 | – | – | – | – | 10,000 | 43,333 | – | – | – | – | – | 43,333 |
| Alice Avis (From 1 March 2019) | 33,333 | – | – | – | – | 33,333 | – | – | – | – | – | – | – |

¹ 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 in the 2018 Annual Report.

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 the CEO receives a 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 Remuneration Committee determined that the performance conditions had not been met and accordingly no vesting occurred.

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 2019 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 2019 was determined by a combination of three performance measures being dividend cover (one third), operating margin (one third) and specific individual objectives (one third).

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 | 33.33% | 80% div cover | 100% div cover | 88.5% div cover | 43% |
| Operating margin | 33.33% | 65% | 72% | 67.1% | 30% |
| Individual specific objectives | | | | | |
| Tim Attlee | 33.34% | See below | | | 54% |
| Lynne Fennah | | | | | 75% |

The Committee is satisfied that the overall bonus results for dividend cover, operating margin and individual specific objectives, measured over the full year, are fair and appropriate.

2019 Bonus Objective Outturn for Annual Report**Tim Attlee**

| Objective | Outturn | |
|--|--|-----|
| Deliver the 2019 business plan | Good progress delivering key financials and Company scorecard whilst noting asset sales have been carried over into 2020 | ✓✓ |
| Fix the operating platform | Good progress made in building the Senior Leadership Team; further recruitment likely as we continue to optimise performance | ✓ |
| Complete a Board-endorsed business plan and Vision for Future Growth | Delivering Our Promise business plan was developed incorporating a newly defined vision | ✓✓ |
| Improve employee engagement | Colleague engagement score increased from 69% to 75% based on a survey response rate increasing from 66% to 74% | ✓✓✓ |

Lynne Fennah

| Objective | Outturn | |
|---|---|-----|
| Build out and test new revenue platform | Project on track for full delivery in 2021 | ✓✓ |
| Complete in-housing of FM and IT | Excellent progress made in 2019 bringing all properties in-house with Facilities Management, HR and IT fully integrated | ✓✓✓ |
| Develop a strategic cost plan | Increased focus on cost control including improved procurement and budget rigour, resulting in 9% reduction in cost per bed | ✓✓ |
| Improve employee engagement | Colleague engagement score increased from 69% to 75% based on a survey response rate increasing from 66% to 74% | ✓✓✓ |

Key: Some progress ✓ Good progress ✓✓ Excellent progress ✓✓✓

The table below sets out the resulting annual bonus awards made in respect of the period ended 31 December 2019.

| | Bonus award percentage of maximum | Bonus paid in cash | Bonus to be awarded in deferred shares ¹ | Total bonus |
|--------------|--------------------------------------|--------------------|--|-------------|
| Tim Attlee | 42.17% | £111,329 | £74,219 | £185,548 |
| Lynne Fennah | 49.17% | £100,602 | £67,068 | £167,670 |

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 2016 was subject to Total Shareholder Return ("TSR") relative to threshold and maximum targets for the period 30 June 2016 to 30 June 2019. 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.

Deferred Bonus Exercise

During the year Tim Attlee exercised the option on two deferred bonus awards below:

| Bonus Period | Vest date | Number of shares issued | Share price on issue (£) | Market value on issue (£) | Dividend equivalent shares | Shares vesting | Exercise date | Share price on exercise (£) | Market value on exercise (£) |
|----------------------|------------|----------------------------|--------------------------------|---------------------------------|----------------------------------|----------------|---------------|-----------------------------------|------------------------------------|
| Year to 30 June 2015 | 09/11/2018 | 103,825 | 1.1025 | 114,467 | 17,008 | 120,833 | 02/10/2019 | 0.938 | 113,341 |
| Year to 30 June 2016 | 29/09/2019 | 129,253 | 1.1625 | 150,257 | 23,132 | 152,385 | 27/11/2019 | 0.959 | 146,137 |

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 is subject to an additional two-year holding period.

The following table provides details of the awards to Lynne Fennah granted on 24 April 2019 in respect of the annual LTIP. There were no other LTIP awards granted in 2019.

| Type of award | Maximum number of shares | Face value £ | Face value % salary | Threshold vesting | End of performance period | |
|---------------|--------------------------|--------------|---------------------|-------------------------------|---------------------------|------------------|
| Lynne Fennah | LTIP | 502,757 | 465,000 | 150% of salary earned in 2019 | 25% of award | 31 December 2021 |

The maximum number of shares awarded has been calculated using the average Company share price for the 12-month period to 31 March 2019 of £0.9245 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 2019 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 31 December 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.

Annual Report on Remuneration continued

Value Delivery Plan ("VDP")

- Tim Attlee is the only current participant in the VDP, which has a four-year performance period of 2017–20 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 2019.

Payments for Loss of Office (Audited)

There were no payments for loss of office during 2019.

Statement of Directors' Shareholdings and Share Interests (Audited)

The tables below show the Directors' share ownership as at 31 December 2019.

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 retain shares vesting under the VDP (net of shares sold to meet tax liabilities on vested shares) until he is compliant with the guideline.

Executive Directors are required to maintain a shareholding of 200% of salary for two years post employment (unless the Committee considers a lower limit to be appropriate in a particular participant's circumstances).

| | <i>Dividends received during the year ended 31 December 2019</i> | <i>Beneficially owned shares at 31 December 2019 (number of shares)</i> | <i>% of salary¹</i> | <i>Outstanding LTIP awards subject to performance and employment conditions at 31 December 2019² (number of shares)</i> | <i>Outstanding annual bonus awards subject to employment conditions at 31 December 2019³ (number of shares)</i> |
|-----------------------------|--|---|--------------------------------|--|--|
| Mark Pain | £2,500 | 100,000 | — | — | — |
| Tim Attlee | £43,715 | 993,174 | 237% | — | 79,597 |
| Lynne Fennah | £2,936 | 55,400 | 17% | 1,051,274 | 83,674 |
| Jim Prower | £2,011 | 37,935 | — | — | — |
| Stephen Alston ⁴ | £601 | 38,800 | — | — | — |
| Stuart Beevor ⁵ | £1,060 | 20,000 | — | — | — |
| Alice Avis | — | — | — | — | — |

¹ Value based on salary effective from 1 January 2020 and the closing share price on 31 December 2019 of £0.975.

² These are LTIP awards subject to the performance conditions (see table below).

³ These are deferred awards granted on 25 April 2017 (pursuant to the 2016/17 annual bonus scheme), on 1 May 2018 (pursuant to the 2017 annual bonus scheme) and on 24 April 2019 (pursuant to the 2018 annual bonus scheme).

⁴ Figures are shown up to point of cessation as Director on 29 March 2019.

⁵ Shares are held jointly with his wife.

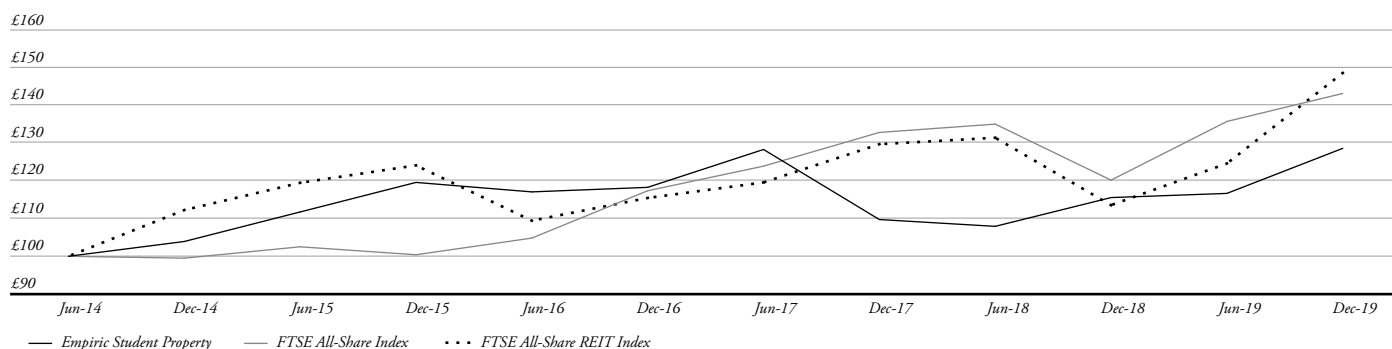
| <i>Number of shares</i> | <i>Grant date (see Note 2 above)</i> | | | | <i>Total</i> |
|-------------------------|--------------------------------------|-------------------|-----------------------|----------------------|--------------|
| | <i>12 December 2017</i> | <i>1 May 2018</i> | <i>23 August 2018</i> | <i>24 April 2019</i> | |
| Lynne Fennah | 135,610 | 343,861 | 69,046 | 502,757 | 1,051,274 |

The TR performance condition for the above awards is set out in the Long-Term Incentive Plan Awards section on [page 61](#).

Between 31 December 2019 and the date of this Report, there were no changes in the shareholdings outlined in the above tables.

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.

