DE MONTFORT UNIVERSITY
HIGHER EDUCATION CORPORATION

£110,000,000 5.375 per cent. Bonds due 2042
(including £20,000,000 in principal amount of Retained Bonds)

Issue price: 96.403 per cent.

The £110,000,000 5.375 per cent. Bonds due 2042 (including £20,000,000 in principal amount of retained bonds (the **Retained Bonds**) which will be immediately purchased by the Issuer on the Closing Date (as defined below)) (the **Bonds**) are issued by De Montfort University Higher Education Corporation (the **Issuer**).

The Issuer may, at its option, redeem all, or from time to time any part of, the Bonds at the higher of the principal amount of the Bonds and the sum of the Gross Redemption Yield of the Benchmark Gilt (each as defined in Condition 8.3 (*Redemption at the Option of the Issuer*)) and 0.40 per cent. plus accrued interest. Also, the Issuer may, at its option, redeem all, but not some only, of the Bonds at any time at par plus accrued interest, in the event of certain tax changes as described in Condition 8.2 (*Redemption for Taxation Reasons*). The Bonds mature on 30 June, 2042.

Interest on the Bonds is payable semi-annually in arrear on 30 June and 31 December in each year at a rate of 5.375 per cent. per annum, commencing on 31 December, 2012, as described in Condition 5 (*Interest*).

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for the Bonds (including the Retained Bonds) to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc (the **London Stock Exchange**) for the Bonds to be admitted to trading on the London Stock Exchange's regulated market. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**).

It is expected that the Bonds will be rated "Aa1" by Moody's Investors Service Limited (**Moody's**). Moody's, Standard & Poor's Credit Market Services Europe Limited and Fitch Ratings Ltd are each credit rating agencies established in the European Union and registered under Regulation (EC) No 1060/2009 (as amended) and are included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Bonds will be issued in denominations of £100,000 and integral multiples of £1,000 in excess thereof.

The Bonds will initially be represented by a temporary global bond (the **Temporary Global Bond**), without interest coupons, which will be deposited on or about 18 July, 2012 (the **Closing Date**) with a common safekeeper for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**). Interests in the Temporary Global Bond will be exchangeable for interests in a permanent global bond (the **Permanent Global Bond** and, together with the Temporary Global Bond, the **Global Bonds**), without interest coupons, on or after 27 August, 2012 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Bond will be exchangeable for definitive Bonds only in certain limited circumstances - see "*Summary of Provisions relating to the Bonds while represented by the Global Bonds*".

An investment in Bonds involves certain risks. Prospective investors should have regard to the factors described under the heading "Risk Factors" on page 6.

Sole Bookrunner

Barclays

Independent Issuance Adviser to the Issuer

Deloitte Corporate Finance, a Division of Deloitte LLP

The date of this Offering Circular is 16 July, 2012

This Offering Circular comprises an approved prospectus for the purposes of section 85(2) of the Financial Services and Markets Act 2000 (the *FSMA*).

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information. The statements relating to the 2010/2011 Destination of Leavers from Higher Education Survey and the Research Council UK Top 100 referred to in the section "*Description of the Issuer*" were obtained from the annual statutory returns submitted to the Higher Education Statistics Agency (*HESA*) and the Big Ideas for the Future report produced by the Research Council UK and Universities UK, respectively. The Issuer confirms that these statements have been accurately reproduced and that, as far as the Issuer is aware and is able to ascertain from information published by HESA and by the Research Council UK and Universities UK, no facts have been omitted which would render these statements inaccurate or misleading.

None of Barclays Bank PLC (the *Sole Bookrunner*), U.S. Bank Trustees Limited (the *Trustee*) and Deloitte LLP have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Sole Bookrunner, the Trustee or Deloitte LLP as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer and in connection with the offering of the Bonds. None of the Sole Bookrunner, the Trustee and Deloitte LLP accepts any liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Issuer in connection with the offering of the Bonds or their distribution.

No person is or has been authorised by the Issuer, the Sole Bookrunner, the Trustee or Deloitte LLP to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the offering of the Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Sole Bookrunner, the Trustee or Deloitte LLP.

To the fullest extent permitted by law, none of the Sole Bookrunner, the Trustee and Deloitte LLP accepts any responsibility for the contents of this Offering Circular or for any other statement made or purported to be made by them or on their behalf in connection with the Issuer, or the issue and offering of the Bonds. The Sole Bookrunner and Deloitte LLP each accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement.

Neither this Offering Circular nor any other information supplied in connection with the offering of the Bonds (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the Sole Bookrunner, the Trustee or Deloitte LLP that any recipient of this Offering Circular or any other information supplied in connection with the offering of the Bonds should purchase any Bonds. Each investor contemplating purchasing any Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Offering Circular nor any other information supplied in connection with the offering of the Bonds constitutes an offer or invitation by or on behalf of the Issuer, the Sole Bookrunner, the Trustee or Deloitte LLP to any person to subscribe for or to purchase any Bonds.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of the Bonds shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Bonds is correct as of any time subsequent to the date indicated in the document

containing the same. The Sole Bookrunner, the Trustee and Deloitte LLP expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Bonds or to advise any investor in the Bonds of any information coming to their attention. The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended, (the *Securities Act*) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Bonds and on distribution of this document, see "*Subscription and Sale*" below.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy the Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Bonds may be restricted by law in certain jurisdictions. The Issuer, the Sole Bookrunner, the Trustee and Deloitte LLP do not represent that this Offering Circular may be lawfully distributed, or that the Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Sole Bookrunner, the Trustee or Deloitte LLP which is intended to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Bonds may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Offering Circular or any Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Bonds. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Bonds in the United States and the European Economic Area (including the United Kingdom), see "*Subscription and Sale*".

IN CONNECTION WITH THE ISSUE OF THE BONDS, BARCLAYS BANK PLC AS STABILISING MANAGER (THE *STABILISING MANAGER*) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

The Bonds may not be a suitable investment for all investors. Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) **have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained in this Offering Circular or any applicable supplement;**

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Prospective purchasers of Bonds should ensure that they understand the nature of the Bonds and the extent of their exposure to risk, that they have sufficient knowledge, experience and access to professional advisers to make their own legal, tax, accounting and financial evaluation of the merits and the risks of investment in the Bonds and that they consider the suitability of the Bonds as an investment in light of their own circumstances and financial condition.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) the Bonds are legal investments for it, (b) the Bonds can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase or pledge of the Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

All references in this document to *Sterling* and £ refer to the currency of the United Kingdom.

References to websites included in this Offering Circular are included for information purposes only and the websites and their content are not incorporated into, and do not form part of, this Offering Circular.

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Bonds are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Bonds may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision. If any of the following risks actually materialise, the Issuer's business, financial condition and prospects could be materially and adversely affected. No assurance can be given that prospective Bondholders will receive full and/or timely payment of interest and principal or ultimate recovery in relation to the Bonds.

Factors which may affect the Issuer's ability to fulfil its obligations

Change in university funding: The Higher Education Funding Council for England (**HEFCE**) is responsible for distributing public funds to higher education institutions. HEFCE is a non-departmental public body whose remit is set by the Secretary of State for Business, Innovation and Skills but which does not form part of any government department. The Government determines the level of public funding that the higher education sector receives, informing HEFCE of the amount via a "grant letter". It is the responsibility of HEFCE to distribute this funding in accordance with agreed criteria to higher education institutions. Under the current funding arrangements, HEFCE allocates funds to universities by applying a formula to determine how much the institution requires in order to fund its activities. Universities are then able to determine exactly how to apply this funding, taking into account their own priorities but ensuring that they comply with the broad criteria set out by HEFCE, for example in relation to student numbers. Most of the funding that the Issuer has typically received from HEFCE is in the form of a "block" grant which the Issuer uses to fund its courses. HEFCE also provides non-recurrent funding which can be used by universities for special purposes beyond the scope of the block grant such as funding for developing university infrastructure. For further details please refer to "*Funding and Regulation*" below.

The funding arrangements for the university sector have recently been reformed and new funding arrangements will take effect from the start of the 2012/2013 academic year. The full future impact of these reforms is, at present, uncertain. The proportion of the Issuer's income which is expected to derive from HEFCE grants will change over the coming years to reflect the new funding arrangements. HEFCE grants will be reduced from the start of the 2012/2013 academic year (with continuing students from the United Kingdom or other EU Member States (**UK/EU Students**) being funded on a student by student basis by HEFCE, and not by a block grant) and, as a consequence, the Issuer's publicly funded income will become much more dependent upon the tuition fees that it receives from students. Under the new funding arrangements, a significant proportion of public funding will go directly to students in the form of a loan from the Student Loan Company (rather than from HEFCE directly to the Issuer in the form of a grant). The level of public funding that the Issuer will ultimately receive is therefore dependent upon the number of UK/EU Students that choose to study on a course provided by the Issuer.

For the 2012/2013 academic year, there will be a mix of funding arrangements as the current funding arrangements will continue to apply in respect of students who are already enrolled on courses with the Issuer. In respect of students starting a course for the first time in 2012/2013 academic year, the new funding arrangements will apply. In addition, undergraduate courses which have been classified as "high cost", for example those involving laboratory costs such as some health and technology programmes, will continue to receive recurrent funding from HEFCE. During this transition period, universities will continue to receive some HEFCE funding for UK/EU post-graduate taught students.

The Issuer also receives research grants from research councils (for example, the Engineering and Physical Sciences Research Council and the Arts and Humanities Research Council) and other research funding bodies (such as medical research charities). The availability of research grants generally has been impacted by the current economic situation and as a consequence research sponsors are adopting increasingly selective policies to ensure that their funding is received by the highest quality researchers. The availability of research grants is dependent upon such policies and the Issuer's ability to attract researchers of a high standard.

In addition, research rated "two star" quality according to the 2008 Research Assessment Exercise (which is being replaced by the Research Excellence Framework) will no longer be taken into account in determining mainstream quality-related research funding. "Two star" research is research which is recognised internationally in terms of 'originality, significance and rigour'. Work that is performed within this category will cease to attract funding from 2012/13 onwards, following HEFCE's announcement that it will redirect previous funding for "two star" research to the funding it provides to support research degree programme supervision. The impact of this upon the Issuer is dependent upon the amount of research carried out by the Issuer in the future which is rated at this level. Going forwards, the level of funding provided by HEFCE will generally be based on research quality and so the ability of the Issuer to receive research funding for its research from HEFCE will be influenced by its ability to carry out research recognised as internationally excellent and world-leading. The current research rating criteria will pertain until the 2015/16 financial year, after which research ratings derived from the Research Excellence Framework 2014 will apply.

The changes to the funding that the Issuer has historically received have led the Issuer to diversify its income streams and to seek alternative forms of income. The Issuer's strategy is to diversify its income in order to be less reliant on the new HEFCE funding regime. The impact of the new funding arrangements on the Issuer will be dependent upon a range of factors such as the ability of the Issuer to attract students so as to maintain or increase its student numbers, its ability to raise funding through other means such as fulfilling its research strategy, obtaining research grants and commercial activity and its existing balance sheet position.

Student numbers: Universities in England are faced with uncertainty in relation to student numbers from the academic year 2012/2013 onwards due to the higher tuition fees that students will have to pay for university education. Although UK/EU Students are not required to pay any money upfront, students will start incurring liability for their student loans from their first year of study. Students may decide to pursue alternative options, such as entering the job market on completing school or seeking alternative forms of training. There is no guarantee that student numbers will remain at their current level. However, the Issuer is adopting a number of initiatives to address this such as:

- the Mile2 project which provides volunteering opportunities for students with the residents of a local community close to the campus, bringing the services, knowledge and expertise of the Issuer in areas such as energy efficiency and English language lessons to the residents in order to make the Issuer more appealing to students;

- its strategic partnership with Hewlett Packard, which *inter alia* will see the introduction of a BSc in Business Informatics and internship opportunities for students;

- its strategic partnership with Confetti ICT, a private sector provider the courses of which are delivered directly in the workplace (in Nottingham) alongside professional practitioners;
- its employability strategy which will help the Issuer's students to build personal, academic and career development skills, improve their professional skills and external awareness and accumulate work experience as part of their co-curricular activity; and
- its various financial support bursaries and scholarships to support students from a wide range of backgrounds and incomes.

Despite these initiatives, there is no guarantee that students will choose to apply for courses at the Issuer in the same numbers as in previous years. The current economic climate coupled with the requirements for students to apply for student loans could have an impact on the willingness of students to apply for courses with the Issuer.

New systems of allocating student numbers to institutions are being introduced for the academic year 2012/2013. All universities have a Student Number Control Limit (being a limit on the number of places that a university is able to offer students); this is a historic number based approximately on the size of the higher education sector in England and Wales as it was in October 2008. The Issuer's Student Number Control Limit for 2012 entry is 3,555 students, a reduction from 4,460 students in previous years. Non-UK/EU Students do not count towards universities' Student Number Control Limit. From the academic year 2012/2013, students with the equivalent of A-level grades "AAB+" or above (based on historic data) will no longer be included in the Student Number Control Limit population. The Issuer's income is therefore partly reliant upon its ability to attract sufficient numbers of high calibre candidates. A so-called 'margin' of up to 20,000 places is being created by reducing institutions' core residual student number control population (referred to as "core numbers") i.e. those students who remain once students with the equivalent of A-level grades "AAB+" have been removed from the core numbers to allow institutions charging lower tuition fees to bid for more student places. The places from this margin will be redistributed based upon the fees charged and the ability to meet certain other criteria relating to quality and demand. Core numbers will be reduced further for 2013/2014, and possibly more in future years. The Issuer is, therefore, at risk of losing some potential students from its core allocation. There is also potential for the Issuer to recruit more students if it is able to attract more students who have A-level grades of "AAB+" or above. In addition, to the extent that the Issuer exceeds its Student Number Control Limit, HEFCE will reduce the grant funding it receives.

Tuition fees: The Issuer currently receives a significant proportion of its income from the tuition fees that it is able to charge its students. Existing UK/EU Students are charged up to a maximum of £3,465 per year in tuition fees by the Issuer. From September 2012, universities will be able to charge each new student a maximum of £6,000 per year, and some universities, including the Issuer, will be permitted to charge each student a maximum of £9,000 per year in tuition fees. In order to do so, the Issuer must comply with strict criteria set by the Office of Fair Access, ensuring that all students that meet its admissions criteria are able to access its courses regardless of their background. This increase in fees will help to counter the reduction in the level of teaching funding that the Issuer will receive from HEFCE, however it is dependent upon the Issuer's ability to attract students. There is no guarantee that student numbers will stay at their current level. The amount that the Issuer is able to charge its students is subject to any maximum amount that the government specifies and the government may increase or decrease this amount depending upon its higher education policies. There is no guarantee that the government's approach to tuition fees, and higher education funding generally, will remain consistent, particularly if, as a result of an election, there are changes to the composition of the government. Any further increase in the level of tuition fees may affect the number of prospective students who choose to apply for a place on a course with the Issuer.