ESP TSR vs. FTSE All-Share and FTSE All-Share REIT Indices**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.

| | 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 | 12 months ended 31 December 2019 |
|------------------------------------|---------------------------------|---------------------------------|---------------------------------------|--|--|--|
| CEO single figure of remuneration | £576,263 | £748,160 | £314,455 | £731,442 | £539,500 | £670,557 |
| Annual bonus payout (% of maximum) | 100% | 100% | 50% | 0% | 25% | 42% |
| LTIP vesting | n/a | n/a | n/a | 63.7% | 0% | 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 | +9% | +10% |
| Benefits | +51% | — |
| Annual bonus | +61% | 179% |

Calculated as percentage change in the figures within the table entitled Single Total Figure of Remuneration (Audited). CEO change figures have all increased due to Tim Attlee becoming CEO part way through the year.

CEO Pay Ratio

The UK Companies (Miscellaneous Reporting) Regulations 2018 introduces a requirement for certain UK listed companies to publish the ratio of CEO pay to UK staff pay. This is presented below for the Group and calculated in accordance with the regulations:

| Year | Option | 25th percentile pay ratio | Median pay ratio | 75th percentile pay ratio |
|------|--------|---------------------------|------------------|---------------------------|
| 2019 | A | 33:1 | 31:1 | 25:1 |

| (£) | Method | Lower quartile | | Median quartile | | Upper quartile | |
|------|--------|------------------------|---------|------------------------|---------|------------------------|---------|
| | | Total pay and benefits | Salary | Total pay and benefits | Salary | Total pay and benefits | Salary |
| 2019 | A | £19,230 | £18,501 | £20,341 | £20,091 | £23,200 | £21,809 |

We have used Option A as the statistically preferred method for calculating the pay ratio.

Figures are calculated based on a reference date of 31 December 2019 (372 headcount employed at this date).

Remuneration for Non-Executive Directors has not been included in the calculations.

The conversion for part-time colleagues to FTE equivalent uses a standard working week of 37.5 hours and 52 weeks a year.

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.

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|--|--------------------------------|--------------------------------|
| Total staff costs (further details are provided in Note 6 to the Group accounts (page 83)) | £9.1m | £5.9m |
| Total dividends | £30.1m | £30.1m |

Note staffing costs have increased significantly due to the in-housing of a FM, HR and other departments.

Annual Report on Remuneration continued

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 the Policy. During the year ended 31 December 2019, the Remuneration Committee consisted of the following Directors: Stuart Beevor, Mark Pain, Stephen Alston, Jim Prower and Alice Avis. The Committee met five times during the year ended 31 December 2019.

Compliance with the UK Corporate Governance Code

The Committee is mindful of the new UK Corporate Governance Code and considers that it has appropriately addressed the principles of Provision 40 in the Code:

- **Clarity** – This Remuneration Report provides a straightforward and transparent disclosure of our executive remuneration arrangements.
- **Simplicity and alignment to culture** – With the removal of the VDP from our new Remuneration Policy, our variable remuneration arrangements will be straightforward with individuals eligible for an annual bonus and, at more senior levels, LTIP awards. Performance measures used in these plans will be aligned with KPIs, key strategic objectives and long-term sustainable value creation.
- **Predictability** – The Policy Table on *page 52* contains maximum opportunity levels for Executive Directors' bonus and LTIP awards and pension provision. The charts on *page 56* provide indications of the potential total reward opportunity for the Executive Directors.
- **Proportionality and risk** – Our variable remuneration arrangements are designed to provide a fair and proportionate link between Group performance and reward and the Remuneration Committee has an overriding discretion that allows it to adjust formulaic annual bonus or LTIP outcomes so as to prevent disproportionate results. Additionally, we ensure there is a clear link between executive remuneration and the longer-term performance of the Group through a combination of bonus deferral into shares, five-year release periods for LTIP awards and stretching shareholding requirements that apply during and post-employment.
- **Risk** – Before approving any bonus or LTIP payouts, the Committee confirms that they were achieved within an acceptable risk profile. Malus and clawback provisions also apply to both the annual bonus and LTIP and can be triggered in circumstances outlined in the Remuneration Policy.

Internal Advice

No individual was present when their own remuneration was being discussed. This ensured there were no conflicts of interest. The Company Secretary acted as secretary to the Remuneration Committee. The HR Director was included in a number of meetings to provide advice as required.

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 £24,590 in fees during the year ended 31 December 2019 for these services (charged on a time plus expense 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. The Committee is satisfied that the Deloitte engagement partner and advisory team who provide remuneration advice to the Committee do not have any connections with the Company or individual Directors that may impair their independence.

Shareholder Voting

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


| | <i>Votes for</i> | <i>Votes against</i> | <i>Votes withheld</i> |
|--|---------------------|----------------------|-----------------------|
| Approval of the Directors' Remuneration Report (May 2019 Annual General Meeting) | 302,890,934 (99.8%) | 511,026 (0.2%) | 35,100,065 |
| Approval of the Remuneration Policy (May 2019 Annual General Meeting) | 302,888,863 (89.5%) | 35,572,071 (10.5%) | 41,091 |
| Approval of the Directors' Remuneration Report (April 2018 Annual General Meeting) | 208,498,057 (98.1%) | 4,105,809 (1.9%) | 32,170,087 |

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 17 March 2020.

On behalf of the Board:



Stuart Beevor

Remuneration Committee Chairman | 17 March 2020

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 2019.

The Directors' Report and the Strategic Report on *pages 1 to 35* 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 72*.

The interim dividends declared and paid in relation to the year are set out on *page 86*.

Directors

The names of the Directors of the Company who served during the year are set out on *page 60*. The biographical details of the current Board are on *pages 36 and 37*.

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 62*.

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 2019, the total number of ordinary shares in issue was 603,160,958.

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 46*. 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 30*.

Substantial Shareholdings

As at 31 December 2019, the Company had been notified under the Disclosure and Transparency Rules ("DTR 5") of the following substantial holdings in its ordinary shares:

| Investor | As at 31 December 2019 | |
|------------------------------|---------------------------|-------------------------------|
| | Number of ordinary shares | Percentage of ordinary shares |
| Investec Wealth & Investment | 51,846,383 | 8.60% |
| CCLA Investment Management | 34,928,186 | 5.79% |
| BlackRock | 29,577,008 | 4.90% |
| East Riding of Yorkshire | 28,293,515 | 4.69% |
| Premier Miton Investors | 26,974,124 | 4.47% |
| Kleinwort Hambros | 22,125,332 | 3.67% |
| Transact (EO) | 21,663,727 | 3.59% |
| Cazenove Capital Management | 19,395,231 | 3.22% |

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.

Directors' Report continued

Powers in Relation to the Company Issuing or Purchasing its Shares

At the Company's AGM held on 02 May 2019, 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 £2,009,626. 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 44*.

Post Balance Sheet Events

For all details occurring since the balance sheet date, please refer to Note 26 on *page 94*.

Independent Auditor

BDO LLP has expressed its willingness to continue as auditor for the financial year ending 31 December 2020 and a resolution relating to this appointment will be tabled at the AGM on 7 May 2020.

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

The 2020 AGM will be held at 9am on 7 May 2020 at Maitland/AMO, 3 Pancras Square, London, N1C 4AG.

This Report was approved by the Board on 17 March 2020.



Mark Pain

Chairman | 17 March 2020

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. The Directors 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 provide the information necessary for shareholders to assess the Group's performance, business model and strategy.



Mark Pain

Chairman | 17 March 2020

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

OPINION

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 2019 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 2019 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 VIABILITY STATEMENT

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the Directors' confirmation set out on *page 33* in the Annual Report that they have carried out a robust assessment of the Group's emerging and principal risks and the disclosures in the Annual Report that describe the principal risks and the procedures in place to identify emerging risks and explain how they are being managed or mitigated;
- the Directors' statement set out on *page 65* 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 33* 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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including 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.

*Key audit matter***Valuation of investment property portfolio, including properties under development**

Refer to Note 1 (Accounting Policies) and Note 13 (Investment Property)

The valuation of investment property (including properties under development) requires significant judgement and estimates by management and their 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 financial statements.

There is also a risk that management may influence the significant judgements and estimates in respect of property valuations in order to achieve property valuations 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.

How we addressed the key audit matter in the audit

We obtained an understanding of management's approach to the valuation of both operational assets and development assets.

We met with the Group's 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 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 for each of the investment properties against our own expectation and challenged the external valuer in respect of those properties where the valuations fell outside of our range of expectation through discussion and inspection of corroborating information to determine the appropriate valuation.

We agreed a sample of key observable valuation inputs supplied to and used by management and the external valuer 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 and development contract agreements.

We recomputed the licence fee receivable in the year based on the development contracts 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.

Key observations:

Based on the procedures we performed, we considered the assumptions and methodologies used to value the Group's investment portfolio to be consistent with the information we audited.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality 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

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 £11,000,000 (2018: £10,000,000), which was set at 1% of Group total assets (2018: 1%). 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 £1,250,000 (2018: £800,000). 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 5% of EPRA earnings (2018: 4.5%).

We determined the materiality for the Parent Company financial statements as a whole to be £9,900,000 (2018: £9,000,000), which was set at 2% of Parent Company total assets limited to component materiality of 90% of Group materiality (2018: 2% of total assets, limited to 90% of Group materiality). We determined that the Parent Company 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 Parent Company.

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% (2018: 75%) of materiality, namely £8,250,000 (2018: £7,500,000). We have used a similar basis for specific materiality on all items relating to EPRA earnings.

We determined that the same measure as the Group was appropriate for the Parent Company, and the performance materiality applied was £6,900,000 (2018: £5,400,000).

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

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 £220,000 (2018: £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 £63,000 (2018: £40,000).

We agreed that the reporting threshold for the Parent Company would be £200,000 (2018: £180,000).

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

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our audit of the Group was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, applicable legal and regulatory framework and the industry in which it operates, and assessing the risks of material misstatement at the Group and Parent Company level. This included consideration of the risk that the Group was acting contrary to applicable laws and regulations, including fraud.

The Group operates solely in the United Kingdom and through one segment, the investment property portfolio. None of the individually subsidiaries were considered to be significant components, and as such the audit approach included undertaking audit work on the key risks of material misstatement identified for the Group across the segment. The Group audit team performed all the work necessary to issue the Group and Parent Company audit opinions.

THE CAPABILITY OF THE AUDIT TO DETECT IRREGULARITIES, INCLUDING FRAUD

We undertook audit procedures to respond to the risk on 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. Our audit procedures included, but were not limited to:

- enquiries of management to obtain further understanding of risk on non-compliance;
- addressing the risk of management override of internal controls, by undertaking procedures to review journal entries processed during and subsequent to the year end and evaluating whether there was evidence of bias that represented a risk of material misstatement due to fraud;
- reviewing minutes of Board meetings throughout the period; and
- reviewing the Group's compliance with the REIT regime requirements.

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 misstatement or other irregularities that would not be considered to be material to the financial statements. 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.

OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. 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.

In this context, we also have nothing to report in regard to our 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 67* – 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 position, performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting set out on *pages 48 and 49* – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on *page 38* – 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.

OPINIONS 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 Guidance 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.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified 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 have nothing 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.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' responsibilities set out on *page 67*, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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 ending 30 June 2015 and subsequent financial periods. The period of total uninterrupted engagement is six years, covering the years ending 30 June 2015 to 31 December 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain 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.

USE OF OUR REPORT

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the 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 Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Thomas Edward Goodworth

(Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
17 March 2020

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 2019 £'000 | Year ended 31 December 2018 £'000 |
|---|------|--|--|
| Continuing operations | | | |
| Revenue | 2 | 70,908 | 64,156 |
| Property expenses | 3 | (23,351) | (24,500) |
| Net rental income | | 47,557 | 39,656 |
| Administrative expenses | 4 | (9,222) | (9,071) |
| Change in fair value of investment property | 13 | 29,176 | 22,375 |
| Operating profit | | 67,511 | 52,960 |
| Finance cost | | (13,148) | (12,788) |
| Finance income | | 409 | 104 |
| Net finance costs | 5 | (12,739) | (12,684) |
| Profit before income tax | | 54,772 | 40,276 |
| Corporation tax | 7 | – | – |
| Profit for the year | | 54,772 | 40,276 |
| Other comprehensive income | | | |
| <i>Items that will be reclassified to Statement of Comprehensive Income</i> | | | |
| Fair value gain on cash flow hedge | | 80 | 402 |
| Total comprehensive income for the year | | 54,852 | 40,678 |
| Earnings per share expressed in pence per share | 8 | | |
| Basic | | 9.08 | 6.68 |
| Diluted | | 9.07 | 6.67 |
| Margin | | 67.1% | 61.8% |

Group Statement of Financial Position

| | | At 31 December 2019 £'000 | At 31 December 2018 £'000 |
|--|------|------------------------------------|------------------------------------|
| | Note | | |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 11 | 352 | 366 |
| Intangible assets | 12 | 1,619 | 1,253 |
| Investment property – Operational Assets | 13 | 999,380 | 929,371 |
| Investment property – Development Assets | 13 | 29,700 | 41,670 |
| Total non-current assets | | 1,031,051 | 972,660 |
| Current assets | | | |
| Trade and other receivables | 14 | 10,538 | 13,747 |
| Fixed term deposit | 15 | – | 10,000 |
| Cash and cash equivalents | 15 | 16,517 | 23,473 |
| Total current assets | | 27,055 | 47,220 |
| Total assets | | 1,058,106 | 1,019,880 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 16 | 14,372 | 28,535 |
| Borrowings | 17 | 42,675 | 55,260 |
| Derivative financial liability | 18 | – | 237 |
| Deferred income | 16 | 29,204 | 26,968 |
| Total current liabilities | | 86,251 | 111,000 |
| Non-current liabilities | | | |
| Borrowings | 17 | 307,097 | 268,990 |
| Total non-current liabilities | | 307,097 | 268,990 |
| Total liabilities | | 393,348 | 379,990 |
| Total net assets | | 664,758 | 639,890 |
| Equity | | | |
| Called up share capital | 19 | 6,032 | 6,029 |
| Share premium | 20 | 257 | 467,268 |
| Capital reduction reserve | 21 | 482,578 | 45,458 |
| Retained earnings | | 175,891 | 121,215 |
| Cash flow hedge reserve | | – | (80) |
| Total equity | | 664,758 | 639,890 |
| Total equity and liabilities | | 1,058,106 | 1,019,880 |
| Net Asset Value per share basic (pence) | 9 | 110.21 | 106.14 |
| Net Asset Value per share diluted (pence) | 9 | 109.99 | 105.96 |
| EPRA Net Asset Value per share (pence) | 9 | 110.21 | 106.18 |

These financial statements were approved by the Board of Directors on 17 March 2020 and signed on its behalf by:

Lynne Fennah
Chief Financial Officer

Company Statement of Financial Position

| | | At 31 December 2019 £'000 | At 31 December 2018 £'000 |
|--------------------------------------|------|------------------------------------|------------------------------------|
| | Note | | |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 11 | 288 | 366 |
| Intangible assets | 12 | 1,080 | 627 |
| Investments in subsidiaries | 30 | 81,686 | 8,623 |
| Total non-current assets | | 83,054 | 9,616 |
| Current assets | | | |
| Trade and other receivables | 14 | 304 | 202 |
| Amounts due from Group undertakings | 14 | 420,006 | 517,778 |
| Cash and cash equivalents | 15 | 12,407 | 15,955 |
| Total current assets | | 432,717 | 533,935 |
| Total assets | | 515,771 | 543,551 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 16 | 2,841 | 2,198 |
| Amounts due to Group undertakings | 16 | 9,721 | 11 |
| Borrowings | 17 | 9,995 | – |
| Total current liabilities | | 22,557 | 2,209 |
| Non-current liabilities | | | |
| Borrowings | 17 | – | 9,965 |
| Total non-current liabilities | | – | 9,965 |
| Total liabilities | | 22,557 | 12,174 |
| Total net assets | | 493,214 | 531,377 |
| Equity | | | |
| Called up share capital | 19 | 6,032 | 6,029 |
| Share premium | 20 | 257 | 467,268 |
| Capital reduction reserve | 21 | 482,578 | 45,458 |
| Retained earnings | | 4,347 | 12,622 |
| Total equity | | 493,214 | 531,377 |
| Total equity and liabilities | | 515,771 | 543,551 |

The Company made a loss for the year of £8,179,000 (2018: £37,313,000 profit).

These financial statements were approved by the Board of Directors on 17 March 2020 and signed on its behalf by:

Lynne Fennah
Director

Group Statement of Changes in Equity

| | <i>Called up share capital £'000</i> | <i>Share premium £'000</i> | <i>Capital reduction reserve £'000</i> | <i>Retained earnings £'000</i> | <i>Cash flow hedge reserve £'000</i> | <i>Total equity £'000</i> |
|---|--|------------------------------------|--|--|--|-----------------------------------|
| Year ended 31 December 2019 | | | | | | |
| Balance at 1 January 2019 | 6,029 | 467,268 | 45,458 | 121,215 | (80) | 639,890 |
| Changes in equity | | | | | | |
| Profit for the year | – | – | – | 54,772 | – | 54,772 |
| Fair value gain on cash flow hedge | – | – | – | – | 80 | 80 |
| Total comprehensive income for the year | – | – | – | 54,772 | 80 | 54,852 |
| Share-based payments | – | – | – | 164 | – | 164 |
| Share premium cancellation | – | (467,268) | 467,268 | – | – | – |
| Share options exercised | 3 | 257 | – | (260) | – | – |
| Dividends | – | – | (30,148) | – | – | (30,148) |
| Total contributions and distribution recognised directly in equity | 3 | (467,011) | 437,120 | (96) | – | (29,984) |
| Balance at 31 December 2019 | 6,032 | 257 | 482,578 | 175,891 | – | 664,758 |
| 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 | 40,677 |
| 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 |