Non-UK/EU Students: In order to diversify its income, the Issuer is trying to increase its presence in markets other than that for full-time undergraduate UK/EU Students and to attract a greater number of non-UK/EU Students. It is seeking to do this through the development of international partnerships such as with City

University Hong Kong and Nanjing University China and increasing its international activity and commercial initiatives, as well as continuing to work with recruitment agencies both in the UK and overseas. The Issuer is not subject to a fee cap in relation to non-UK/EU Students and therefore is able to charge a higher amount. The Issuer's international strategy, as summarised above, has resulted in the recruitment of an additional 105 new overseas students in 2011/2012 in comparison with the number recruited in 2010/2011 and has provided an additional tuition fee income of over £1 million. The fees that the Issuer receives from non-UK/EU Students, its ability to sustain current levels of non-UK/EU Student recruitment and its ability to achieve growth in these markets to attract students from overseas is dependent upon a number of factors including the UK government's immigration policy, the growth of international higher education and international political and economic developments.

Competition: Following the announcement of the new funding arrangements, the higher education sector in England and Wales is an increasingly competitive sector. The Issuer therefore needs to differentiate itself from its competitors to establish a strong position within the sector in order to attract high numbers of students. The Issuer is seeking to do this in a number of ways, for example through investing in its estate and supporting infrastructure (including ICT), its partnership arrangements with Hewlett Packard and the Mile2 initiative (as well as the other initiatives referred to above) as well as an Office for Fair Access agreement, which focuses on ways of improving retention and enhancing student support and employability. There may also be increased competition from overseas universities particularly those situated in the EU member states. Students may increasingly consider studying outside the UK, if the overall cost of a degree is cheaper overseas.

Academic Reputation and Popularity: The Issuer's success in terms of student recruitment and retention and its aspirations to increase its position in national league tables will be dependent on its academic reputation, the quality of its teaching and research and the popularity of the courses it offers. The Issuer has the second highest number of National Teaching Fellows in the country. This status is awarded on the basis of the ability of such teachers to inspire and influence their students and colleagues and each is awarded £10,000 to develop and disseminate their work. The Issuer maintains focus on the quality of its teaching and research and has an active Pro Vice Chancellor with specific responsibility for this area. The Issuer has established a Programme Review Panel, chaired by one of its Governors, the remit of which is to review the Issuer's current courses portfolio by the number of applications received taking into account factors such as prestige or the nature of such courses, thereby ensuring that the popularity of the courses is maintained. The Issuer's Academic Board also has responsibilities in this area to ensure that the content of the courses ensures its popularity with students.

Pensions: The Issuer participates in the following pension schemes:

(a) the Teachers' Pension Scheme (**TPS**);

(b) the Local Government Pension Scheme (**LGPS**); and

(c) the Universities Superannuation Scheme (**USS**), which is operated for a strictly limited membership.

The TPS is a statutory, contributory, defined benefit pension scheme. It is an unfunded scheme. Contributions on a 'pay-as you-go' basis are credited to the Exchequer under arrangements governed by the Superannuation Act 1972. Actuarial valuations are carried out on a notional set of investments. As the TPS is a multi-employer pension scheme, the Issuer is unable to identify its share of the underlying (notional) assets and liabilities of the scheme. Not less than every four years the Government Actuary (**GA**) conducts a formal actuarial review of the TPS, using normal actuarial principles. The aim of the review is to specify the level of future contributions.

The last formal actuarial review of the TPS was at 31 March, 2004. The review scheduled for 2008 was put on hold because of the Hutton Review of Fair Pay in the Public Sector which was commissioned to make recommendations on promoting pay fairness in the public sector by tackling disparities between the lowest and the highest paid in public sector organisations. The next formal actuarial review will be in 2015 when a revised scheme has been implemented and all rule changes applied. However, the GA provided a report later in October 2006 which revealed that the total liabilities of the TPS (pensions currently in payment and the estimated cost of future benefits) amounted to £166,500 million. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £163,240 million. The assumed real rate of return is 3.5 per cent. in excess of prices and 2 per cent. in excess of earnings. The rate of real earnings growth is assumed to be 1.5 per cent. The assumed gross rate of return is 6.5 per cent.. Therefore, as from 1 January, 2007, and as part of the cost-sharing agreement between employers' and teachers' representatives, the standard contribution has been assessed at 19.75 per cent., plus a supplementary contribution rate of 0.75 per cent. (to balance assets and liabilities as required by the regulations within 15 years); a total contribution rate of 20.5 per cent. This translates into an employee contribution rate of 6.4 per cent. and employer contribution rate of 14.1 per cent. payable. The cost-sharing agreement has also introduced a 14 per cent. cap on employer contributions payable.

The LGPS is also a multi-employer pension scheme but, unlike the TPS, it is possible to identify the share of the LGPS fund's underlying assets and liabilities attributable to the Issuer. The scheme is a defined benefit scheme in the UK and is known as the "Leicestershire County Council Pension Fund". A full actuarial valuation of the fund was carried out at 31 March, 2007 by a qualified independent actuary. This was updated to 31 July, 2011 for Financial Reporting Standard 17 of the Accounting Standards Board (**FRS 17**) (Retirement Benefits) purposes by a qualified independent actuary. At that date, the fair market value of the assets held in the LGPS fund attributable to the Issuer amounted to £100 million. As at that date, the corresponding present value of pension liabilities amounted to £131.7 million. Therefore, there was a net pension liability of £31.7 million. For LGPS officers, the calculation of contribution rates changed with effect from 1 April, 2008. From this date, different contributions rates were applied to each range of salary bandings for officers. The employer contribution from April 2011 onwards is an average of 13.6 per cent. for those employees classified as 'officers' and 11.00 per cent. for those classified as 'LGPS manual pre-1998'.

The USS is a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The Issuer is therefore exposed to actuarial risks associated with other institutions' employees. It is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reliable basis. Therefore, as required by FRS 17, the Issuer accounts for the scheme as if it were a defined contribution scheme.

The triennial actuarial valuation of the USS at 31 March, 2008 was the first valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out regular reviews of the funding levels. In particular, the actuary carries out a review of the funding level each year between triennial valuations. At the valuation date of 31 March, 2008, the value of the assets of the scheme was £28,842.6 million and the value of the scheme's technical provisions was £28,135.3 million, indicating a surplus of £707.3 million. The assets were sufficient to cover 103 per cent. of the benefits which had accrued to members after allowing for expected future increases in earnings. The scheme-wide contribution rate required for future service benefits alone at the date of the valuation was 16 per cent. of pensionable salaries and the trustee company, on the advice of the actuary, increased the Issuer’s contribution rate to 16 per cent. of pensionable salaries from 1 October, 2009.

The 2011 actuarial valuation of the USS revealed a scheme deficit and the USS took the decision to formulate a recovery plan. A recovery plan, dated 15 June, 2012 has been agreed by the trustee of the USS after obtaining actuarial advice.

The USS is a 'last man standing' scheme so that in the event of insolvency of any of the participating employers in the scheme, the amount of any pension shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

It is possible that the Issuer may be required to make further payments in respect of the pensions schemes in which it participates which may impact upon the Issuer's ability to fund its payment obligations under the Bonds.

Employee relations: The Issuer could experience a deterioration in employee relations with its staff and trade unions, as a consequence of a number of potential issues such as changes to pensions, anticipated modest pay awards, requirement for more staff flexibility to improve the student experience and efficiency and workforce reductions as a result of a decline in funding. Manifestations of deterioration in employee relations could take a variety of forms, for example, work to rule (i.e. the removal of good will) or formal industrial action, including strike action which could impact on the Issuer's reputation, teaching and research functions. The Issuer has a history of open communication with the recognised trade unions. It also ensures effective internal communications with its workforce, comprehensive guidance for managers and appropriate plans to minimise the impact of any future industrial action.

Litigation Risk: To date, claims made against the Issuer have not had a material impact on the revenue or business of the Issuer, although there can be no assurance that the Issuer will not, in the future, be subject to a claim which may have a material impact upon its revenue or business.

The Issuer has the benefit of insurance for, among others, employer's liability, public liability and professional indemnity at a level which the Finance and Human Resources Committee of the Issuer considers to be prudent for the type of activity in which the Issuer is engaged.

Factors which are material for the purpose of assessing the market risks associated with the Bonds

Liability under the Bonds: The Bonds are obligations of the Issuer only and do not establish any liability or other obligation of any other person mentioned in this Offering Circular. The Bonds will constitute direct, general, unsecured obligations of the Issuer and will rank equally among themselves.

Interest rate risks*:* The Bonds bear interest at a fixed rate and therefore involve the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

Redemption prior to maturity: In the event that the Bonds become repayable prior to maturity either following an Event of Default (as defined in Condition 11 (*Events of Default*)) or pursuant to Condition 8.2 (*Redemption for Taxation Reasons*) or Condition 8.5 (*Redemption at the Option of the Holders*), the Bonds will be redeemed in full at their principal amount, plus accrued interest. In such circumstances it may not be possible for an investor to reinvest the redemption proceeds at an effective rate of interest as high as the interest rate on the Bonds.

Bonds subject to optional redemption by the Issuer: The optional redemption feature of the Bonds is likely to limit their market value. During any period when the Issuer may elect to redeem Bonds, the market value of those Bonds generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period. In addition, if the Issuer redeems some, but not all, of the Bonds in accordance with Condition 8.3 (*Redemption at the Option of the Issuer*), this may affect the liquidity of the outstanding Bonds in the secondary market (if any), which may in turn affect the market value of the outstanding Bonds.

The Issuer may be expected to redeem Bonds when its cost of borrowing is lower than the interest rate on the Bonds. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Bonds being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Modification, waivers and substitution: The Terms and Conditions of the Bonds and the Trust Deed contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders, including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority. The Terms and Conditions of the Bonds and the Trust Deed also provide that the Trustee may, without the consent of Bondholders (i) agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Bonds, (ii) determine without the consent of the Bondholders that any Potential Event of Default or Event of Default shall not be treated as such or (iii) agree to the substitution of another entity as principal debtor under the Bonds in place of the Issuer, in the circumstances described in the Trust Deed and the Terms and Conditions, provided, in the case of (i) and (ii), that the Trustee is of the opinion that to do so would not be materially prejudicial to the interests of Bondholders.

***Denominations involve integral multiples: definitive Bonds**:* The Bonds have denominations consisting of a minimum of £100,000 plus one or more higher integral multiples of £1,000. It is possible that the Bonds may be traded in amounts that are not integral multiples of £100,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than £100,000 in its account with the relevant clearing system at the relevant time may not receive a definitive Bonds in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that its holding amounts to £100,000.

If definitive Bonds are issued, holders should be aware that definitive Bonds which have a denomination that is not an integral multiple of £100,000 may be illiquid and difficult to trade.

***Change in Law**:* The issue of the Bonds is based on English law and regulatory and administrative practice in effect as at the date of this Offering Circular, and has due regard to the expected tax treatment of all relevant entities under United Kingdom tax law and the published practice of HM Revenue & Customs in force or applied in the United Kingdom as at the date of this Offering Circular. No assurance can be given as to the impact of any possible change to English law or regulatory or administrative practice in the United Kingdom, or to United Kingdom tax law, or the interpretation or administration thereof, or to the published practice of HM Revenue & Customs as applied in the United Kingdom after the date of this Offering Circular.

Taxation: Under the Terms and Conditions of the Bonds (see Condition 9 (*Taxation*)), the Issuer will not be entitled to make any deduction or withholding on account of payments in respect of the Bonds unless such withholding or deduction is required by law. In the event that any deduction or withholding on account of tax is required by law, the Issuer shall be required (except in the limited circumstances set out in Condition 9 (*Taxation*)) to pay such additional amounts as will result in the receipt by the Bondholders of such amounts as would have been received by them if no such withholding or deduction had been required. Where the deduction or withholding is required as a result of a change in applicable law or regulations, the Issuer may exercise its option to redeem the Bonds in full at the principal amount, plus accrued interest, pursuant to Condition 8.2 (*Redemption for Taxation Reasons*). As mentioned above, in such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Bonds.

For a description of the current United Kingdom law and practice relating to withholding tax treatment of the Bonds, see below in "*Taxation*".

EU Savings Directive: Under EC Council Directive 2003/48/EC (the **Directive**) on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to the Bonds as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

***Exchange rate risks and exchange controls**:* The Issuer will pay principal and interest on the Bonds in Sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than Sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of Sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Sterling would decrease (1) the Investor's Currency-equivalent yield on the Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Bonds and (3) the Investor's Currency-equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including illiquidity risk, exchange rate risk, interest rate risk and credit risk:

Potential limited liquidity: The Bonds will not have an established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. The development or continued liquidity of any secondary market for the Bonds will be affected by a number of factors such as the state of credit markets in general and the creditworthiness of the Issuer, as well as other factors such as the time remaining to the maturity of the Bonds. Illiquidity may have a severely adverse effect on the market value of Bonds.

***Global economic disruption**:* In addition, Bondholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date hereof), whereby there is a general lack of liquidity in the secondary market for instruments similar to the Bonds, concerns over the liquidity of major banks and building societies and the consequent effects on the general economy. The Issuer cannot predict when these circumstances will change and, if and when they do, whether conditions of general market illiquidity for the Bonds and instruments similar to the Bonds will return in the future.

Credit ratings may not reflect all risks: It is expected that the Bonds will be rated "Aa1" by Moody's. Moody's is a credit rating agency established in the European Union and registered under Regulation (EC) No 1060/2009 (as amended) (the **CRA Regulation**) and is included in the list of credit rating agencies published by European Services and Markets Authority on its website in accordance with such Regulation. The rating may not reflect the potential impact of all risks related to structure, market and additional factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In particular, on 15 February, 2012, Moody's took action in respect of selected European sub-sovereign issuers on the view that these entities are linked to national government through financial, operational and economic factors. As with any entity, the rating of the Issuer (and accordingly, the rating of the Bonds) may be susceptible to adjustments (whether upward or downward) and in particular, any adjustments which may be made as a result of a rating agency's methodology as applied to the Issuer.