Company Statement of Changes in Equity

| | <i>Called up share capital £'000</i> | <i>Share premium £'000</i> | <i>Capital reduction reserve £'000</i> | <i>Retained earnings £'000</i> | <i>Total equity £'000</i> |
|---|--|------------------------------------|--|--|-----------------------------------|
| Year ended 31 December 2019 | | | | | |
| Balance at 1 January 2019 | 6,029 | 467,268 | 45,458 | 12,622 | 531,377 |
| Changes in equity | | | | | |
| Loss for the year | – | – | – | (8,179) | (8,179) |
| Total comprehensive loss for the year | – | – | – | (8,179) | (8,179) |
| Share-based payments | – | – | – | 164 | 164 |
| Share premium cancellation | – | (467,268) | 467,268 | – | – |
| Share options exercised | 3 | 257 | – | (260) | – |
| Dividends | – | – | (30,148) | – | (30,148) |
| Total contributions and distribution recognised directly in equity | 3 | (467,011) | 437,120 | (96) | (29,984) |
| Balance at 31 December 2019 | 6,032 | 257 | 482,578 | 4,347 | 493,214 |
| 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 |

Group Statement of Cash Flows

| | Year ended 31 December 2019 £'000 | Year ended 31 December 2018 £'000 |
|---|--|--|
| Cash flows from operating activities | | |
| Profit before income tax | 54,772 | 40,276 |
| Share-based payments | 164 | 98 |
| Depreciation and amortisation | 283 | 299 |
| Finance income | (409) | (104) |
| Finance costs | 13,148 | 12,788 |
| Intangible asset impairment | – | 248 |
| Change in fair value of investment property | (29,176) | (22,375) |
| | 38,782 | 31,230 |
| Decrease in trade and other receivables | 958 | 15,451 |
| (Decrease)/increase in trade and other payables | (1,269) | 791 |
| Increase in deferred rental income | 2,236 | 4,682 |
| | 1,925 | 20,924 |
| Net cash flows generated from operations | 40,707 | 52,154 |
| Cash flows from investing activities | | |
| Purchases of tangible fixed assets | (85) | (1) |
| Purchases of intangible assets | (552) | (267) |
| Purchase of investment property | (39,620) | (54,169) |
| Interest received | 409 | 104 |
| Fixed term deposit | 10,000 | (10,000) |
| Net cash flows from investing activities | (29,848) | (64,333) |
| Cash flows from financing activities | | |
| Dividends paid | (30,148) | (30,144) |
| Bank borrowings drawn | 115,500 | 66,801 |
| Bank borrowings repaid | (90,500) | (40,630) |
| Loan arrangement fee paid | (1,064) | (2,058) |
| Finance cost (excluding fair value loss on derivatives) | (11,603) | (11,038) |
| Net cash flows from financing activities | (17,815) | (17,069) |
| Decrease in cash and cash equivalents | (6,956) | (29,248) |
| Cash and cash equivalents at beginning of year | 23,473 | 52,721 |
| Cash and cash equivalents at end of year | 16,517 | 23,473 |

Company Statement of Cash Flows

| | Year ended 31 December 2019 £'000 | Year ended 31 December 2018 £'000 |
|---|--|--|
| Cash flows from operating activities | | |
| (Loss)/profit before income tax | (8,179) | 37,313 |
| Share-based payments | 164 | 98 |
| Depreciation and amortisation | 189 | 165 |
| Dividends received | – | (44,000) |
| Gain on sale of subsidiaries | – | (1,571) |
| Finance income | (101) | (60) |
| Finance costs | 304 | 285 |
| | (7,623) | (7,770) |
| (Increase)/decrease in trade and other receivables | (102) | 4,065 |
| Increase in trade and other payables | 643 | 68 |
| | 541 | 4,133 |
| Net cash flows generated from operations | (7,082) | (3,637) |
| Cash flows from investing activities | | |
| Purchases of tangible fixed assets | (12) | (1) |
| Purchases of intangible assets | (552) | (191) |
| Payments and receipts to/from subsidiaries, net | 3 4,419 | 33,030* |
| Interest received | 101 | 60 |
| Net cash flows from investing activities | 33,956 | 32,898 |
| Cash flows from financing activities | | |
| Dividends paid | (30,148) | (30,144) |
| Finance cost (excluding fair value loss on derivatives) | (274) | (253) |
| Net cash flows from financing activities | (30,422) | (30,397) |
| Decrease in cash and cash equivalents | (3,548) | (1,136) |
| Cash and cash equivalents at beginning of year | 15,955 | 17,091 |
| Cash and cash equivalents at end of year | 12,407 | 15,955 |

*In accordance with IAS 7 the Group has decided to show inter-company loan movements net. In the previous year such balances were shown gross.

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 2019 to 31 December 2019.

The consolidated financial statements of the Group for the year ended 31 December 2019 comprise the results of Empiric Student Property plc (the "Company") and its subsidiaries and were approved by the Board for issue on 17 March 2020. 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 2019 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 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 loss after taxation of £8,179,000 (2018: profit of £37,313,000) for the Company, which is reflected in the financial statements of the Company.

1.3 Going Concern

The consolidated financial statements have been prepared on a going concern basis as discussed in the Director's Report on *page 65*.

At the year-end the Group had £42.8 million of debt due for repayment in less than one year spread across 2 facilities. Since the year-end the Group has re-financed one of these facilities for £10 million. The remaining facility of £32.8 million falls due for repayment in October 2020. The Group is in advanced negotiations to refinance this facility and expects to complete the re-financing well in advance of the repayment date. In addition to these loans we have also entered into a development debt facility for £22.5 million subsequent to the year end.

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.

Estimates

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.

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:

(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 2019. 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.

Notes to the Financial Statements continued

1.4 Significant Accounting Judgements, Estimates and Assumptions *continued*

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:

- (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 of 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 are primarily 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 receivable 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 against 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 financial 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.

Other Financial Liabilities

Other financial liabilities include the following items:

- Bank borrowing is 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.

1.4 Significant Accounting Judgements, Estimates and Assumptions *continued*

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 Consolidated 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 Consolidated 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 upon unconditional exchange. 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 Consolidated Statement of Comprehensive Income in the period of retirement or disposal.

Operating Leases

Rentals paid under operating leases are charged to the Consolidated Statement of 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 Consolidated Statement of Comprehensive Income on the following basis:

- Fixtures and fittings: 15% per annum on a reducing balance basis; and
- 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 Consolidated 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 Consolidated Statement of Comprehensive Income when the right to receive them arises.

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 United Kingdom.

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 Consolidated 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 Consolidated 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.

Notes to the Financial Statements continued

1.4 Significant Accounting Judgements, Estimates and Assumptions *continued*

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 Consolidated 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 Impact of New Accounting Standards and Changes in Accounting Policies

IFRS 16: Leases became effective on 1 January 2019 and as a result this is the first period under this new standard.

The Group has applied IFRS 16 using the cumulative catch-up approach, without restatement of the comparative information. For leases the Group previously treated as operating leases, the Group elected to measure its right-of-use assets with a lease commencement date of the date of adoption of IFRS 16 (1 January 2019).

The Group has also made use of the allowance available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 14 will continue to be applied to those leases entered into or altered before 1 January 2019.

As expected and detailed in the Group's Annual Report and Accounts for the year to 31 December 2018, the Group's application of IFRS 16 did not cause a material impact on the classification, measurement and recognition of leases within the consolidated financial statements.

While the Group has chosen the method of retrospective transitional approach on adopting IFRS 16, management determined the adjustment required was not material to the accounts and so no adjustment nor disclosures were made in respect to the adoption.

2. REVENUE

| | <i>Group</i> | |
|--------------------------|--|--|
| | <i>Year ended 31 December 2019 £'000</i> | <i>Year ended 31 December 2018 £'000</i> |
| Student rental income | 69,209 | 62,454 |
| Commercial rental income | 1,699 | 1,702 |
| Total revenue | 70,908 | 64,156 |

3. PROPERTY EXPENSES

| | <i>Group</i> | |
|--------------------------------|--|--|
| | <i>Year ended 31 December 2019 £'000</i> | <i>Year ended 31 December 2018 £'000</i> |
| Direct site costs | 7,128 | 10,413 |
| Technology services | 936 | 1,025 |
| Site office and utilities | 9,832 | 8,200 |
| Cleaning and service contracts | 2,729 | 2,591 |
| Repairs and maintenance | 2,726 | 2,271 |
| Total property expenses | 23,351 | 24,500 |

4. ADMINISTRATIVE EXPENSES

| | <i>Group</i> | |
|---|--|--|
| | <i>Year ended 31 December 2019 £'000</i> | <i>Year ended 31 December 2018 £'000</i> |
| Salaries and Directors' remuneration | 5,024 | 3,372 |
| Legal and professional fees | 1,776 | 2,708 |
| Other administrative costs | 1,604 | 2,012 |
| IT expenses | 333 | 471 |
| | 8,737 | 8,563 |
| Auditor's fees | | |
| Fees payable for the audit of the Group's annual accounts | 210 | 210 |
| Fees payable for the review of the Group's interim accounts | 40 | 40 |
| Fees payable for the audit of the Group's subsidiaries | 136 | 125 |
| Total auditor's fees | 386 | 375 |
| Abortive acquisition costs | 99 | 133 |
| Total administrative expenses | 9,222 | 9,071 |

5. NET FINANCE COST

| | <i>Group</i> | |
|--|--|--|
| | <i>Year ended 31 December 2019 £'000</i> | <i>Year ended 31 December 2018 £'000</i> |
| Finance costs | | |
| Fair value loss on interest rate cap | – | 1 |
| Interest expense on bank borrowings | 11,947 | 11,037 |
| Amortisation of loan transaction costs | 1,201 | 1,750 |
| | 13,148 | 12,788 |
| Finance income | | |
| Fair value gain on interest rate swap | 181 | 42 |
| Interest received on bank deposits | 228 | 62 |
| | 409 | 104 |
| Net finance cost | 12,739 | 12,684 |

6. EMPLOYEES AND DIRECTORS

| | <i>Group</i> | | <i>Company</i> | |
|---|--|--|--|--|
| | <i>Year ended 31 December 2019</i> | <i>Year ended 31 December 2018</i> | <i>Year ended 31 December 2019</i> | <i>Year ended 31 December 2018</i> |
| Wages and salaries | 6,994 | 4,642 | 3,543 | 2,455 |
| Pension costs | 327 | 281 | 206 | 216 |
| Cash bonus | 878 | 294 | 656 | 243 |
| Share-based payments | 164 | 98 | 164 | 98 |
| National insurance | 750 | 557 | 455 | 360 |
| | 9,113 | 5,872 | 5,024 | 3,372 |
| Less: Hello Student amounts included in property expenses | (4,089) | (2,500) | – | – |
| Amounts included in administrative expenses | 5,024 | 3,372 | 5,024 | 3,372 |

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

| | | | | |
|-----------------------------|-----|-----|----|----|
| Management | 5 | 4 | 5 | 4 |
| Administration – ESP | 27 | 22 | 27 | 22 |
| Operations – Hello Student® | 335 | 222 | – | – |
| | 367 | 248 | 32 | 26 |

Notes to the Financial Statements continued

6. EMPLOYEES AND DIRECTORS *continued*

| | <i>Group and Company</i> | |
|--------------------------------|--------------------------|--------------------|
| | <i>Year ended</i> | <i>Year ended</i> |
| | <i>31 December</i> | <i>31 December</i> |
| <i>Directors' remuneration</i> | <i>2019</i> | <i>2018</i> |
| | <i>£'000</i> | <i>£'000</i> |
| Salaries and fees | 1,007 | 903 |
| Pension costs | 107 | 95 |
| Cash bonus | 212 | 145 |
| Share-based payments | 164 | 28 |
| | 1,490 | 1,171 |

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 2019.

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.

| | <i>Group</i> | |
|---|--------------------|--------------------|
| | <i>Year ended</i> | <i>Year ended</i> |
| | <i>31 December</i> | <i>31 December</i> |
| | <i>2019</i> | <i>2018</i> |
| | <i>£'000</i> | <i>£'000</i> |
| 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.

| | | |
|--|---------------|---------------|
| Profit for the year | 54,772 | 40,276 |
| Profit before tax multiplied by the rate of corporation tax in the UK of 19% (2018: 19%) | 10,407 | 7,652 |
| Exempt property rental profits in the year | (4,194) | (2,725) |
| Exempt property revaluations in the year | (5,543) | (4,251) |
| Effects of: | | |
| Non-allowable expenses | 47 | 83 |
| Capital Allowances | (1,143) | (1,393) |
| Unutilised current year tax losses | 426 | 634 |
| 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 £426,000 (31 December 2018: £634,000) 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 of £3,818,000 (2018: £3,823,000) has not been recognised in respect of such losses.

8. EARNINGS PER SHARE

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

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 year.

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 and rental guarantees 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.

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 2019 | | | | | |
| Earnings | 54,772 | 54,772 | 54,772 | 54,772 | 54,772 |
| Adjustment to include licence fee receivable on forward funded developments in the year | – | – | – | – | 1,038 |
| Adjustment to include discounts on acquisition due to rental guarantees in the year | – | – | – | – | 229 |
| <i>Adjustments to remove:</i> | | | | | |
| Changes in fair value of investment properties (Note 13) | – | – | (29,176) | (29,176) | (29,176) |
| Changes in fair value of interest rate derivatives (Note 18) | – | – | (181) | (181) | (181) |
| Earnings/Adjusted Earnings | 54,772 | 54,772 | 25,415 | 25,415 | 26,682 |
| Weighted average number of shares ('000) | 602,929 | 602,929 | 602,929 | 602,929 | 602,929 |
| Adjustment for employee share options ('000) | – | 1,215 | – | 1,215 | – |
| Total number shares ('000) | 602,929 | 604,144 | 602,929 | 604,144 | 602,929 |
| Per-share amount (pence) | 9.08 | 9.07 | 4.22 | 4.21 | 4.43 |
| 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 |
| <i>Adjustments to remove:</i> | | | | | |
| 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 (£'000) | 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 |

Notes to the Financial Statements continued

9. NET ASSET VALUE PER SHARE

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:

| | <i>Group</i> | |
|--|---------------------------------------|---------------------------------------|
| | <i>31 December 2019 £'000</i> | <i>31 December 2018 £'000</i> |
| Net assets per Statement of Financial Position | 664,758 | 639,890 |
| Adjustment to exclude the fair value loss of financial instruments | – | 238 |
| EPRA NAV | 664,758 | 640,128 |
| Adjustment to include the fair value of debt (Note 18) | (23,527) | (13,163) |
| Adjustment to include the fair value loss of financial instruments (Note 18) | – | (238) |
| EPRA NNNAV | 641,231 | 626,727 |
| <i>Ordinary shares</i> | <i>Number</i> | <i>Number</i> |
| Issued share capital | 603,160,958 | 602,887,740 |
| Issued share capital plus employee options | 604,375,503 | 603,871,448 |
| | <i>Pence</i> | <i>Pence</i> |
| NAV per share basic | 110.21 | 106.14 |
| NAV per share diluted | 109.99 | 105.96 |
| EPRA NAV per share basic | 110.21 | 106.18 |
| EPRA NAV per share diluted | 109.99 | 106.00 |
| EPRA NNNAV per share basic | 106.31 | 103.95 |
| EPRA NNNAV per share diluted | 106.10 | 103.78 |

10. DIVIDENDS PAID

| | <i>Group and Company</i> | |
|---|--|--|
| | <i>Year ended 31 December 2019 £'000</i> | <i>Year ended 31 December 2018 £'000</i> |
| 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 |
| Interim dividend of 1.25 pence per ordinary share in respect of the quarter ended 31 December 2018 | 7,536 | – |
| Interim dividend of 1.25 pence per ordinary share in respect of the quarter ended 31 March 2019 | 7,536 | – |
| Interim dividend of 1.25 pence per ordinary share in respect of the quarter ended 30 June 2019 | 7,536 | – |
| Interim dividend of 1.25 pence per ordinary share in respect of the quarter ended 30 September 2019 | 7,540 | – |
| | 30,148 | 30,144 |

On 17 February 2020, the Company announced the declaration of a final interim dividend in respect of the financial year ended 31 December 2019, of 1.25 pence per ordinary share amounting to £7.5 million, which will be paid on 20 March 2020 to ordinary shareholders.

11. FIXED ASSETS

| | Group | | | Company | | |
|------------------------------------|--------------------------------|-----------------------------|----------------|--------------------------------|-----------------------------|----------------|
| | Fixtures and fittings £'000 | Computer equipment £'000 | Total £'000 | Fixtures and fittings £'000 | Computer equipment £'000 | Total £'000 |
| <i>Year ended 31 December 2019</i> | | | | | | |
| Costs | | | | | | |
| As at 1 January 2019 | 490 | 181 | 671 | 490 | 181 | 671 |
| Additions | – | 85 | 85 | – | 12 | 12 |
| As at 31 December 2019 | 490 | 266 | 756 | 490 | 193 | 683 |
| Depreciation | | | | | | |
| As at 1 January 2019 | 165 | 140 | 305 | 165 | 140 | 305 |
| Charge for the year | 58 | 41 | 99 | 49 | 41 | 90 |
| As at 31 December 2019 | 223 | 181 | 404 | 214 | 181 | 395 |
| Net book value | | | | | | |
| As at 31 December 2019 | 267 | 85 | 352 | 276 | 12 | 288 |
| <i>Year ended 31 December 2018</i> | | | | | | |
| 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 |

12. INTANGIBLE ASSETS

| | Group | | | Company | | |
|------------------------------------|---|---|----------------------------------|----------------|----------------------------------|----------------|
| | Hello Student* application development £'000 | Hello Student* website development £'000 | NAVision development £'000 | Total £'000 | NAVision development £'000 | Total £'000 |
| <i>Year ended 31 December 2019</i> | | | | | | |
| Costs | | | | | | |
| As at 1 January 2019 | 311 | 878 | 719 | 1,908 | 719 | 719 |
| Additions | – | – | 552 | 552 | 552 | 552 |
| As at 31 December 2019 | 311 | 878 | 1,271 | 2,460 | 1,271 | 1,271 |
| Amortisation | | | | | | |
| As at 1 January 2019 | 311 | 252 | 92 | 655 | 92 | 92 |
| Charge for the year | – | 87 | 99 | 186 | 99 | 99 |
| As at 31 December 2019 | 311 | 339 | 191 | 841 | 191 | 191 |
| Net book value | | | | | | |
| As at 31 December 2019 | – | 539 | 1,080 | 1,619 | 1,080 | 1,080 |
| <i>Year ended 31 December 2018</i> | | | | | | |
| 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 |