In general, European regulated investors are restricted under CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

As of the date of this Offering Circular, Moody's is established in the European Union and is registered under the CRA Regulation. As such, Moody's is included in the list of credit rating agencies published by the ESMA on its website in accordance with the CRA Regulation.

CONDITIONS OF THE BONDS

The following is the text of the Conditions of the Bonds which (subject to modification) will be endorsed on each Bond in definitive form (if issued). Bonds in definitive form will only be issued in limited circumstances.

The £110,000,000 5.375 per cent. Bonds due 2042 (the **Bonds**, which expression shall in these Conditions, unless the context otherwise requires, include any further bonds issued pursuant to Condition 18 (*Further Issues*) and forming a single series with the Bonds) of De Montfort University Higher Educational Corporation (the **Issuer**) are constituted by a Trust Deed dated 18 July, 2012 (as modified and/or supplemented from time to time, the **Trust Deed**) made between the Issuer and U.S. Bank Trustees Limited (the **Trustee**, which expression shall include its successor(s)) as trustee for the holders of the Bonds (the **Bondholders**) and the holders of the interest coupons appertaining to the Bonds (the **Couponholders** and the **Coupons** respectively, which expressions shall, unless the context otherwise requires, include the talons for further interest coupons (the **Talons**) and the holders of the Talons).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the Agency Agreement dated 18 July, 2012 (as modified and/or supplemented from time to time, the **Agency Agreement**) made between the Issuer, Elavon Financial Services Limited, UK Branch as principal paying agent (the **Principal Paying Agent**, which expression shall include any successor principal paying agent) and the Trustee are available for inspection during normal business hours by the Bondholders and the Couponholders at the principal office for the time being of the Trustee, being at the date of issue of the Bonds at Fifth Floor, 125 Old Broad Street, London EC2N 1AR, and at the specified office of each of the Paying Agents (as defined below). The Bondholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. DEFINITIONS

Acceptable Bank means:

(a) a bank or financial institution which has a short term credit rating of either "A-1" or higher by Standard & Poor's Rating Services or "F-1" or higher by Fitch Ratings Ltd or "P-1" or higher by Moody's or a comparable rating from an internationally recognised credit rating agency; or

(b) any other bank or financial institution approved by the Trustee;

Authorised Signatory means any person who (a) is a member of the Board of Governors of the Issuer or (b) has previously been notified in writing by the Issuer to the Trustee as being duly authorised to sign documents and to do other acts and things on behalf of the Issuer for the purpose of these Conditions;

Borrowings means any indebtedness for or in respect of:

(a) moneys borrowed and debit balances at banks or other financial institutions;

(b) any amount raised by acceptance under any acceptance credit or bill discounting facility or dematerialised equivalent;

(c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;

(d) the principal amount plus accrued but unpaid interest in respect of Finance Leases;

(e) receivables sold or discounted (other than any receivables to the extent they are sold or discounted on a non-recourse basis);

(f) any Treasury Transaction (and, when calculating the value of that Treasury Transaction, only the marked to market value (or, if any actual amount (after any applicable netting or set-off) is due as a result of the termination or close-out of that Treasury Transaction, that amount) shall be taken into account);

(g) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution in respect of (i) an underlying liability of an entity which is not the Issuer which liability would fall within one of the other paragraphs of this definition or (ii) any liabilities of the Issuer relating to any post-retirement benefit scheme;

(h) any amount of any liability under an advance or deferred purchase agreement if (i) one of the primary reasons behind the entry into the agreement is to raise finance or to finance the acquisition or construction of the asset or service in question and (ii) the agreement is in respect of the supply of assets or services and payment is due more than 90 days after the date of receipt;

(i) any amount raised under any other transaction (including any forward sale or purchase, sale and sale back or sale and leaseback agreement) which is classified as borrowings under UK GAAP; and

(j) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to above in respect of an underlying liability of an entity which is not the Issuer,

but excluding any pension related liabilities;

Business Day means in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place;

Capital Redemption Provision means, in relation to each Financial Year, an amount equal to the aggregate principal amount of the Bonds (excluding any Retained Bonds) outstanding at the end of that Financial Year divided by the number of years from the initial issue date of the Bonds (or the date of the most recent redemption of any Bonds pursuant to Condition 8.3 (*Redemption at the Option of the Issuer*) or Condition 8.5 (*Redemption at the Option of the Holders*) (if any)) to 30 June, 2042 (rounded up, if not a whole number, to the next whole number);

Cash Equivalents means:

(a) certificates of deposit maturing within one year after the relevant date of calculation and issued by an Acceptable Bank;

(b) any investment in marketable debt obligations issued or guaranteed by the government of the United States of America, the United Kingdom, any member state of the European Economic Area or by an instrumentality or agency of any of them (i) having a short term credit rating of either "A-1" or higher by Standard & Poor's Rating Services or "F-1" or higher by Fitch Ratings Ltd or "P-1" or higher by Moody's or a comparable rating from an internationally recognised credit rating agency, (ii) maturing within one year after the relevant date of calculation and (iii) not convertible or exchangeable to any other security;

(c) commercial paper not convertible or exchangeable into any other security;

(i) for which a recognised trading market exists;

(ii) issued by an issuer incorporated in the United States of America, the United Kingdom or any member state of the European Economic Area;

(iii) which matures within one year after the relevant date of calculation; and

(iv) which has a credit rating of either "A-1" or higher by Standard & Poor's Credit Market Services Europe Limited or "F-1" or higher by Fitch Ratings Ltd or "P-1" or higher by Moody's, or, if no rating is available in respect of the commercial paper, the issuer of which has, in respect of its long-term unsecured and non-credit enhanced debt obligations, an equivalent rating;

(d) sterling bills of exchange eligible for rediscount at the Bank of England and accepted by an Acceptable Bank (or their dematerialised equivalent);

(e) any investment in money market funds which:

(i) have a credit rating of either "A-1" or higher by Standard & Poor's Rating Services or "F-1" or higher by Fitch Ratings Ltd or "P-1" or higher by Moody's;

(ii) invest substantially all their assets in securities of the types described in sub-paragraphs (a) to (d) above; and

(iii) can be liquidated for cash on not more than 30 days' notice; or

(f) any other debt security approved by the Trustee,

in each case, to which the Issuer is alone beneficially entitled at that time and which is not encumbered in any way or form;

Compliance Certificate means a certificate signed by two Authorised Signatories of the Issuer, substantially in the form set out in the Schedule 4 to the Trust Deed;

Finance Charges means, in relation to any Financial Year, the aggregate amount of the accrued interest, commission, fees, repayment fees, premiums or charges and other finance payments of a periodic nature in respect of Borrowings whether paid, payable or capitalised by the Issuer (calculated on a consolidated basis and excluding any such obligations to any Subsidiary):

(a) excluding any upfront fees or costs which are included as part of the effective interest rate adjustments;

(b) including the interest (but not the capital) element of payments in respect of Finance Leases;

(c) deducting any interest income accrued and/or received;

(d) including any commission, fees, discounts and other finance payments payable by (and deducting any such amounts payable to) any interest rate hedging arrangement; and

(e) taking no account of any unrealised gains or losses on any financial instruments other than any derivative instruments which are accounted for on a hedge accounting basis,

and so that no amount shall be added (or deducted) more than once and excluding any principal repayment or prepayment;

Finance Lease means any lease or hire purchase contract which would, in accordance with UK GAAP, be treated as a finance or capital lease;

Financial Year means an annual accounting period ending on 31 July of each year or such other date as at which the Issuer prepares its audited financial statements;

Issuer Group means the Issuer and its Subsidiaries;

Material Subsidiary means a Subsidiary of the Issuer (a) whose gross receipts of an income nature which would be classified as income in accordance with UK GAAP represents at least ten per cent. of the Total Consolidated Income or (b) whose shareholder's funds represent at least five per cent. of the Issuer Group's Total Funds, as more particularly described in the Trust Deed;

Moody's means Moody's Investors Service Limited or any of its subsidiaries and their successors;

Paying Agents means the paying agents (including, without limitation, the Principal Paying Agent) for the time being appointed as such pursuant to the Agency Agreement;

Retained Bonds has the meaning given to it in Condition 8.6 (*Purchases*);

Subsidiary means an entity of which a person:

(a) has direct or indirect control; or

(b) owns directly or indirectly more than fifty per cent. of the share capital or similar right of ownership; or

(c) is entitled to receive more than fifty per cent. of the dividends or distributions,

and any entity (whether or not so controlled) treated as a subsidiary in the latest audited financial statements of that person from time to time and disregarding, for the purposes of this definition, the fact that any shares in that entity may be held by way of security, that the beneficiary (or its nominee) may be registered as a member of the relevant undertaking and/or that such beneficiary of the security (or its nominee) may be entitled to exercise voting powers and rights with respect of those charged shares, and **control** for this purpose means, in relation to an entity, the legal power to direct or cause the direction of the general management and policies of that entity;

Total Borrowing Costs means, in relation to any Financial Year, the sum of Finance Charges plus the Capital Redemption Provision at the end of that Financial Year;

Total Cash means:

(a) cash held on deposit and available on demand with an Acceptable Bank; and

(b) Cash Equivalents;

Total Consolidated Income means, in relation to any Financial Year, all gross receipts of an income nature of the Issuer and its Subsidiaries which would be classified as income in accordance with UK GAAP, and as reported in the Issuer's latest audited consolidated financial statements;

Total Funds means, in relation to any Financial Year, the aggregate of the amount of deferred capital grants, total reserves (including revaluation reserves) and endowments of the Issuer Group as reported in the Issuer's latest audited consolidated financial statements;

Treasury Transactions means any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price; and

UK GAAP means generally accepted auditing standards in the United Kingdom.

2. FORM, DENOMINATION AND TITLE

2.1 Form and Denomination

The Bonds are in bearer form, serially numbered, in the denomination of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000 with Coupons and one Talon attached on issue.

2.2 Title

Title to the Bonds and to the Coupons will pass by delivery.

2.3 Holder Absolute Owner

The Issuer, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Bond or Coupon as the absolute owner for all purposes (whether or not the Bond or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Bond or Coupon or any notice of previous loss or theft of the Bond or Coupon or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

3. STATUS

The Bonds and the Coupons are direct, unconditional and (subject to the provisions of Condition 4 (*Negative Pledge*)) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

4. NEGATIVE PLEDGE

4.1 Negative Pledge

So long as any of the Bonds remains outstanding (as defined in the Trust Deed) the Issuer shall not, and the Issuer shall procure that no Material Subsidiary shall, create or have outstanding any mortgage, charge, lien, pledge or other security interest (each a **Security Interest**) upon, or with respect to, any of the present or future business, undertaking, assets or revenues (including any uncalled capital) of the Issuer and/or any of the Material Subsidiaries to secure any Relevant Indebtedness (as defined below), unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

(a) all amounts payable by it under the Bonds, the Coupons and the Trust Deed are secured by the Security Interest equally and rateably with the Relevant Indebtedness to the satisfaction of the Trustee; or

(b) such other Security Interest or other arrangement (whether or not it includes the giving of a Security Interest) is provided either (i) as the Trustee in its absolute discretion deems not materially less beneficial to the interests of the Bondholders or (ii) as is approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

4.2 Interpretation

For the purposes of these Conditions:

Relevant Indebtedness means (i) any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities which (with the consent of the Issuer) are for the time being or are intended to be quoted, listed or ordinarily dealt in on any stock exchange, over the counter securities market or other internationally recognised securities market and (ii) any guarantee or indemnity in respect of any such indebtedness.

5. INTEREST

5.1 Interest Rate and Interest Payment Dates

The Bonds bear interest from and including 18 July, 2012 at the rate of 5.375 per cent. per annum, payable semi-annually in arrear on 30 June and 31 December in each year (each an **Interest Payment Date**). The first payment (for the period from and including 18 July, 2012 to but excluding 31 December, 2012 at the rate of £24.25 per £1,000 principal amount of Bonds and £2,424.59 per £100,000 principal amount of Bonds) shall be made on 31 December, 2012.

5.2 Interest Accrual

Each Bond will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Bond is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue as provided in the Trust Deed.

5.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the **Accrual Date**) to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date multiplied by 2, and multiplying this by the rate of interest specified in Condition 5.1 (*Interest Rate and Interest Payment Dates*) and the relevant principal amount of the Bonds.

6. COVENANTS

6.1 Information Covenant

For so long as any of the Bonds remains outstanding, the Issuer shall:

(a) send to the Trustee not later than 180 days after the end of each Financial Year:

(i) a copy of its own and its consolidated audited financial statements for such Financial Year; and

(ii) a Compliance Certificate,

and, upon request by any Bondholder to the Issuer, make copies of such documents available to the Bondholders at the Issuer's principal office during normal business hours; and

(b) at the request of Bondholders holding not less than 50 per cent. per cent. in principal amount of the Bonds for the time being outstanding, convene a meeting of the Bondholders to discuss the financial position of the Issuer, provided, however, that the Issuer shall not be required to convene any such meeting pursuant to this Condition 6.1(b) more than once in any calendar year. Upon the request of Bondholders to convene any such meeting as aforesaid, the Issuer shall notify all Bondholders of the date (which such date shall be no more than 21 days following such request), time and place of the meeting in accordance with Condition 14 (*Notices*). The Issuer shall act in good faith in addressing any questions regarding its financial position raised at any such meeting, provided, however, that the Issuer shall not be obliged to disclose any information which it, in its absolute discretion, considers to be of a confidential nature. For the avoidance of doubt, the provisions of this Condition 6.1(b) are in addition to the meetings provisions set out in Condition 16 (*Meetings of Bondholders, Modification, Waiver, Authorisation and Determination*). The Trustee shall be under no obligation to attend or request any such meeting.

6.2 Financial Covenant

For so long as any of the Bonds remains outstanding, in respect of each Financial Year, the Issuer shall ensure that its Total Borrowing Costs do not exceed seven per cent. of the aggregate of:

(a) its Total Consolidated Income for that Financial Year; and

(b) the Total Cash of the Issuer and its Subsidiaries as at the end of that Financial Year.

The Trustee shall not be responsible for monitoring the Issuer's compliance with, nor liable for any failure to monitor compliance by the Issuer with, this Condition 6.2. The Issuer shall confirm in the Compliance Certificate provided pursuant to Condition 6.1 whether it is in compliance with this Condition 6.2 and the Trustee shall be entitled to rely absolutely on the Compliance Certificate provided to it by the Issuer as evidence of compliance with this Condition 6.2.