Notes to the Financial Statements continued

13. INVESTMENT PROPERTY

| | Group | | | | |
|--------------------------------------|---|---|-----------------------------------|---------------------------------------|------------------------------------|
| | Investment properties freehold £'000 | Investment properties long leasehold £'000 | Total operational assets £'000 | Properties under development £'000 | Total investment property £'000 |
| <i>Year ended 31 December 2019</i> | | | | | |
| As at 1 January 2019 | 796,640 | 132,731 | 929,371 | 41,670 | 971,041 |
| Property additions | 4,206 | 410 | 4,616 | 24,247 | 28,863 |
| Transfer of completed developments | 34,441 | – | 34,441 | (34,441) | – |
| Change in fair value during the year | 26,352 | 4,600 | 30,952 | (1,776) | 29,176 |
| As at 31 December 2019 | 861,639 | 137,741 | 999,380 | 29,700 | 1,029,080 |

| | Group | | | | |
|--------------------------------------|---|---|-----------------------------------|---------------------------------------|------------------------------------|
| | Investment properties freehold £'000 | Investment properties long leasehold £'000 | Total operational assets £'000 | Properties under development £'000 | Total investment property £'000 |
| <i>Year ended 31 December 2018</i> | | | | | |
| 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 |

During the year £5,418,000 (31 December 2018: £10,171,000) of additions related to expenditure were recognised in the carrying value of standing 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 valuer, and has been prepared as at 31 December 2019, in accordance with the Appraisal & Valuation Standards of the 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 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.

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 year end.

| | Group | |
|---|---------------------------------|---------------------------------|
| | As at 31 December 2019 £'000 | As at 31 December 2018 £'000 |
| Value per independent valuation report | 1,028,610 | 970,570 |
| | 1,028,610 | 970,570 |
| Add: | | |
| Head lease | 470 | 471 |
| Fair value per Group Statement of Financial Position | 1,029,080 | 971,041 |

Fair Value Hierarchy

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

| | Fair value measurement hierarchy | | | |
|---|----------------------------------|--|--|--|
| | Total £'000 | Quoted prices in active markets (Level 1) £'000 | Significant observable inputs (Level 2) £'000 | Significant unobservable inputs (Level 3) £'000 |
| <i>Date of valuation 31 December 2019</i> | | | | |
| Assets measured at fair value: | | | | |
| Student properties | 1,004,450 | – | – | 1,004,450 |
| Commercial properties | 24,160 | – | – | 24,160 |
| As at 31 December 2019 | 1,028,610 | – | – | 1,028,610 |

13. INVESTMENT PROPERTY *continued*

| <i>Date of valuation 31 December 2018</i> | <i>Total £'000</i> | <i>Quoted prices in active markets (Level 1) £'000</i> | <i>Significant observable inputs (Level 2) £'000</i> | <i>Significant unobservable inputs (Level 3) £'000</i> |
|---|------------------------|--|--|--|
| 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 |

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 £97 per week–£347 per week (31 December 2018: £92–£343 per week).
- (b) Unobservable input: Rental growth
The estimated average increase in rent based on both market estimations and contractual arrangements.
Assumed growth of 3.55% used in valuations (31 December 2018: 2.63%).
- (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%–7.25% (31 December 2018: 4.50%–6.75%).
- (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.

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

| | <i>-3% change in rental income £'000</i> | <i>+3% change in rental income £'000</i> | <i>-0.25% change in yield £'000</i> | <i>+0.25% change in yield £'000</i> |
|--|--|--|---|---|
| <i>As at 31 December 2019</i> | | | | |
| (Decrease)/increase in the fair value of the investment properties | (39,190) | 39,270 | 46,520 | (42,350) |
| <i>As at 31 December 2018</i> | | | | |
| (Decrease)/increase in the fair value of the investment properties | (40,320) | 40,290 | 47,270 | (43,210) |

- (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.

Notes to the Financial Statements continued

14. TRADE AND OTHER RECEIVABLES

| | Group | | Company | |
|-------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | 31 December 2019 £'000 | 31 December 2018 £'000 | 31 December 2019 £'000 | 31 December 2018 £'000 |
| Trade receivables | 314 | 704 | – | – |
| Other receivables | 470 | 2,112 | 20 | 90 |
| Amounts owed by property managers | 5,144 | 6,696 | – | – |
| Prepayments | 4,355 | 4,170 | 277 | 105 |
| VAT recoverable | 255 | 65 | 7 | 7 |
| | 10,538 | 13,747 | 304 | 202 |
| Amounts due from Group undertakings | – | – | 420,006 | 517,778 |
| | 10,538 | 13,747 | 420,310 | 517,980 |

At 31 December 2019, 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 receivable and contract assets.

To measure expected credit losses on a collective basis, trade receivable 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 credit 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 not to 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.

15. FIXED TERM DEPOSITS AND CASH AND CASH EQUIVALENTS

Fixed term deposits were amounts held as part of our debt renewal. This deposit was interest bearing and matured 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 Consolidated Statement of Financial Position:

| | Group | | Company | |
|----------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | 31 December 2019 £'000 | 31 December 2018 £'000 | 31 December 2019 £'000 | 31 December 2018 £'000 |
| Cash and cash equivalents | 16,517 | 23,473 | 12,407 | 15,955 |

16. TRADE AND OTHER PAYABLES

| | Group | | Company | |
|------------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | 31 December 2019 £'000 | 31 December 2018 £'000 | 31 December 2019 £'000 | 31 December 2018 £'000 |
| Trade payables | 3,294 | 2,723 | 533 | – |
| Other payables | 1,287 | 2,408 | 325 | 146 |
| Accrued expenses | 8,821 | 23,013 | 1,013 | 1,661 |
| Directors' bonus accrual | 970 | 391 | 970 | 391 |
| | 14,372 | 28,535 | 2,841 | 2,198 |
| Amounts owed to Group undertakings | – | – | 9,721 | 11 |
| | 14,372 | 28,535 | 12,562 | 2,209 |

At 31 December 2019, there was deferred rental income of £29,204,000 (31 December 2018: £26,968,000) 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:

| | <i>Group</i> | | | | | |
|---|------------------------------|--------------------------------|--------------------|------------------------------|--------------------------------|--------------------|
| | <i>Bank borrowings drawn</i> | <i>Bank borrowings undrawn</i> | <i>Total</i> | <i>Bank borrowings drawn</i> | <i>Bank borrowings undrawn</i> | <i>Total</i> |
| | <i>31 Dec 2019</i> | <i>31 Dec 2019</i> | <i>31 Dec 2019</i> | <i>31 Dec 2018</i> | <i>31 Dec 2018</i> | <i>31 Dec 2018</i> |
| | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| At 1 January | 330,000 | 60,000 | 390,000 | 303,829 | 86,201 | 390,030 |
| Bank borrowings from new facilities in the year | 55,500 | – | 55,500 | 30,600 | – | 30,600 |
| Bank borrowings drawn in the year | 60,000 | (25,000) | 35,000 | 36,201 | (26,201) | 10,000 |
| Bank borrowings repaid during the year | (90,500) | – | (90,500) | (40,630) | – | (40,630) |
| At 31 December | 355,000 | 35,000 | 390,000 | 330,000 | 60,000 | 390,000 |

The Group has fully repaid one facility, continued to draw down on an existing facility and fully drew down the second tranche of another existing facility. A total of £115,500,000 (*31 December 2018: £66,801,000*) of additional debt was drawn and a total of £90,500,000 was repaid during the year. There is an undrawn debt facility available of £35,000,000 at 31 December 2018 (*31 December 2018: £60,000,000*). The weighted average term to maturity of the Group's debt as at the year end is 6.6 years (*31 December 2018: 7.6 years*).

Bank borrowings are secured by charges over individual investment properties held by certain asset-holding subsidiaries. These assets have a fair value of £879,910,000 at 31 December 2019 (*31 December 2018: £853,220,000*). 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 unsecured facility (*2018: £10 million*) repayable in less than one year, fully drawn. The balance net of loan arrangement fees carried as at 31 December 2019 was £9,995,000 (*31 December 2018: £9,965,000*).

The Group drew down a further £55,500,000 of the Scottish Widows facility, the second tranche of the existing facility. This was used to repay the RBS facility of £55,500,000.

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

| | <i>Group</i> | |
|--|-------------------------|-------------------------|
| | <i>31 December 2019</i> | <i>31 December 2018</i> |
| | <i>£'000</i> | <i>£'000</i> |
| <i>Non-current</i> | | |
| Balance bought forward | 274,500 | 282,639 |
| Total bank borrowings in the year | 115,500 | 66,801 |
| Bank borrowings becoming non-current in the year | 55,500 | 21,190 |
| Less: Bank borrowings becoming current in the year | (42,800) | (55,500) |
| Less: Bank borrowings repaid during the year | (90,500) | (40,630) |
| Bank borrowings drawn: due in more than one year | 312,200 | 274,500 |
| Less: Unamortised costs | (5,103) | (5,510) |
| Bank borrowings due in more than one year | 307,097 | 268,990 |

| | <i>Group</i> | |
|--|-------------------------|-------------------------|
| | <i>31 December 2019</i> | <i>31 December 2018</i> |
| | <i>£'000</i> | <i>£'000</i> |
| <i>Current</i> | | |
| Balance bought forward | 55,500 | 21,190 |
| Total bank borrowings in the year | – | 9,440 |
| Less: Bank borrowings repaid during the year | (55,500) | (30,630) |
| Bank borrowings becoming current in the year | 42,800 | 55,500 |
| Bank borrowings drawn: due in less than one year | 42,800 | 55,500 |
| Less: Unamortised costs | (125) | (240) |
| Bank borrowings due in less than one year | 42,675 | 55,260 |

Maturity of Bank Borrowings

| | <i>Group</i> | |
|---|-------------------------|-------------------------|
| | <i>31 December 2019</i> | <i>31 December 2018</i> |
| | <i>£'000</i> | <i>£'000</i> |
| Repayable between one and two years | 35,000 | 42,800 |
| Repayable between two and five years | – | 10,000 |
| Repayable in over five years | 277,200 | 221,700 |
| Bank borrowings drawn: due in more than one year | 312,200 | 274,500 |

Notes to the Financial Statements continued

17. BANK BORROWINGS *continued*

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 rate payable by the Group on its debt portfolio as at the year end was 3.20% (31 December 2018: 3.26%).

18. INTEREST RATE DERIVATIVES

To mitigate the interest rate risk that arises as a result of entering into variable rate linked loans, the Group 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 has been 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 2019 was £nil (31 December 2018: £0.5 million gain) recognised in Other Comprehensive Income. £nil of this derivative liability has been recognised as a non-current liability (31 December 2018: £nil). The contract matured on 23 October 2019.

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 2019 £'000 | 31 December 2018 £'000 |
|---|------------------------------|------------------------------|
| Non-current assets: Interest rate derivatives – cap | – | – |
| Current liabilities: Interest rate derivatives – swap | – | (237) |
| Non-current liabilities: Interest rate derivatives – swap | – | – |

The interest rate derivatives are marked to market by the relevant counterparty banks on a quarterly basis in accordance with IAS 39. 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 2019 £'000 | 31 December 2018 £'000 |
|--|------------------------------|------------------------------|
| Interest rate cap premium – opening fair value | – | 1 |
| Changes in fair value of interest rate derivatives | – | (1) |
| Closing fair value | – | – |

| | 31 December 2019 £'000 | 31 December 2018 £'000 |
|---|------------------------------|------------------------------|
| Total bank borrowings | 355,000 | 330,000 |
| Total fixed borrowings | (277,200) | (221,700) |
| Total floating rate borrowings | 77,800 | 108,300 |
| Notional value of borrowings hedged by interest rate derivative – swap | – | 35,500 |
| Proportion of notional value of interest rate swap derivative to floating rate bank borrowings | 0.0% | 32.8% |

Fair Value of Debt

| | Group | | |
|---------------------|---------------------|---------------------|--|
| | Fair value £'000 | Book value £'000 | Fair value less book value £'000 |
| At 31 December 2019 | 295,498 | 271,971 | 23,527 |
| At 31 December 2018 | 230,677 | 217,514 | 13,163 |

The fair value of the fixed rate debt has been valued by the independent valuation expert, Chatham Financial. The floating rate debt has been excluded as it is assumed 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:

| <i>Assets/(liability) measured at fair value:</i> | <i>Date of valuation</i> | <i>Group</i> | | | |
|---|--------------------------|--|--|--|--------------|
| | | <i>Quoted prices in active markets (Level 1)</i> | <i>Significant observable inputs (Level 2)</i> | <i>Significant unobservable inputs (Level 3)</i> | |
| | | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> | <i>£'000</i> |
| | 31 December 2019 | | | | |
| Interest rate derivative – cap | | – | – | – | – |
| Interest rate derivative – swap | | – | – | – | – |
| | 31 December 2018 | | | | |
| Interest rate derivative – cap | | – | – | – | – |
| Interest rate derivative – swap | | (237) | – | (237) | – |

The fair value of these contracts is recorded in the Group Consolidated 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 year end.

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.

19. SHARE CAPITAL

Ordinary shares issued and fully paid at 1p each

| | <i>Group and Company</i> | | <i>Group and Company</i> | |
|--------------------------------|--|---------------------------------------|--|---------------------------------------|
| | <i>31 December 2019 Number</i> | <i>31 December 2019 £'000</i> | <i>31 December 2018 Number</i> | <i>31 December 2018 £'000</i> |
| Balance brought forward | 602,887,740 | 6,029 | 602,887,740 | 6,029 |
| Share options exercised | 273,218 | 3 | – | – |
| Balance carried forward | 603,160,958 | 6,032 | 602,887,740 | 6,029 |

There were two share issues in the year relating to vesting share options; see Note 27 for further details. One was on 2 October 2019 for 120,833 ordinary shares and the other on 26 November 2019 for 152,385 ordinary shares.

20. SHARE PREMIUM

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

| | <i>Group and Company</i> | |
|--|---------------------------------------|---------------------------------------|
| | <i>31 December 2019 £'000</i> | <i>31 December 2018 £'000</i> |
| Balance brought forward | 467,268 | 467,268 |
| Share premium cancellation | (467,268) | – |
| Share premium on share options exercised | 257 | – |
| Balance carried forward | 257 | 467,268 |

Cancellation

At the AGM on 2 May 2019, shareholders approved a resolution to cancel the Company's share premium account, which stood at £467 million. The court order to confirm the cancellation was received on 4 June 2019, following which the share premium account was cancelled. Cancellation results in this capital being treated as realised profit, giving us the flexibility to declare dividends or make other distributions to shareholders, although there is no current intention to do so.

21. CAPITAL REDUCTION RESERVE

| | <i>Group and Company</i> | |
|--|---------------------------------------|---------------------------------------|
| | <i>31 December 2019 £'000</i> | <i>31 December 2018 £'000</i> |
| Balance brought forward | 45,458 | 75,602 |
| Less interim dividends declared and paid per Note 10 | (30,148) | (30,144) |
| Share premium cancellation | 467,268 | – |
| Balance carried forward | 482,578 | 45,458 |

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 receivables under non-cancellable operating leases on investment properties are as follows:

| | <i>Group</i> | |
|----------------------------|---------------------------------------|---------------------------------------|
| | <i>31 December 2019 £'000</i> | <i>31 December 2018 £'000</i> |
| Less than one year | 49,278 | 45,564 |
| Between one and five years | 7,377 | 9,757 |
| More than five years | 9,851 | 10,630 |
| Total | 66,506 | 65,951 |

The above relates to commercial leases and nomination agreements with UK universities in place as at 31 December 2019. The impact of student leases for the forthcoming academic year signed by 31 December 2019 have not been included as the certainty of income does not arise until the tenant takes occupation of the accommodation. As at 31 December 2019 £29,204,000 (*31 December 2018: £26,968,000*) of the future minimum lease receivables have been received as cash.

23. CONTINGENT LIABILITIES

There were no contingent liabilities at 31 December 2019 (*31 December 2018: £nil*).

24. CAPITAL COMMITMENTS

The Group had capital commitments relating to developments totalling £31,542,000 at 31 December 2019 (*31 December 2018: £37,950,000*).

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 2019 were as follows:

| <i>Name</i> | <i>How related</i> | <i>No of shares</i> | <i>Transaction</i> | <i>Date</i> |
|-------------|--------------------|---------------------|---------------------|------------------|
| Tim Attlee | Director | 120,833 | Exercise of options | 02 October 2019 |
| Tim Attlee | Director | 64,000 | Disposal | 15 October 2019 |
| Tim Attlee | Director | 152,385 | Exercise of options | 26 November 2019 |
| Tim Attlee | Director | 94,500 | Disposal | 02 December 2019 |

Share-based Payments

On 24 April 2019, nil cost options were granted to Executive Directors in the amounts of:

| | |
|--------------|----------------|
| Lynne Fennah | 560,316 shares |
| Tim Attlee | 43,818 shares |

On 2 October 2019, Executive Directors exercised vested nil-cost options in the amounts of:

| | |
|------------|----------------|
| Tim Attlee | 120,833 shares |
|------------|----------------|

On 26 November 2019, Executive Directors exercised vested nil-cost options in the amounts of:

| | |
|------------|----------------|
| Tim Attlee | 152,385 shares |
|------------|----------------|

Details of the shares granted and exercised are outlined in Note 27.

26. SUBSEQUENT EVENTS

On 27 February 2020 we refinanced an expiring £10 million unsecured facility with First Commercial Bank on a three year term and extended the facility value to £20 million.

On 16 March 2020 we entered into a four and a half year £22.5 million development debt facility with RBS.

27. SHARE-BASED PAYMENTS

The Company operates three equity-settled share-based remuneration schemes for Executive Directors under the deferred annual bonus, LTIP and the VDP. The details of the schemes are included in the Remuneration Committee Report.

Issued

On 24 April 2019, the Company granted nil-cost options over a total of 101,377 (Tim Attlee 43,818 and Lynne Fennah 57,559) ordinary shares pursuant to the deferred shares element of the annual bonus awards for the financial period ended 31 December 2018 (the "Annual Bonus Awards").

Further, and also on 24 April 2019, Lynne Fennah was granted nil-cost options over 502,757 ordinary shares pursuant to the Empiric 2014 Long-Term Incentive Plan (the "2017–20 LTIP Awards") for the 2019 financial year.