7. PAYMENTS AND EXCHANGES OF TALONS

7.1 Payments in respect of Bonds

Payments of principal and interest in respect of each Bond will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Bond, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

7.2 Method of Payment

Payments will be made by credit or transfer to an account in Sterling maintained by the payee with or, at the option of the payee, by a cheque in Sterling drawn on, a bank in London.

7.3 Missing Unmatured Coupons

Each Bond should be presented for payment together with all relative unmatured Coupons (which expression shall, for the avoidance of doubt, include Coupons falling to be issued on exchange of matured Talons), failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 9 (*Taxation*)) in respect of the relevant Bond (whether or not the Coupon would otherwise have become void pursuant to Condition 10 (*Prescription*)) or, if later, five years after the date on which the Coupon would have become due, but not thereafter.

7.4 Exercise of put option

To exercise the right to require the Issuer to redeem or, at the option of the Issuer, to purchase a Bond pursuant to Condition 8.5 (*Redemption at the Option of the Holders*), the holder of such Bond must deliver, at the specified office of any Paying Agent at any time during the normal business hours of such Paying Agent falling within the notice period specified in Condition 8.5 (*Redemption at the Option of the Holders*), a duly completed and signed notice of exercise in the form (for the time being current) obtainable from the specified office of any Paying Agent (a **Put Notice**) and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) complying with the requirements of this Condition 7.4 to which payment is to be made, accompanied by the relevant Bond or evidence satisfactory to the Paying Agent concerned that such Bond will, following delivery of the Put Notice, be held to its order or under its control.

The Paying Agent to which such Bond and Put Notice are delivered shall issue to the Bondholder concerned a non-transferable receipt in respect of the Bond so delivered. Payment in respect of any Bond so delivered shall be made, if the holder duly specifies a bank account in the Put Notice to which payment is to be made, by transfer for value on the relevant Put Date to that bank account or by cheque sent by first class post to that address, in either case in compliance with the provisions of Condition 7.2 (*Method of Payment*). A Put Notice, once given, shall be irrevocable.

7.5 Payments subject to Applicable Laws

Payments in respect of principal and interest on the Bonds are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 9 (*Taxation*).

7.6 Payment only on a Presentation Date

A holder shall be entitled to present a Bond or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 5 (*Interest*), be entitled to any further interest or other payment if a Presentation Date is after the due date.

Presentation Date means a day which (subject to Condition 10 (*Prescription*)):

(a) is or falls after the relevant due date;

(b) is a Business Day in the place of the specified office of the Paying Agent at which the Bond or Coupon is presented for payment; and

(c) in the case of payment by credit or transfer to a Sterling account in London as referred to above, is a Business Day in London.

7.7 Exchange of Talons

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 10 (*Prescription*). Each Talon shall, for the purposes of these Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

7.8 Initial Paying Agents

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that:

(a) there will at all times be a Principal Paying Agent;

(b) there will at all times be at least one Paying Agent (which may be the Principal Paying Agent) having its specified office in a European city which so long as the Bonds are admitted to official listing on the London Stock Exchange shall be London or such other place as the UK Listing Authority may approve; and

(c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any termination or appointment and of any changes in specified offices will be given to the Bondholders promptly by the Issuer in accordance with Condition 14 (*Notices*).

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Bondholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

8. REDEMPTION AND PURCHASE

8.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Bonds at their principal amount on 30 June, 2042.

8.2 Redemption for Taxation Reasons

If the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

(a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9 (*Taxation*)), or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 16 July, 2012, on the next Interest Payment Date the Issuer would be required to pay additional amounts as provided or referred to in Condition 9 (*Taxation*); and

(b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 14 (*Notices*) (which notice shall be irrevocable), with a copy to the Trustee and the Principal Paying Agent, redeem all the Bonds, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be required to pay such additional amounts, were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this Condition 8.2, the Issuer shall deliver to the Trustee a certificate signed by two Authorised Signatories of the Issuer stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it, and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Bondholders and the Couponholders.

8.3 Redemption at the Option of the Issuer

The Issuer may, having given:

(a) not less than 15 nor more than 30 days' notice to the Bondholders in accordance with Condition 14 (*Notices*); and

(b) notice to the Trustee and the Principal Paying Agent not less than 15 days before the giving of the notice referred to in (a),

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all of the Bonds or, subject as provided in Condition 8.4 (*Provisions relating to Partial Redemption*), some only of the Bonds on any Interest Payment Date.

Redemption of the Bonds pursuant to this Condition shall be made at the higher of the following:

(i) the principal amount of the Bonds to be redeemed; and

(ii) the amount, expressed as a percentage (rounded up three decimal places, 0.005 being rounded down) (as calculated by an independent financial adviser nominated by the Issuer and approved by the Trustee (the **Nominated Financial Adviser**) and reported in writing to the Issuer and the Trustee) which is calculated as the sum of the Gross Redemption Yield at 3:00 pm (London time) on the Determination Date of the Benchmark Gilt and 0.40 per cent.,

together with any interest accrued up to (but excluding) the date of redemption.

For the purposes of this Condition:

Benchmark Gilt means 4½% Treasury Gilt 2042 or such other conventional (i.e. not index-linked) UK Government Gilt as the Issuer (with the advice of the Nominated Financial Adviser) may determine as having the nearest maturity date to that of the Bonds (failing such determination, as determined by the Trustee with such advice) to be the most appropriate benchmark conventional UK Government Gilt;

Determination Date means two Business Days in London prior to the dispatch of the notice referred to in (a) above; and

Gross Redemption Yield means a yield (expressed as a percentage) calculated by the Nominated Financial Adviser on the basis set out by the United Kingdom Debt Management Office in the paper "*Formulae for Calculating Gilt Prices from Yields*" page 5, Section One: Price/Yield Formulae (Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date) (published on 8 June, 1998 and updated on 15 January, 2002 and 16 March, 2005) (as amended or supplemented from time to time).

8.4 Provisions relating to Partial Redemption

In the case of a partial redemption of Bonds, Bonds to be redeemed will be selected, in such place and in such manner as the Issuer may deem appropriate and fair, not more than 30 days before the date fixed for redemption. Notice of any such selection will be given not less than 15 days before the date fixed for redemption. Each notice will specify the date fixed for redemption and the aggregate principal amount of the Bonds to be redeemed, the serial numbers of the Bonds called for redemption, the serial numbers of Bonds previously called for redemption and not presented for payment and the aggregate principal amount of the Bonds which will be outstanding after the partial redemption.

8.5 Redemption at the Option of the Holders

(a) (i) If, at any time while any of the Bonds remains outstanding:

(A) a Regulatory Event (as defined below) occurs; and

(B) prior to the commencement of or during the Regulatory Period (as defined below) there are Rated Securities (as defined below) and each Rating Agency (as defined below) confirms in writing to the Trustee that it will not be withdrawing or reducing (in whole or in part) the then current rating assigned to the Bonds by it from an investment grade rating ("BBB-"/"Baa3", or their respective equivalents for the time being, or better) to a non-investment grade rating ("BB+"/"Ba1", or their respective equivalents for the time being, or worse) or, if such Rating Agency shall have already rated the Bonds below investment grade (as described above), the rating will not be lowered by one full rating category or more, in each case as a result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Regulatory Event,

the following provisions of this Condition 8.5 shall cease to have any further effect in relation to such Regulatory Event.

(ii) If, at any time while any of the Bonds remains outstanding, a Regulatory Event occurs and (subject to Condition 8.5(a)(i)) within the Regulatory Period either:

(A) if at the commencement of the Regulatory Period there are Rated Securities, a Rating Downgrade (as defined below) in respect of such Regulatory Event also occurs; or

(B) if at such time there are no Rated Securities, a Negative Rating Event (as defined below) in respect of the Regulatory Event also occurs,

then, unless at any time the Issuer shall have given notice under Condition 8.2 (*Redemption for Taxation Reasons*) or 8.3 (*Redemption at the Option of the Issuer*) (if applicable), the holder of each Bond will, upon the giving of a Put Event Notice (as defined below), have the option (the **Put Option**) to require the Issuer to redeem or, at the option of the Issuer, to purchase (or to procure the purchase of) that Bond on the Put Date (as defined below), at 100 per cent. of the principal amount of such Bond together with (or, where purchased, together with an amount equal to) interest (if any) accrued up to (but excluding) the Put Date (as defined below).

(b) Promptly upon the Issuer becoming aware that a Put Event (as defined below) has occurred, and in any event not later than 14 days after the occurrence of a Put Event, the Issuer shall, and at any time upon the Trustee becoming similarly so aware the Trustee may, and if so requested by the holders of at least 25 per cent. in principal amount of the Bonds then outstanding shall, give notice (a **Put Event Notice**) to the Bondholders (with a copy to the Trustee if such notice is given by the Issuer) in accordance with Condition 14 (*Notices*) specifying the nature of the Put Event and the procedure for exercising the Put Option.

(c) To exercise the Put Option, the holder of a Bond must comply with the provisions of Condition 7.4 (*Exercise of put option*). The applicable notice period for the purposes of Condition 7.4 (*Exercise of put option*) shall be the period (the **Put Period**) of 45 days after the date on which a Put Event Notice is given. Subject to the relevant Bondholder having complied with Condition 7.4 (*Exercise of put option*), the Issuer shall redeem or, at the option of the Issuer, purchase (or procure the purchase of) the relevant Bond on the fifteenth day after the date of expiry of the Put Period (the **Put Date**) unless previously redeemed or purchased.

(d) For the purposes of these Conditions:

HEFCE means the Higher Education Fund Council for England or any other authority or organisation for the time being that is responsible for the primary regulation of higher education corporations in England;

a **Negative Rating Event** shall be deemed to have occurred if (i) the Issuer does not, either prior to or not later than 21 days after the date of the relevant Regulatory Event, seek, and thereupon use all reasonable endeavours to obtain, a rating of the Bonds, or any other unsecured and unsubordinated debt of the Issuer having an initial maturity of five years or more from a Rating Agency or (ii) if it does so seek and use such endeavours, it is unable, as a result of such Regulatory Event to obtain such a rating of at least investment grade ("BBB-"/"Baa 3", or their respective equivalents for the time being);

a **Put Event** occurs on the date of the later to occur of (i) a Regulatory Event and (ii) either a Rating Downgrade or, as the case may be, a Negative Rating Event;

Rated Securities means the Bonds, if at any time and for so long as they have a rating from a Rating Agency, and otherwise any other unsecured and unsubordinated debt of the Issuer having an initial maturity of five years or more which is rated by a Rating Agency;

Rating Agency means Moody's or any rating agency substituted for Moody's (or any permitted substitute of Moody's) by the Issuer from time to time with the prior written approval of the Trustee;

a **Rating Downgrade** shall be deemed to have occurred in respect of a Regulatory Event if the then current rating assigned to the Rated Securities by any Rating Agency is withdrawn or reduced from an investment grade rating ("BBB-"/"Baa3", or their respective equivalents for the time being, or better) to a non-investment grade rating ("BB+"/"Ba1", or their respective equivalents for the time being, or worse) or, if the Rating Agency shall then have already rated the Rated Securities below investment grade (as described above), the rating is lowered one full rating category or more;

Regulatory Event means that the Issuer ceases for any reason to be regulated by HEFCE;

Regulatory Period means:

(i) if at the time that a Relevant Potential Regulatory Event Announcement is made or (if none) at the time that the Regulatory Event occurs there are Rated Securities, the period from and including the day that is one Business Day before the earlier of (a) the date on which the Regulatory Event occurs and (b) the date of the earliest Relevant Potential Regulatory Event Announcement (if any) and ending on the day 90 days following the Regulatory Event, or such longer period for which the Bonds are under consideration by a Rating Agency for rating or rating review (such consideration having been publicly announced within the period of 90 days after the date of the Regulatory Event and such period not to exceed 60 days after the public announcement of such consideration); or

(ii) if at the time that a Relevant Potential Regulatory Event Announcement is made or (if none) at the time that the Regulatory Event occurs there are no Rated Securities, the period from and including the day that is one Business Day before the earlier of (a) the date on which the Regulatory Event occurs and (b) the date of the earliest Relevant Potential Regulatory Event Announcement (if any) and ending on the day 90 days following the later of (x) the date (if any) on which the Issuer shall seek to obtain a rating as contemplated by the definition of Negative Rating Event and, (y) the expiry of the 21 days referred to in the definition of Negative Rating Event; and

Relevant Potential Regulatory Event Announcement means any public announcement or statement by the Issuer or HEFCE relating to any potential Regulatory Event where, within 90 days of the date of such announcement or statement, a Regulatory Event occurs.

A Rating Downgrade or a Negative Rating Event or a non-investment grade rating shall be deemed not to have occurred as a result or in respect of a Regulatory Event if a Rating Agency makes the relevant reduction in rating or, where applicable, declines to assign a rating of at least investment grade as provided in this Condition 8.5 and does not announce or publicly confirm or inform the Trustee in writing at its request that the reduction or, where applicable, declining to assign a rating of at least investment grade was the result, in whole or in part, of any event or circumstance comprised in or arising as a result of the applicable Regulatory Event.

The Trustee is under no obligation to ascertain whether a Regulatory Event, a Negative Rating Event, a Rating Downgrade or any event which could lead to the occurrence of or could constitute a Regulatory Event, a Negative Rating Event or a Rating Downgrade has occurred and, until it shall have actual knowledge or express notice pursuant to the Trust Deed to the contrary, the Trustee may assume that no Regulatory Event, Negative Rating Event, Rating Downgrade or other such event has occurred. In determining whether or not a Regulatory Event has occurred, the Trustee shall be entitled to rely solely and without liability to any person on an opinion given in a certificate signed by two Authorised Signatories of the Issuer. The Trustee shall be entitled to rely on any confirmation of a Rating Agency provided pursuant to this Condition 8.5 without liability to any person for so doing.

8.6 Purchases

The Issuer shall immediately purchase £20,000,000 in principal amount of the Bonds (the **Retained Bonds**) on 18 July, 2012. Any Retained Bonds held by or on behalf of the Issuer shall be cancelled (i) at any time at the option of the Issuer and (ii) in any event on 18 July, 2017 (if still held by or on behalf of the Issuer on that date). Any Retained Bonds so cancelled will not be available for reissue or resale.

The Issuer may at any time purchase Bonds (provided that all unmatured Coupons appertaining to the Bonds are purchased with the Bonds) in any manner and at any price.

Any Bonds which are redeemed in whole shall be cancelled. Any Bonds (excluding the Retained Bonds) which are purchased by or on behalf of the Issuer may be held, reissued, resold or surrendered for cancellation.

8.7 Notices Final

Upon the expiry of any notice as is referred to in Condition 8.2 (*Redemption for Taxation Reasons*), 8.3 (*Redemption at the Option of the Issuer*) or 8.5 (*Redemption at the Option of the Holders*), the Issuer shall be bound to redeem the Bonds to which the notice refers in accordance with the terms of such Condition (in the case of Condition 8.5 (*Redemption at the Option of the Holders*), save as otherwise provided therein).

9. TAXATION

9.1 Payment without Withholding

All payments in respect of the Bonds by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Bondholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Bonds or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Bond or Coupon:

(a) presented for payment by or on behalf of, a holder who is liable to the Taxes in respect of the Bond or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Bond or Coupon; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying Agent in a Member State of the European Union; or

(d) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Presentation Date (as defined in Condition 7 (*Payments and Exchanges of Talons*)).

9.2 Interpretation

For the purposes of these Conditions:

Relevant Date means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Bondholders by the Issuer in accordance with Condition 14 (*Notices*); and

Relevant Jurisdiction means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax.

9.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Bonds shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

10. PRESCRIPTION

Bonds and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Bonds or, as the case may be, the Coupons, subject to the provisions of Condition 7 (*Payments and Exchanges of Talons*). There shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue under this paragraph or Condition 7 (*Payments and Exchanges of Talons*).

11. EVENTS OF DEFAULT

11.1 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution of the Bondholders shall (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction), (but, in the case of the happening of any of the events described in subparagraphs (b), (d), (f), (g) and (j) only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Bondholders) give notice to the Issuer that the Bonds are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount, together with accrued interest as provided in the Trust Deed, in any of the following events (**Events of Default**):

(a) if default is made in the payment of any principal or interest due in respect of the Bonds or any of them and (in the case of interest) the default continues for a period of five Business Days; or

(b) if the Issuer fails to perform or observe any of its other obligations under these Conditions or the Trust Deed and (except in any case where the Trustee considers the failure to be incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 Business Days following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

(c) if (i) any present or future Indebtedness for Borrowed Money (as defined below) of the Issuer or a Material Subsidiary becomes due and repayable prematurely by reason of an event of default (however described) or (ii) the Issuer or a Material Subsidiary fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment as extended by any applicable grace period, provided that no event described in this subparagraph (c) shall constitute an Event of Default unless the relevant amount of Indebtedness for Borrowed Money amounts to at least £5,000,000 (or its equivalent in any other currency); or

(d) it is or becomes unlawful for the Issuer to perform or comply with its obligations under the Bonds or the Trust Deed; or

(e) if any order is made by any competent court or by the Secretary of State for the winding up or dissolution of the Issuer, or any order is made by any competent court or an effective resolution is passed for the winding up or dissolution of, or an administrator is appointed in respect of, a Material Subsidiary, or the Issuer or a Material Subsidiary ceases or threatens to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution of the Bondholders, or (ii) in the case of a Material Subsidiary, whereby the undertaking and assets of the Material Subsidiary are transferred to or otherwise vested in the Issuer or another Material Subsidiary; or

(f) if a distress, attachment, execution or other legal process is levied, enforced or sued on or against all or a substantial part of the assets or revenues of the Issuer or a Material Subsidiary and is not discharged within 30 days; or

(g) if any mortgage, charge, pledge, lien or other encumbrance, present and future, created or assumed by the Issuer or a Material Subsidiary over all or a substantial part of the undertaking, assets or revenues of the Issuer or a Material Subsidiary becomes enforceable and any step is taken to enforce it and is not discharged or stayed within 30 days; or

(h) if the Issuer or a Material Subsidiary initiates or consents to judicial proceedings relating to itself under any applicable insolvency or other similar laws; or

(i) if the Issuer or a Material Subsidiary is unable to, or admits inability to, pay its debts, stops, suspends or threatens to stop or suspend payment of all or a substantial part of (or a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or a substantial part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of all or a substantial part of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or a substantial part of (or of a particular type of) the debts of the Issuer or a Material Subsidiary; or

(j) if any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Bonds and the Trust Deed, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Bonds and the Trust Deed admissible in evidence in the courts of England is not taken, fulfilled or done.

11.2 Interpretation

For the purposes of this Condition:

Indebtedness for Borrowed Money means any indebtedness, other than in relation to the Bonds, (whether being principal, premium, interest or other amounts) for or in respect of any borrowed money or any liability under or in respect of any acceptance or acceptance credit or any notes, bonds, debentures, debenture stock, loan stock or other securities.

12. ENFORCEMENT

12.1 Enforcement by the Trustee

The Trustee may at any time after the Bonds become due and payable, at its discretion and without notice, take such proceedings and/or other steps or action (including lodging an appeal in any proceedings) against or in relation to the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Bonds and the Coupons or otherwise, but it shall not be bound to take any such proceedings or other steps or action unless (i) it has been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least 25 per cent. in principal amount of the Bonds then outstanding and (ii) it has been indemnified and/or secured and/or pre-funded to its satisfaction.

12.2 Limitation on Trustee actions

The Trustee may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction (upon which the Trustee may rely absolutely and without liability to any person), be contrary to any law of that jurisdiction. Furthermore, the Trustee may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

12.3 Enforcement by the Bondholders

No Bondholder or Couponholder shall be entitled to (i) take any steps or action against the Issuer to enforce the performance of any of the provisions of the Trust Deed, the Bonds or the Coupons or (ii) take any other proceedings (including lodging an appeal in any proceedings) in respect of or concerning the Issuer in each case unless the Trustee, having become bound so to take any such action, steps or proceedings, fails so to do within a reasonable period and the failure shall be continuing.

13. REPLACEMENT OF BONDS AND COUPONS

Should any Bond or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the

Issuer may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

14. NOTICES

14.1 Notices to the Bondholders

All notices to the Bondholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Trustee may approve. It is expected that publication will normally be made in the *Financial Times*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or the relevant authority on which the Bonds are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition.

14.2 Notices from the Bondholders

Notices to be given by any Bondholder shall be in writing and given by lodging the same, together with the relative Bond or Bonds, with the Principal Paying Agent or, if the Bonds are held in a clearing system, may be given through the clearing system in accordance with its standard rules and procedures.

15. SUBSTITUTION

The Trustee may, without the consent of the Bondholders or Couponholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) of another entity as the principal debtor under the Bonds, the Coupons and the Trust Deed subject to certain conditions set out in the Trust Deed being complied with.

16. MEETINGS OF BONDHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

16.1 Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Bonds held or represented by him or them. The Trust Deed does not contain any provisions requiring higher quorums in any circumstances. The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than 75 per cent. of the votes cast on such resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds for the time being outstanding or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Bondholders. An Extraordinary Resolution passed by the Bondholders will be binding on all Bondholders, whether or not they are present at any meeting and whether or not they voted on the resolution, and on all Couponholders.

16.2 Modification, Waiver, Authorisation and Determination

The Trustee may agree, without the consent of the Bondholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement, or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders) or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error.

16.3 Trustee to have Regard to Interests of Bondholders as a Class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Bondholders as a class but shall not have regard to any interests arising from circumstances particular to individual Bondholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Bondholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders or Couponholders except to the extent already provided for in Condition 9 (*Taxation*) and/or any undertaking given in addition to, or in substitution for, Condition 9 (*Taxation*) pursuant to the Trust Deed.

16.4 Notification to the Bondholders

Any modification, abrogation, waiver, authorisation, determination or substitution shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any modification or substitution shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 14 (*Notices*).

17. INDEMNIFICATION AND PROTECTION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER

17.1 Indemnification and protection of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility and liability towards the Issuer, the Bondholders and the Couponholders, including (i) provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction and (ii) provisions limiting or excluding its liability in certain circumstances.

17.2 Trustee Contracting with the Issuer

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Bondholders or Couponholders and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

18. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Bondholders or Couponholders to create and issue further bonds ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the Bonds.

19. GOVERNING LAW AND SUBMISSION TO JURISDICTION

19.1 Governing Law

The Trust Deed, the Bonds and the Coupons and any non-contractual obligations arising out of or in connection with them shall be governed by, and construed in accordance with, English law.

19.2 Jurisdiction of English Courts

The Issuer has, in the Trust Deed, irrevocably agreed for the benefit of the Trustee, the Bondholders and the Couponholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the Bonds or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Bonds or the Coupons) and accordingly has submitted to the exclusive jurisdiction of the English courts

The Issuer has, in the Trust Deed, waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee, the Bondholders and the Couponholders may take any suit, action or proceeding arising out of or in connection with the Trust Deed, the Bonds or the Coupons respectively (including any suit, action or proceedings relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Bonds or the Coupons) (together referred to as **Proceedings**) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

20. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Bond, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE REPRESENTED BY THE GLOBAL BONDS

The following is a summary of the provisions to be contained in the Trust Deed and in the Global Bonds which will apply to, and in some cases modify, the Conditions of the Bonds while the Bonds are represented by the Global Bonds.

Exchange

The Bonds will be in bearer new global note (**NGN**) form and will be initially issued in the form of a temporary global bond (a **Temporary Global Bond**) which will be delivered on or prior to the issue date of the Bonds to a common safekeeper for Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**).

The Bonds are intended upon issue to be deposited with a common safekeeper and, although the Bonds are issued in NGN form, this does not necessarily mean that the Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Bondholders should note that the temporary extension of Eurosystem eligibility to Sterling denominated securities ceased to be effective from 1 January, 2011. Unless and until Eurosystem eligibility is extended to Sterling denominated securities, the Bonds will not be in a form which can be recognised as eligible collateral.

Whilst the Bonds are represented by the Temporary Global Bond, payments of principal, premium, interest (if any) and any other amount payable in respect of the Bonds due prior to the Exchange Date (as defined below) will be made only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in the Temporary Global Bond are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the **Exchange Date**) which is 40 days after the Temporary Global Bond is issued, interests in the Temporary Global Bond will be exchangeable (free of charge) upon a request as described therein for interests recorded in the records of Euroclear or Clearstream, Luxembourg, as the case may be, in a permanent global bond (the **Permanent Global Bond** and, together with the Temporary Global Bond, the **Global Bonds**), against certification of beneficial ownership as described above unless such certification has already been given. The holder of the Temporary Global Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Bond for an interest in the Permanent Global Bond is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on the Permanent Global Bond will made through Euroclear and/or Clearstream, Luxembourg without any requirement for certification.

On each occasion of a payment in respect of a Global Bond the Principal Paying Agent shall instruct Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such payment.

The Permanent Global Bond will be exchangeable in whole but not in part (free of charge to the holder) for definitive Bonds with interest coupons and talons attached only on the occurrence of an Exchange Event. For the purposes of this clause **Exchange Event** means only:

(a) an Event of Default (as defined in Condition 11 (*Events of Default*)) has occurred and is continuing;

(b) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available; or

(c) the Issuer would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) or as a result of a change in the practice of Euroclear and/or Clearstream, Luxembourg which would not be suffered were the Bonds in definitive form and a certificate to such effect signed by two Authorised Signatories of the Issuer is given to the Trustee.

Thereupon (in the case of (a) and (b) above) the holder of the Permanent Global Bond (acting on the instructions of one or more of the Accountholders (as defined below)) or the Trustee may give notice to the Issuer and (in the case of (c) above) the Issuer may give notice to the Trustee and the Bondholders, of its intention to exchange the Permanent Global Bond for definitive Bonds on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Bond may or, in the case of (c) above, shall surrender the Permanent Global Bond to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Bond the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Bond), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Bond, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Bonds.

For these purposes, **Exchange Date** means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

Payments

On and after 27 August, 2012, no payment will be made on the Temporary Global Bond unless exchange for an interest in the Permanent Global Bond is improperly withheld or refused. Payments of principal and interest in respect of Bonds represented by a Global Bond will, subject as set out below, be made to the bearer of such Global Bond and, if no further payment falls to be made in respect of the Bonds, against surrender of such Global Bond to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Bondholders for such purposes. The Issuer shall procure that the amount so paid shall be entered *pro rata* in the records of Euroclear and Clearstream, Luxembourg and the principal amount of the Bonds recorded in the records of Euroclear and Clearstream, Luxembourg and represented by such Global Bond will be reduced accordingly. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of Euroclear and Clearstream, Luxembourg shall not affect such discharge. Payments of interest on the Temporary Global Bond (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

Notices

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Bondholders (which include, for this purpose, any annual financial statements or the Compliance Certificate required to be made available pursuant to a request by any of the Bondholders pursuant to Condition 6.1 (*Information Covenant*)) may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 14 (*Notices*). Any such notice shall be deemed to have been given to the Bondholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to be given by any Bondholder may be given to the Principal Paying Agent through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Principal Paying Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

Accountholders

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Bonds (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Bonds standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Bonds for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Bondholders and giving notice to the Issuer pursuant to Condition 8.5 (*Redemption at the Option of the Holders*)) other than with respect to the payment of principal and interest on such principal amount of such Bonds, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Bond in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Bond.

Prescription

Claims against the Issuer in respect of principal and interest on the Bonds represented by a Global Bond will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 9 (*Taxation*)).

Cancellation

Cancellation of any Bond represented by a Global Bond and required by the Conditions of the Bonds to be cancelled following its redemption or purchase will be effected by endorsement by entry in the records of Euroclear or Clearstream, Luxembourg, as the case may be.

Put Option

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, the option of the Bondholders provided for in Condition 8.5 (*Redemption at the Option of the Holders*) may be exercised by an Accountholder giving notice to the Principal Paying Agent in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg (which may include notice being given on its instructions by Euroclear or Clearstream, Luxembourg or any common safekeeper for them to the Principal Paying Agent by electronic means) of the principal amount of the Bonds in respect of which such option is exercised and at the same time presenting or procuring the presentation of the relevant Global Bond to the Principal Paying Agent for notation accordingly within the time limits set forth in that Condition.

Redemption at the Option of the Issuer

For so long as all of the Bonds are represented by one or both of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, no drawing of Bonds will be required under Condition 8.4 (*Provisions relating to Partial Redemption*) in the event that the Issuer exercises its call option pursuant to Condition 8.3 (*Redemption at the Option of the Issuer*) in respect of less than the aggregate principal amount of the Bonds outstanding at such time. In such event, the standard procedures of Euroclear and/or Clearstream, Luxembourg shall operate to determine which interests in the Global Bond(s) are to be subject to such option.