Lapsed Awards

Exercised

On 2 October 2019 Tim Attlee, Director of the Company, exercised vested nil-cost options over 120,833 ordinary shares in the Company ("ordinary shares") pursuant to the Empiric Student Property Plc 2014 Long-Term Incentive Plan (the "Exercise").

On 26 November 2019 Tim Attlee, Director of the Company, exercised vested nil-cost options over 152,385 ordinary shares in the Company ("ordinary shares") pursuant to the Empiric Student Property Plc 2014 Long-Term Incentive Plan (the "Exercise").

None of the nil-cost options is currently exercisable. The weighted average remaining contractual life of these options was 1.7 years (2018: 1.6 years). During the year to 31 December 2019 the amount recognised relating to the options was £164,000 (2018: £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.

| | 12/31/19 | 12/31/18 | 12/31/17 | 12/31/16 |
|---|------------------|-----------|-------------|-----------|
| Outstanding number brought forward | 1,051,708 | 1,477,817 | 3,913,420 | 2,880,391 |
| Granted during the period | 604,134 | 439,022 | 207,198 | 1,033,029 |
| Vested and exercised during the period | (129,253) | (139,325) | (691,237) | – |
| Lapsed during the period | (276,544) | (725,806) | (1,951,564) | – |
| Outstanding number carried forward | 1,250,045 | 1,051,708 | 1,477,817 | 3,913,420 |

The fair value on date of grant for the nil-cost options under the 2017-20 LTIP Awards and 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 of | £0.93 |
| (b) Exercise price of | £nil |
| (c) Contractual life of | 3 years |
| (d) Expected volatility of | 14.80% |
| (e) Expected dividend yield of | 6.09% |
| (f) Risk-free rate of | 1.20% |
| (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 Company and 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 Company and Group that are affected by market risk are principally the Company and Group bank balances along with the interest rate derivatives (swap and cap) entered into to mitigate interest rate risk.

Notes to the Financial Statements continued

28. FINANCIAL RISK MANAGEMENT *continued**(b) Credit Risk*

Credit risk is the risk of financial loss to the Company and Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company and Group is exposed to credit risks from both its leasing activities and financing activities, including deposits with banks and financial institutions.

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 rating, 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 Company and 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 Company and Group, with high credit ratings assigned by international credit rating agencies.

| <i>Credit ratings (Moody's)</i> | <i>Long-term</i> | <i>Outlook</i> |
|---------------------------------|------------------|-----------------|
| AIB Group | <i>Baa2</i> | <i>Positive</i> |
| Canada Life | <i>Aa3</i> | <i>Stable</i> |
| Mass Mutual | <i>Aa2</i> | <i>Negative</i> |
| Scottish Widows | <i>A2</i> | <i>Positive</i> |
| Lloyds Bank Plc | <i>Aa3</i> | <i>Stable</i> |

(c) Liquidity Risk

Liquidity risk arises from the Company and Group 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 Company and Group will encounter difficulty in meeting their financial obligations as they fall due as the majority of the Company and Group assets are property investments and are therefore not readily realisable. The Company and Group objective is to ensure they have sufficient available funds for their operations and to fund their 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:

| | <i>Group</i> | | | | | |
|------------------------------|----------------------------|---|-------------------------------------|-----------------------------------|-------------------------------|------------------------|
| | <i>On demand £'000</i> | <i>Less than 3 months £'000</i> | <i>3 to 12 months £'000</i> | <i>1 to 5 years £'000</i> | <i>> 5 years £'000</i> | <i>Total £'000</i> |
| At 31 December 2019 | | | | | | |
| Bank borrowings and interest | – | 13,101 | 41,801 | 149,450 | 317,287 | 521,639 |
| Trade and other payables | – | 14,372 | – | – | – | 14,372 |
| | – | 27,473 | 41,801 | 149,450 | 317,287 | 536,011 |
| | | | | | | |
| | <i>Group</i> | | | | | |
| | <i>On demand £'000</i> | <i>Less than 3 months £'000</i> | <i>3 to 12 months £'000</i> | <i>1 to 5 years £'000</i> | <i>> 5 years £'000</i> | <i>Total £'000</i> |
| 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 |

28. FINANCIAL RISK MANAGEMENT *continued*

| | Company | | | | | Total £'000 |
|------------------------------|--------------------|--------------------------------|----------------------------|--------------------------|--------------------|----------------|
| | On demand £'000 | Less than 3 months £'000 | 3 to 12 months £'000 | 1 to 5 years £'000 | > 5 years £'000 | |
| At 31 December 2019 | | | | | | |
| Bank borrowings and interest | – | 10,045 | – | – | – | 10,045 |
| Trade and other payables | – | 2,841 | – | – | – | 2,841 |
| | – | 12,886 | – | – | – | 12,886 |
| | | | | | | |
| | Company | | | | | Total £'000 |
| | On demand £'000 | Less than 3 months £'000 | 3 to 12 months £'000 | 1 to 5 years £'000 | > 5 years £'000 | |
| At 31 December 2018 | | | | | | |
| Bank borrowings and interest | – | 68 | 203 | 10,046 | – | 10,317 |
| Trade and other payables | – | 2,198 | – | – | – | 2,198 |
| | – | 2,266 | 203 | 10,046 | – | 12,515 |

29. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are 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 to maintain sustainable returns for shareholders.

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

30. SUBSIDIARIES

Those subsidiaries listed below are considered to be all subsidiaries of the Company at 31 December 2019, 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.

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

| | Company | |
|-------------------------------|------------------------------|------------------------------|
| | 31 December 2019 £'000 | 31 December 2018 £'000 |
| As at 1 January | 8,623 | 12,571 |
| Additions in the year | 73,063 | 8,622 |
| Disposals | – | (12,570) |
| Balance at 31 December | 81,686 | 8,623 |

During the current year and prior year there were a number of subsidiaries which moved around the Group, due to reorganisations relating to debt, these were all non-cash movements whereby PLC forgave intercompany debt owned by subsidiaries in return for the issue of further shares.

Notes to the Financial Statements continued

30. SUBSIDIARIES *continued*

| <i>Company</i> | <i>Status</i> | <i>Ownership</i> | <i>Principle activity</i> |
|--|---------------|------------------|---------------------------|
| Brunswick Contracting Limited | Active | 100% | Property Contracting |
| Empiric (Alwyn Court) Limited | Active | 100% | Property Investment |
| Empiric (Baptists 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) Limited | Active | 100% | Property Investment |
| Empiric (Bath Piccadilly Place) Limited | 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 St Mary's) Leasing Limited | Dormant | 100% | Property Leasing |
| 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) 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 (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) 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 | Active | 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 |
| Empiric (Leicester Peacock Lane) Limited | Active | 100% | Property Investment |
| Empiric (Leicester Shoe & Boot Factory) Limited | Active | 100% | Property Investment |
| Empiric (Leicester West Walk) Limited | Dormant | 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 |

30. SUBSIDIARIES *continued*

| <i>Company</i> | <i>Status</i> | <i>Ownership</i> | <i>Principle activity</i> |
|---|---------------|------------------|------------------------------|
| Empiric (Liverpool Hahneemann 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 (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 (St Andrews Ayton House) Leasing Limited | Active | 100% | Property Leasing |
| Empiric (St Andrews Ayton House) Limited | Active | 100% | Property Investment |
| 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) 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 (Five) Limited | Active | 100% | Holding Company |
| Empiric Investment Holdings (Four) Limited | Active | 100% | Holding Company |
| Empiric Investment Holdings (Six) Limited | Active | 100% | Holding Company |
| Empiric Investment Holdings (Three) Limited | Active | 100% | Holding Company |
| Empiric Investment Holdings (Two) Limited | Active | 100% | Holding Company |
| Empiric Investments (Five) 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 (Three) Limited | Active | 100% | Immediate Holding Company |
| Empiric Investments (Two) Limited | Active | 100% | Immediate Holding Company |
| Empiric Investments (Seven) Limited | Dormant | 100% | Immediate Holding Company |
| Empiric Investment Holdings (Seven) Limited | Dormant | 100% | Holding Company |
| Empiric Student Property Trustees Limited | Active | 100% | Trustee of EBT |
| Empiric (Edinburgh South Bridge) Limited | Active | 100% | Property Investment |
| 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 Asset Value or GAV – The total value of the Group's wholly owned property portfolio (refer to Note 13).

Gross Rent – The total rents achievable if the portfolio was 100% occupied for an academic year.

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

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

Registered Office

6th Floor Swan House
17-19 Stratford Place
London W1C 1BQ

DIRECTORS AND ADVISERS

Directors

Mark Pain (Chairman)
Tim Attlee (Chief Executive Officer)
Lynne Fennah (Chief Financial and Operating Officer)
Jim Prower (Non-Executive Director)
Stuart Beevor (Non-Executive Director)
Alice Avis (Non-Executive Director)

Broker and Joint Financial Adviser

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Vintners Place
68 Upper Thames Street
London EC4V 3BJ

Broker and Joint Financial Adviser

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Legal Adviser to the Company

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Registrar

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The Pavilions
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Valuer

CBRE Limited
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