Euroclear and Clearstream, Luxembourg

References in the Global Bonds and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

USE OF PROCEEDS

The net proceeds of the issue of the Bonds or, in the case of the Retained Bonds, the net proceeds of the sale of the Bonds to a third party (after deduction of expenses payable by the Issuer) shall be applied by the Issuer in furtherance of the Issuer's objects including, without limitation, refinancing existing bank debt, capital expenditure on developing the Issuer's estate including the refurbishment of the Fletcher Tower and Fletcher low rise, the refurbishment and enhancement of the Issuer's estate, and for general corporate purposes.

DESCRIPTION OF THE ISSUER

Background

The Issuer was originally founded as Leicester School of Art in 1869 and in 1969 became Leicester Polytechnic. The Issuer is a higher education corporation established under the Education Reform Act 1988 and was awarded university status on 6 March, 1992 (pursuant to the Further and Higher Education Act 1992), when Leicester Polytechnic became De Montfort University Higher Education Corporation (more generally referred to as De Montfort University). It has consolidated all its previous campuses into one central base in Leicester, has an estate valued at £273.8 million (as at 30 May, 2012) and delivers approximately 400 undergraduate courses to approximately 22,000 students.

The contact address for the Issuer is De Montfort University, The Gateway, Leicester, LE1 9BH and its telephone number is +44 (0)116 255 1551.

As a higher education corporation, the Issuer is listed as an exempt charity under Schedule 2 of the Charities Act 1993. As such, the Issuer is subject to regulation by the HEFCE. For further details please refer to "*Funding and Regulation – Regulation*" below.

Objectives

The Issuer's vision is expressed in six over-arching aims, known as "Vision Statements". These are as follows:

- to develop an exciting and supportive learning environment that transforms its students and inspires them to make a real difference in society;
- to be a university that places research excellence and innovation at the heart of its mission;
- to focus on employability and understanding the needs of business and the professions so that the Issuer's courses are relevant and give its graduates a head start;
- to be a recognised leader in creative education and research, building on its reputation in the creative industries and driven by innovative projects across all faculties;
- to be a truly international university, building influential global relationships to enrich its research, teaching and cultural collaborations; and
- to make a significant contribution to global efforts to achieve environmental sustainability.

Principal Activities of the Issuer

Teaching

The Issuer offers both undergraduate and post graduate courses and has been awarded 13 National Teaching Fellowships (**NTFs**) since the scheme began. The National Teaching Fellowship Scheme is administered by the Higher Education Academy and awards successful nominees £10,000 to develop and disseminate their innovative work. The status is awarded on the basis of the individual's ability to influence and inspire their students and colleagues as well as a commitment to their own development in teaching and learning. The Issuer has the second highest number of NTFs in England, Wales and Northern Ireland.

The Issuer has four faculties, which are briefly summarised below. Due to its origins as an art college, the Issuer has a strong presence in teaching and research in the arts and related academic discipline. It has also developed a number of niche courses in areas such as contour fashion, footwear design and computer game design. The Issuer also offers a range of science, technology, humanities and law based courses.

Faculty of Art, Design and Humanities

The Faculty of Art, Design and Humanities brings together the Issuer's creative disciplines. Its courses range from those considered to be traditional courses, such as Fine Art, to more modern courses, such as Game Art Design, and research is rated as internationally excellent. People such as Jimmy Choo and novelist Adele Parks have lectured students due to the faculty's industry links.

Faculty of Business and Law

Housed in the new Hugh Aston Building, the Faculty of Business and Law is home to Leicester Business School and Leicester De Montfort Law School, providing undergraduate and postgraduate courses with a professional focus.

Leicester Business School aims to ensure that courses are directly relevant to the business world and it maintains links with major professional bodies and employers, both in the UK and worldwide. The business school offers placement opportunities with organisations such as Intel, IBM, BMW, UBS, 3M and the NHS. Over 60 nationalities are represented within its student population.

Leicester De Montfort Law School offers a range of undergraduate, professional and postgraduate legal courses. An emphasis on developing professional skills, such as mooting and client interviewing, ensures that courses are "up-to-date" and graduates are well-equipped for a range of careers, or for further study.

Faculty of Health and Life Sciences

The Faculty of Health and Life Sciences prepares students for careers in professions such as pharmacy, nursing, forensic science and social work, while also offering a range of research opportunities. Academics work on a variety of projects, such as the development of an artificial pancreas.

The faculty incorporates the Centre for the Promotion of Excellence in Palliative Care (**CPEP**) which was officially launched at the House of Commons on 30 March, 2012. The CPEP is a collaboration between the Issuer and the Leicestershire and Rutland Hospice (**LOROS**) and demonstrates both organisations commitment to enhancing the delivery of holistic, person centred, evidence based palliative care across all care settings.

In India the faculty is working with a leading technology institute and clinical research facility to deliver the Pharmaceutical Biotechnology MSc to Indian students and to deliver associated research to support India's growing biotechnology industry.

In China the faculty is working with the Chongqing Academy of Science and Technology and the British Council to transfer dried blood spot analysis and counterfeit drug detection technologies. The Issuer has a strong and committed partnership with the Wuhan Institute of Technology to provide joint programmes in pharmaceutical sciences and other partnerships in China promoting intercultural business communication opportunities. These initiatives extend to Taiwan where the Issuer has an agreement with Feng Chia University jointly to develop courses.

In relation to nursing, the faculty is working with University of Gondar (in Ethiopia) to develop its masters level provision and annual summer schools and with Praboromarajchanok Institute of Health Workforce and Development to develop management skills in Thai nurse leaders.

Examples of research carried out by the faculty include:

- academics are working in collaboration with the University Hospitals of Leicester NHS Trust's Dermatology Department to create a new device to help in the early detection of malignant melanoma skin cancer; and

- a DNA system developed to identify and authenticate plant species that can detect the use of illegal or counterfeit plants in medicine and which could also be used to boost conservation by identifying and monitoring the exploitation of endangered plant species.

Faculty of Technology

The Faculty of Technology offers training to train engineers, computer scientists and media technologists. The teaching and research is varied and extends from forensic computing and games programming to electronic engineering and radio production.

The Issuer's new degree in partnership with Hewlett Packard, Business Informatics (**HP**) combines the development and use of information technology with management concepts in the business environment. The course will enable students to develop an understanding of the practice of IT delivery in a dynamic business environment while gaining one-to-one mentoring from industry professionals, certification in project management, and the opportunity to undertake a placement year and to draw upon a range of tools to enhance their knowledge.

Research in the Faculty of Technology spans a variety of research groups, which bring together academics with similar interests and skills and special interest groups to promote interdisciplinary research. Links with commerce aim to ensure research is geared towards real life challenges. Projects cover subjects such as robotics, computational intelligence, computing security, social responsibility, interactive media, satellite mapping, home security, 3D television, aircraft manufacturing and safety, mobile communication and alternative energy.

Student Numbers

As at 14 June, 2012, the Issuer had 22,758 students enrolled, 87.2 per cent. of which were UK/EU Students and 12.8 per cent. of which were non-UK/EU Students.

Employability

Employability is a key driving factor in the design of the Issuer's courses and many have input from professional bodies and employers, with some courses offering a year long integrated industry placement. In 2010/2011, just under 88 per cent. of the Issuer's leavers were in employment or further study within six months of graduating, as noted in the 2010/2011 Destination of Leavers from Higher Education Survey, a statutory return to the Higher Education Statistics Agency..

Research

The Research Assessment Exercise (which is peer review exercise which evaluates research in the UK higher education sector and is used to determine the ratings given to research which are used for funding purposes) demonstrated in 2008 that a significant amount of the Issuer's research was "World Leading" or "Internationally Excellent". It also demonstrated that the Issuer's English Literature research ranked alongside the University of Cambridge. The Issuer had three projects (research into the world's first artificial pancreas, underwater living and additive manufacturing) featured in the Research Council UK Top 100 (as contained in the Big Ideas for the Future report).

The Issuer has established a reputation with UK and European research funding agencies. Specifically, the Issuer has a class leading position with the Technology Strategy Board (**TSB**) which funds near market research work in collaboration with industrial partners. Research Council awards remain at an historically high level and the Issuer is maintaining high success rates in receiving such awards. For 2011-12 the Issuer received £1,143,967 from the Research Council which represented a 9.63 per cent. success rate on the amount of funding applied for in monetary terms. For 2010-2011 the Issuer received £390,061 in research income from the Research Council which represented a success rate of 5.29 per cent. on the amount of funding applied for in monetary terms. This lower level in 2010-11 was caused by a merger of the Faculty of Arts, Design and Humanities, which affected its ability to bid for research funding over a nine month period.

The Issuer's strategy is to maintain UK research markets through increasing quality assurance and strategic alignment with those research markets, responding to the external environment and changes in funding agency requirements; this has been enabled by restructuring and investment in recent years. This restructuring has enabled the Issuer to develop a more cohesive and mature research environment. In addition to the UK research markets, EU funding represents a potential major growth area as this has not been affected by the same cuts in funding as that experienced by the UK research markets. Therefore, additional resources have been allocated and strategic partnerships are being developed to enable future growth in this area. The development of intellectual property to be used for commercial purposes is promoted throughout the Issuer's academic community. For example, academics are offered training on intellectual property and information is available on the Issuer's internal intranet to assist researchers. All new potential intellectual property is explored by the Issuer's advisers in this area who then work with the academics to develop it as appropriate, if commercially viable to do so. Additionally, new commercial research markets are being examined including commercial research tendering and working with private investors to fund commercial research and development.

The Issuer's strategy to grow research income over the five years commencing 2012 involves the recruitment of academic staff active in research and developing its research activity in light of the external environment.

Commercial Activities

The Issuer formed the Research, Business and Innovation Office Development Directorate in 2012. Its aim is to support the Issuer's faculties by providing advice and information on research and grants. Its role is to provide support to the faculties for their commercial activities by developing commercial opportunities with businesses (for example, through consultancy work) and to promote external income generation. The intention is to maintain the focus on commercial activity, but also to work on the opportunities that are available to the Issuer in relation to using intellectual property for commercial purposes and creating potential spin-out companies.

The Issuer works with both public and private sector institutions, including institutions in the utilities, automotive, retail and healthcare sectors, to provide bespoke training and consultancy to such organisations (particularly in the East Midlands region). Each faculty develops a commercial business plan which is approved by the Executive Board. The Issuer's 2011 – 2015 strategic plan seeks to make such activities a core business activity in all of its faculties.

The Issuer builds partnerships with local, national and international organisations that provide students with an opportunity to engage with the world around them and provide the Issuer with an opportunity to develop students and make a substantial contribution to society.

An ongoing agreement with the British Library has increased students' participation in the Vice-Chancellor's Theatre Archive Project, an oral history of post war theatre. The British Library was also the key partner for the Issuer in a recent project that saw a Shakespeare First Folio showcased in the British Embassy in Tokyo. It was accompanied by a number of talks and educational workshops and formed part of the national *Great!* Festival to celebrate the cultural Olympiad.

The Issuer co-hosted a Higher Education Symposium with the University of Tokyo and invited the Permanent Secretary for the Department of Business, Innovation and Skills (BIS) to give a keynote speech. Partners such as The University of Tokyo, The British Ambassador to Japan, Tohoku University and the British Council allow the Issuer to develop meaningful relationships and programmes that see increased exchanges and collaborative opportunities for students and graduates.

The Issuer's courses play a key focus on the preparedness and employability of graduates. One of the Issuer's key partnerships in 2011 was with HP which has drawn praise from Government Ministers and key industry figures. The partnership with HP benefits students, not just those who study on the BSc Business Informatics joint-degree delivered by HP and Faculty of Technology, but by working with HP to develop student placement programmes and graduate job access. HP staff act as mentors and offer career advice. HP is also working with the Issuer on school and community projects, including Mile2, sponsors student sports teams and has introduced a number of annual HP innovation awards to recognise outstanding student contributions.

In 2012 the Issuer signed a key partnership with the Hong Kong business, The Sun Wah Group. The Issuer already has a successful Sun Wah International Business School collaboration at Liaoning University in China. This partnership allows the cultural understanding of both countries to flourish and talented students to be provided with opportunities for scholarships to enable them to complete part of their studies in the United Kingdom with the Issuer. Both parties are committed to sharing some of their expertise and success with the communities they serve, through initiatives such as the Sun Wah Foundation, and activities such as the Issuer's Square Mile project.

The Issuer also has key strategic partnerships with Leicester's Curve Theatre, Leicester City Football Club, Phoenix Square and the Leicestershire and Rutland Hospice, LOROS. These collaborations offer an enhanced student experience and partnership in research and business opportunities. Phoenix Square is a state of the art media facility including two cinema screens, media production suites and a unique space, the DMU Cube, where students have the opportunity to display and exhibit their work.

All of the partnerships into which the Issuer enters focus on the students' experience. They provide the Issuer with links and contacts that can increase employability, offer research opportunities and enhance the student experience during their time of study with the Issuer.

Governance

The Issuer conducts itself in accordance with its Articles of Government and its Instrument of Government and complies with all laws and regulations in relation to its corporate governance.

Board of Governors

The Board of Governors of the Issuer (the **Board**) is its trustee board and the Governors are the Issuer's trustees. The members are appointed in accordance with the Issuer's Instrument of Government and they are collectively responsible for the following:

- determining the educational character and mission of the university, as well as providing oversight and scrutiny of its activities;
- effective and efficient use of resources, the solvency of the Issuer and the safeguarding of its assets;
- approving annual estimates of income and expenditure;
- the appointment, assignment, grading, appraisals, suspension, dismissal and determination of the pay and conditions of service of the holders of senior posts;

- setting the framework for pay and conditions of all other staff; and
- procedures for the award of honorary academic titles.

The Governors of the Issuer and any other principal activities performed by the Governors are set out below.

Name	Governor since	Principal activities outside the Issuer
Lord Waheed Alli (Chancellor)	July 2006	Chairman of ASOS plc Director of Silvergate Media Serving labour peer in the House of Lords Trustee of Elton John AIDS Foundation President of the National Youth Theatre Patron of Family Planning AssociationPatron of Naz Foundation Patron of The Albert Kennedy Trust
Mr Ian Blatchford (Chairman)	November 2010	Director of the National Museum of Science and Industry
Mr Mike Kapur (Deputy Chair)	May 2009	Chief Operating Officer of Signum Corporate Communications Limited Chairman of the National Space Centre Trustee of the Leicester Sports Partnership Trust
Mr Jamie Andrews	November 2010	Head of English and Drama at the British Library Fellow of the English Association Trustee of Sheffield Theatres Trust Member of the Working Group on UK Literary Heritage Advisory Board member for the Author's Lives National Lives National Life Stories Collection
Ms Barbara Matthews MBE	November 2010	Director of theatre of Arts Council, England Trustee of Arts' Patrons Trust Governor of Ardingly College
The Rt Revd Bishop Tim Stevens	February 2006	Bishop of Leicester Citizen Organising Foundation Launde Abbey Trustees (Chair)
Miss Christine Hancock	September 2006	Founder of C3 Collaborating for Health charity Trustee and Treasurer for the House of St Barnabas (charity for homeless people)
Mr Kevin Hand	February 2009	Chairman of Hachette Filipacchi UK Ltd Non executive director of Huveaux Director and Deputy Chairman of PPA and Sugar Limited
Ms Lynette Williams	July 2012	Trustee of De Montfort Students' Union
Mr Tony Stockdale	May 2007	Former director of RSM Tenon

Ms Marcia Saunders	September 2008	Chair of NHS Brent and Harrow Chair of North West London Health Innovation and Education Cluster Partnership Board Vice Chair of North West London NHS cluster Performance assessor for the General Medical Council Member of the Medicines and Healthcare Regulatory Agency Independent Scientific Advisory Committee for the use of the General Practice Research database
Mr Tim O'Sullivan	May 2012	Professor, Faculty of Art, Design and Humanities of the Issuer
Professor Robert Harris	November 2011	Assistant Director of the Quality Assurance Agency for Higher Education

The business address for each of the Governors is De Montfort University, The Gateway, Leicester, LE1 9BH.

The Clerk, who acts as secretary to the Board, is Mrs Rebecca Jenkyn whose business address is at Trinity House, De Montfort University, Leicester, LE1 9BH.

The Issuer is not aware of any potential conflicts of interest between the duties to the Issuer of the persons listed above and their private interests and/or duties.

Academic Board

The Issuer has an academic board which consists of members of staff or students at the Issuer. Subject to the overall responsibility of the Board, the academic board is responsible for general issues relating to research, scholarships and teaching at courses, as well as considering the development of the academic activities of the Issuer and the resources needed to support them.

Name	**Position at Issuer**	**Academic board member since**	**Principal activities outside the Issuer**
Professor D Shellard (Chair)	Chief Executive & Vice-Chancellor	June 2010	External member of Le One
Mr B Browne	Acting Chief Operating Officer	June 2012	None
Professor D Wilson	Dean & Deputy Vice Chancellor – Faculty of Business and Law	2004	Member of the Board of Finance, Diocese of Leicester
Professor A Downton	Pro Vice-Chancellor	May 2011	Chairman of the Board of Director of Demon FM (DSU/University community radio station) Director of SU Lets, a joint

			company set up by DSU and Leicester University Students Union to manage student accommodation in Leicester
Mrs J Cooke	Director, Student & Academic Services	December 2011	None
Dr G Moran	PVC Dean – Faculty of Art, Design & Humanities	1998	None
Ms M Ashton	PVC Dean – Faculty of Health and Life Sciences	August 2011	Trustee and Guardian, Growing Points Commissioner for Child Poverty in Leicester City – Leicester City Council
Professor A Collop	PVC Dean – Faculty of Technology	May 2012	None
Vacant	Director of ITMS		
Ms K Arnold	Chief Information Officer	2004	Board of Governors at Regent College (representing the Issuer) Director of EMMAN (East Midlands Metropolitan Area Network) representing the Issuer
Mrs E Sheffield	Head of Department of Academic Quality	September/ October 2010	None
Prof T O'Sullivan	Faculty of Art, Design and Humanities	June 2012	Member of Board of Governors at the Issuer – staff elected representative
Dr S Oldroyd	Faculty of Health and Life Sciences	March 2010	Trustee of Hope against Cancer
Mr A Rees	Faculty of Business & Law	2004	None
Ms M Prior	Faculty of Technology	September 2010	None
Dr D Spalding	Faculty of Art and Design	2010	None
Mr P Garton	Faculty of Business & Law	Elected for 3 years from July 2011	None
Dr I Williamson	Faculty of Health & Life Sciences	Elected for 3 years from July 2009	Expert ethics reviewer for the NHS Local Research Ethics Committee
Mrs D Le Play	Faculty of Technology	July 2000	None

Mr L Davies	President of the Students' Union	July 2011	Trustee of De Montfort Students' Union
T.B.C	Deputy President		None
Mr D Akintade	Elected student member	July 2011	Trustee of De Montfort Students' Union

The business address for each of the members of the academic board is De Montfort University, The Gateway, Leicester, LE1 9BH.

The Issuer is not aware of any potential conflicts of interest between the duties to the Issuer of the persons listed above and their private interests/duties.

Executive Board

The Issuer's executive board was established in June 2010. Its members are as follows:

Name	**Executive board member since**	**Principal activities outside the Issuer**
Professor Dominic Shellard (Chief Executive and Vice-Chancellor)	June 2010	External member of Le One
Mr Ben Browne (Acting Chief Operating Officer)	June 2010	None
Professor David Wilson (Deputy Vice Chancellor and Dean of Business and Law)	June 2010	Member of the Board of Finance, Diocese of Leicester
Professor Andy Downton, (Pro Vice Chancellor)	April 2011	Chairman of the Board of Director of Demon FM (DSU/University community radio station) Director of SU Lets, a joint company set up by DSU and Leicester University Students Union to manage student accommodation in Leicester
Professor Andy Collop (Pro Vice Chancellor Dean - Faculty of Technology)	July 2011	None
Dr Gerard Moran (Pro Vice Chancellor Dean - Art, Design and Humanities)	June 2010	None
Professor Mandy Ashton (Pro Vice Chancellor Dean - Health and Life Sciences)	July 2011	Trustee and Guardian, Growing Points Commissioner for Child Poverty in Leicester City – Leicester City Council
Ms Jo Cooke (Director of Student and Academic Services)	April 2012	None
Ms Kathryn Arnold (Chief Information Officer)	April 2012	Board of Governors at Regent College (representing the Issuer)

		Director of EMMAN (East Midlands Metropolitan Area Network) representing the Issuer
Mr Matthew Needham (Interim Director of Finance)	November 2011	Director of the Big Red Tomato Company ltd Director of Men Property Investments ltd
Mr Keith Perch (Director of Media and Communications)	January 2012	None
Mr James Gardner (Director of Strategic Partnerships)	April 2012	Director and Trustee of Leicester Arts Limited, t/as Phoenix Square, representing the Issuer
Mr Simon Ambrose (Executive Officer to the Vice Chancellor)	April 2012	Director and Trustee of Leicester Arts Limited, t/as Phoenix Square, representing the Issuer

The business address for each of the members of the Executive Board is De Montfort University, The Gateway, Leicester, LE1 9BH.

The Issuer is not aware of any potential conflicts of interest between the duties to the Issuer of the persons listed above and their private interests/duties.

Committees

The Board is entitled, under the Issuer's Articles of Government, to establish committees for any purpose or function. All of the committees are required to report to the Board on a regular basis.

There are a number of committees of the board of Governors, the members of which are set out below:

Audit Committee

Name	**Audit committee member since**
Mr Mike Kapur (Chairman)	November 2009
Mr Jamie Andrews	March 2011
Ms Marcia Saunders	May 2012
Mr Kevin Hand	September 2011

The Committee of University Chairs Guide for Governing Bodies and the HEFCE Audit Code of Practice require the Issuer to have an audit committee which reports directly to the Board. The audit committee is independent and must have sufficient authority to check that the risk management and governance provisions of the Issuer are adequate. The audit committee and its chairman are appointed by the Board from among its own members, and consists of members with no executive responsibility for the management of the university. It produces an annual report which is provided to the Board, as well as to the HEFCE Audit Assurance Service.

The audit committee meets at least three times each financial year.

Governance Committee (to be renamed as a Nominations Committee from July 2012)

Name	**Governance committee member since**
Ms Marcia Saunders (Chair)	June 2011

Mr Ian Blatchford	June 2011
Mr Tim O'Sullivan	May 2012
Rt Revd Bishop Tim Stevens	June 2012
Professor Dominic Shellard (ex officio)	June 2011

The governance committee reviews the Board's membership and in particular it advises on the skills mix that is available so as to ensure that the Board consists of members who are sufficiently experienced to enable the Board to fulfil its role effectively.

Remuneration Committee

Name	**Remuneration committee member since**
Lord Waheed Ali (ex officio)	September 2006
Mr Ian Blatchford	October 2011
Mr Tony Stockdale	April 2011

The remuneration committee determines the annual remuneration of the Vice-Chancellor and members of his senior staff. It receives an annual report on a review, conducted by the Vice-Chancellor, in consultation with the Director of People and Organisational Development, on other senior academic and support staff.

Finance and Human Resources Committee

Name	**Finance and human resources committee member since**
Mr Tony Stockdale (Chairman)	March 2008
Ms Barbara Matthews	March 2011
Ms Christine Hancock	November 2011
Professor Robert Harris	March 2012
Professor Dominic Shellard (ex officio)	November 2010

The finance and human resources committee is the Board's key mechanism for ensuring that its statutory responsibilities in relation to finance, human resources, equality and diversity and occupational health and safety are complied with as well as ensuring compliance with funding council regulations and the provisions of the Issuer's Articles of Government.

The finance and human resources committee meets at least three times a year.

Auditors

The Issuer's internal auditors are PricewaterhouseCoopers, whose business address is Cornwall Court, 19 Cornwall Street, Birmingham, B3 2DT.

The Issuer's external auditors are KPMG LLP, Birmingham, whose business address is One Snowhill, Snow Hill Queensway, Birmingham, West Midlands, B4 6GH.

Rating

The Issuer is rated "Aal" (negative) by Moody's. Moody's is a credit rating agency established in the European Union and Registered under Regulation (EC) No 1060/2009 and is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.

Recent Developments

The Issuer is in process of completing an £8 million project to build a leisure centre next to the John Sandford Sports Centre. This will be a two-storey building with a 25 metre six lane swimming pool, eight courts, a fitness gym, multi purpose studios, a climbing wall and a café. The facilities will be open to all of the Issuer's staff and students, as well as to members of the public. The construction of the leisure centre is scheduled to be completed in July 2012.

Issuer's Solvency

There have been no recent events particular to the Issuer that are, to a material extent, relevant to the evaluation of the Issuer's solvency.

Issuer's Subsidiary

De Montfort Expertise Limited was incorporated on 13 March, 1989 under Companies Act 1985 and is a wholly owned subsidiary of the Issuer. It undertakes activities associated with the promotion of research, consultancy and other marketable activity. Its shares are divided into 310,000 ordinary shares of £1 each.

The subsidiary seeks to donate profits to the Issuer by means of gift aid payments. In the financial years ended 2009, 2010 and 2011, De Montfort Expertise Limited donated gift aid payments to the Issuer of £103,000, £458,000 and £417,000, respectively.

FUNDING AND REGULATION

Funding

The funding arrangements in relation to universities are experiencing a period of reform. From the start of the 2012/2013 academic year, new funding arrangements will apply to the Issuer. Set out below is a description of the current funding arrangements and the current position in relation to the new funding arrangements.

Current funding arrangements

Under the current regime, the Issuer receives a significant proportion of its income from grants provided by HEFCE, as well as from student fees. HEFCE provides two types of funding: recurrent and capital (and within the latter category, formula capital and project capital). Funds are typically paid to the Issuer in monthly instalments and the money received from tuition fees paid by students and the Student Loans Company are also taken into consideration in this respect.

Recurrent funding is allocated to the Issuer on the basis of what HEFCE believes the Issuer will require for its activities, within the constraints of the HEFCE budget. The money is provided to the Issuer in the form of a block grant so that the Issuer has the flexibility to apply the funding in a way that it deems necessary and appropriate in the light of its priorities. However, the Issuer must still ensure that it complies with the conditions HEFCE attaches to its funding which are set out in the funding agreement between the Issuer and HEFCE.

The teaching funding that the Issuer receives corresponds with the number of students enrolled on the Issuer's courses within a tolerance band (currently HEFCE does not fund on a student by student basis). In allocating teaching funding, HEFCE takes into account the fact that certain courses, such as laboratory subjects, cost more than classroom-based ones. Special teaching grants (so-called targeted allocations) may also be given to cover the cost of reaching out to and supporting students from parts of the population which are under-represented in higher education, or whose educational backgrounds mean that transition to university is particularly challenging, so as to widen participation and to promote student success. These special teaching grants are a recognition of the fact that there are increased costs involved in targeting and supporting such students.

In determining how to allocate its research funding, HEFCE takes into account the quality of the research carried out at each institution, targeting its funding at those institutions with the best quality research (as assessed through a periodic national assessment exercise – undertaken most recently in 2008, and due to be undertaken again in 2014). The volume and cost associated with the type of research undertaken is taken into account, together with any government policy priorities on certain research subjects. In addition to this method of determining research funding, HEFCE also contributes, using volume calculations, towards the cost of research carried out by post-graduate research students and funding in relation to research carried out in conjunction with business and industry, or funded by charities.

Capital grants are provided in accordance with HEFCE's 'Capital Investment Framework'. In order to obtain funding, the Issuer must demonstrate that it has met the framework requirements. It is then able to apply the funding at its discretion towards its capital needs, such as improving the university buildings and infrastructure.

In terms of student fees, the Issuer is at the date of this Offering Circular able to charge UK/EU Students a maximum of £3,465 per year. No maximum applies in respect of non-UK/EU Students.

New funding arrangements

From the start of the 2012/2013 academic year, the level of funding provided by HEFCE to the Issuer will change. The Issuer will receive less income from HEFCE (it will no longer provide a block grant but will instead fund on a student by student basis) and instead will become more dependent upon the tuition fees it receives from students directly or from the Student Loan Company. The grant that the Issuer receives for teaching from HEFCE will be reduced. Instead, this public funding will be directed to the Student Loan Company which will provide a loan to cover the increased cost of tuition fees to students. The Issuer will increase its tuition fees to £9,000 per year for UK/EU Students commencing a full-time undergraduate honours degree programme with them at the start of the 2012/2013 academic year.

There will be an interim period where some teaching funding is still provided under a modified version of the current regime, in relation to students who have already started a course at the Issuer. These students will continue to be funded on an individual basis by HEFCE. In addition, there will be interim funding for new students in relation to 'high-cost' courses, in order to ensure that the Issuer has sufficient funds where the funds it receives from tuition fees may not, initially, be sufficient to cover the costs of such courses. The transition from the current regime to the new regime will vary from institution to institution, depending upon a number of factors such as the length of the courses existing students are studying. If the courses offered are generally shorter in length (two and three years) the transition will take place more quickly than for institutions where many programmes may be four years in length.

The non-mainstream funding which is provided for widening university participation, for example, will continue to be provided with, however, a probable decrease in the overall level of funding available in this area as HEFCE seeks to maximise the impact of this funding stream and the funds which institutions are making available through OFFA to support the widening participation agenda. In addition institutions will be required to account for this funding in a more detailed way.

The key changes to research funding relate to the weighting given to quality levels in relation to the research undertaken. Research funding will be increasingly targeted at the highest quality, world-leading research. The research carried out by an institution is rated, and research with a two star rating will no longer be included in the calculation for mainstream research funding. The overall level of funding provided for science and research has been ring-fenced and will be maintained at its current level until 2014/2015. The research degree programme supervision funding will be subject to a new method of funding. This will be based on the level of research rated three and four star quality as a proportion of the total research rated at least two star quality. Although research funding has so far been protected from the cuts applied to teaching funding, if further government spending cuts are needed after the next Comprehensive Spending Review, research funding may be cut further.

Regulation

In addition to its funding role, HEFCE is also responsible for ensuring that the Issuer acts in accordance with its governance obligations, that it manages itself and the money it receives appropriately and that it complies with the requirements imposed on it by virtue of its exempt charitable status.

The Issuer must comply with certain requirements which are specified in HEFCE's Financial Memorandum and Audit Code of Practice. The Issuer is required to submit audited financial statements to Hefce each year. In addition, the Issuer is also required to make this information publicly available, and it has done so by publishing its accounts for the year 2010/2011 on its website (http://www.dmu.ac.uk/home.aspx). It is also possible that a representative of the Issuer is called before the Public Accounts Committee to discuss issues relating to financial regularity, propriety or value for money in relation to the public funding that it has received.

The Issuer must provide HEFCE with certain information about the way it operates and its financial position, in order to demonstrate the effectiveness of its management systems and ability to make appropriate use of the funding it receives. The Vice-Chancellor is the Issuer's accountable officer and it is his role to liaise with HEFCE to show that the Issuer has not only complied with any conditions which attach to the funding that the Issuer receives from HEFCE but also that the way the funds have been administered ensures value for money. In accordance with a timetable set by HEFCE, the Issuer must provide it with certain information such as copies of the audit committee's annual report, the internal auditors' annual report, the external auditors' management letter and the management response. The Issuer must also provide annual accountability returns to HEFCE and HEFCE, through reviewing these returns, is able to provide the accountable officer at the Issuer with a confidential risk assessment. Following a period of three years, these risk assessments can be made public. The Issuer is also under an obligation to provide HEFCE with any other information it might reasonably require to enable it to act as principal charity regulator. If there is any material adverse change in the Issuer's circumstances, it is under a duty to inform HEFCE of that change, as well as informing HEFCE of any significant developments which could impact upon the mutual interests of the Issuer and HEFCE.

In addition the Issuer is required to submit returns to other Higher Education bodies – notably annual student, staff and finance returns to the Higher Education Statistics Agency, an annual Access Agreement to the Office for Fair Access (and associated monitoring returns) and returns to the Quality Assurance Agency.

Before entering into new long term financial commitments, the Issuer must obtain written consent from HEFCE if the annual servicing cost of its total financial commitments would be more than 4 per cent. of its annual income. If the annual servicing cost would be more than 7 per cent. of its annual income then approval of the HEFCE board must be sought. In relation to an application for consent to a transaction which will result in annual servicing costs of between 4 to 7 per cent., HEFCE aims to respond within 15 working days of receipt of all the relevant information.

The Secretary of State has the power under the Education Reform Act 1988 to make an order to dissolve any higher education corporation (such as the Issuer) and to provide that its property, rights and liabilities are transferred to one of the entities specified in this Act. However, before the Secretary of State is permitted to make such an order, the Secretary of State must consult with the Issuer and with HEFCE.

The Issuer, as a higher education corporation, is listed as an exempt charity under Schedule 2 of the Charities Act 1993. Consequently, in relation to its charitable activities, the Issuer benefits from the status of a charity but it is not necessary for it to register with the Charity Commission. Due to the provisions in the Charities Act 2006 (which has been consolidated with the Charities Act 2011), HEFCE is responsible for ensuring that the Issuer, as an exempt charity, fulfils its obligations under charity law. HEFCE's objective is to promote compliance by the trustees of the Issuer with their legal obligations when controlling and managing the Issuer, so far as reasonably possible. In doing so it is required to monitor the Issuer regularly, and potentially to liaise with the Charity Commission if the issues involved are more complex and may result in the use of its powers.

A Memorandum of Understanding exists between HEFCE and the Charity Commission. This sets out how HEFCE, as principal regulator of higher education institutions which are exempt charities, works in conjunction with the Charity Commission and, in particular, how the two bodies formulate regulatory policy frameworks and co-ordinate their approach to regulation. The Board members are charitable trustees and as such must exercise their duties as trustees prudently and in accordance with the Issuer's Instrument of Government. The Charity Commission has the power to take proceedings against the members of the Board if it believes that they have acted imprudently. The actions that the Board takes should always be in the public interest.

The Charities Act 2006 extended most of the Charity Commission's powers to exempt charities (including the Issuer). However, before exercising any of its powers in respect of the Issuer, the Charity Commission must first consult with HEFCE. HEFCE is also able to invite the Charity Commission to use its powers in relation to investigation and intervention. Legal decisions taken by the Charity Commission are subject to review by the Charity Tribunal.

In addition, the Issuer has a dedicated page on its website to comply with the requirement imposed on exempt charities to provide certain information about themselves. The web page contains information regarding the legal name and address of the Issuer, its constitutional documents, the names of its trustees, any interests those trustees have and its audited consolidated accounts. The Operating and Financial Review contains a statement on how the Issuer delivers public benefit.

FINANCIAL STATEMENTS

The consolidated audited financial statements and auditors' report of the Issuer (as extracted from the annual accounts) in respect of the financial years ended 31 July, 2010 and 31 July, 2011, in each case together with the audit reports in connection therewith, are set out below.

THE CONSOLIDATED AUDITED FINANCIAL STATEMENTS AND AUDITORS' REPORT OF THE ISSUER FOR THE YEAR ENDED 31 JULY 2010

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF GOVERNORS OF DE MONTFORT UNIVERSITY

We have audited the Group and university financial statements (the 'financial statements') of De Montfort University for the year ended 31 July 2010 which comprise the Group Income and Expenditure Account, the Group and university Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out therein.

This report is made solely to the Board of Governors, as a body, in accordance with paragraph 13(2) of the university's Articles of Government and section 124B of the Education Reform Act 1988. Our audit work has been undertaken so that we might state to the Board of Governors those matters we are required to state to it 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 University Council/Board of Governors for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE BOARD OF GOVERNORS AND AUDITORS

The responsibilities of the Board of Governors for preparing the Report of the Chairman of the Board of Governors, the Operating and Financial Review and the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK generally accepted accounting practice) are set out in the Statement of Responsibilities on page 21.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education. We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the university have been properly applied only for the purposes for which they were received and whether, in all material respects, income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England and the funding agreement with the Learning and Skills Council and its successor bodies. We also report to you whether in our opinion the Report of the Chairman of the Board of Governors and the Operating and Financial Review is not consistent with the financial statements.

In addition, we report to you if, in our opinion, the university has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the Report of the Chairman of the Board of Governors, the Operating and Financial Review and the Corporate Governance Statement and consider the implications for our report if we become aware of any apparent mis-statements within them or material inconsistencies with the financial statements.

BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Audit Code of Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Board of Governors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group and university's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- The financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and the university's affairs as at 31 July 2010 and of the Group's surplus of income over expenditure for the year then ended
- The financial statements have been properly prepared in accordance with the 'Statement of Recommended Practice: Accounting for Further and Higher Education'
- In all material respects, income from the Higher Education Funding Council for England and the Learning and Skills Council and its successor bodies, grants and income for specific purposes and from other restricted funds administered by the university during the year ended 31 July 2010 have been applied for the purposes for which they were received
- In all material respects, income during the year ended 31 July 2010 has been applied in accordance with the university's Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England and the funding agreement with the Learning and Skills Council and its successor bodies.

M J Rowley, for and on behalf of KPMG LLP. Statutory Auditor
Chartered Accountants
One Snowhill, Snow Hill Queensway,
Birmingham B4 6GH

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently throughout the period to items which are considered material in relation to the accounts. In accordance with FRS 18, these accounting policies have been reviewed by the Board of Governors and are considered to be appropriate to the university's activities.

1 ACCOUNTING CONVENTION

The accounts are prepared under the historical cost convention modified to include the revaluation of land and buildings and acquired assets in accordance with both the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007 and applicable Accounting Standards.

2 TANGIBLE FIXED ASSETS

i) Capitalisation
Tangible assets are capitalised if they are capable of being used for a period that exceeds one year and:

- Individually have a cost equal to or greater than £10,000

Or

- Collectively have a cost equal to or greater than £10,000 where the assets are functionally interdependent or are purchased together and intended to be used as group under common management control

Or

- Irrespective of their individual cost, form part of the initial equipping of a new building.

ii) Valuation
Tangible fixed assets, including land and buildings inherited from the Local Education Authority, are stated at cost or, in the case of land and buildings, at valuation. For properties expected to be sold, the basis of valuation is depreciated replacement cost or open market value. The latest valuation, which was for the 1994/95 Annual Accounts, was performed by the Estate Manager acting as an independent consultant, under the aegis of his professional body, the Royal Institution of Chartered Surveyors. All additions to land and buildings since 1 August 1995 are included at cost.

The university has adopted the transitional provisions of FRS 15. Consequently, no more revaluations will be made and existing land and buildings' gross valuations will be frozen at their current level. Buildings are depreciated over their expected useful life, which is normally 50 years except for certain building improvements, which are depreciated over 20 years. Leasehold property is depreciated over the life of the lease.

A review for impairment of buildings is carried out annually. If events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable, depreciation is adjusted accordingly.

iii) Depreciation
Land is not depreciated. Leasehold property including improvements to leasehold property, and other leased assets are depreciated over the life of the lease. Where assets comprise two or more major components with substantially different useful economic lives, each component is accounted for and depreciated over its individual economic life. Other tangible assets are depreciated on a straight-line basis over their useful life as follows:

Equipment	Lifespan
Computer equipment	Three years
Other equipment and furniture	Five years
Equipment acquired for specific projects	Over the life of the project (generally three years)
Expenditure which extends useful life	Over additional useful life

New buildings and major refurbishments to buildings are depreciated from the month in which they are put into service. For all other assets six months depreciation is charged in the year in which they are put into service.

Depreciation on disposals is as follows:

Buildings	Up to the month before the building is taken out of use
Equipment	Six months depreciation

iv) Funded tangible fixed assets
Where assets are acquired with the aid of specific grants or donations they are capitalised and depreciated as above. The related grants and donations are treated as deferred capital grants and released to income over the expected useful life of the asset (or the period of the grant in respect of specific projects). Grants received in respect of land are released to the Income and Expenditure Account as donations in the year in which the expenditure is incurred.

v) Tangible donated fixed assets
Tangible fixed assets other than land that have been donated to the university are capitalised at market value with the same amount being credited to deferred capital grants. Assets are depreciated over their estimated useful lives, and a corresponding amount is released from deferred capital grants to the Income and Expenditure Account.

vi) IT equipment and software licences

IT equipment, such as personal computers and related items, are purchased in bulk through the university's central purchasing and supply system. These items are capitalised as a single group of equipment and depreciated in accordance with i) and iii) page 25.

IT software licences are treated as a revenue cost and are charged to the Income and Expenditure Account in the year of purchase.

vii) Heritage Assets

The university holds a number of collections, exhibits and artefacts of historical, artistic or scientific importance. Most of these have been donated or bequeathed to the university. In accordance with FRS 15 and FRS 30 (Heritage Assets), Heritage Assets acquired before 1999 have not been capitalised since reliable estimates of value are not available on a cost-benefit basis. No items above the general fixed asset minimum value of £10,000 have been acquired since 1 August 1999; therefore, no value for Heritage Assets is included in the financial statements.

The university does not have a systematic policy for acquisition of this type of asset. Most of the artwork included in the collections is on display within the university's buildings and exhibition spaces, many of which are open to the public. Discussions have taken place with local museums and galleries regarding loaning elements of the collection for public display. Items not currently on display are stored in a secure store. Conservation of items within the collection is carried out as necessary.

3 INTANGIBLE ASSETS

Intangible assets are recorded at cost and amortised over their expected useful life.

4 LEASES

Fixed assets held under finance leases and the related lease obligations are recorded in the Balance Sheet at the fair value of the leased assets at the inception of the lease. The excess of the lease payments over recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations.

Rental costs under operating leases are charged to the Income and Expenditure Account in equal amounts over the periods of the leases.

5 FUNDING COUNCIL GRANTS

Funding Council recurrent grant income represents income in support of general or specific revenue activities of the university during the period and is credited direct to the Income and Expenditure Account.

Capital grants and contributions received by the university to finance the construction or purchase of capital assets are accounted for as deferred capital grants and released to the Income and Expenditure Account over the expected useful life of the related assets.

Tuition fees represent student fees received and receivable, which are attributable to the current accounting period.

Deferred income in respect of HEFCE capital grant, which is attributable to subsequent years, is shown as a deferred credit in the Balance Sheet.

6 STOCKS

Stocks are stated at the lower of cost and net realisable value. Consumable items are charged directly to the Income and Expenditure Account.

7 TAXATION STATUS

The university is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Para 1 of Schedule 6 to the Finance Act 2010. Accordingly, the university is potentially exempt from taxation in respect of income or capital gains received within categories covered by sections 478–488 of the Corporation Tax Act 2010 (CTA 2010) (formerly enacted in Section 505 of the Income and Corporation Taxes Act 1988 (ICTA)) or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes.

All subsidiary companies are liable to Corporation Tax and Value Added Tax in the same way as any other commercial organisation.

The university's principal activities are exempt from Value Added Tax, but certain ancillary supplies and services are liable to Value Added Tax at various rates. Expenditure includes irrecoverable Value Added Tax charged by suppliers to the university.

8 DEFERRED TAXATION

Provision is made for deferred taxation in respect of subsidiary companies, using the liability method on all material timing differences.

9 PENSION SCHEME ARRANGEMENTS

Retirement benefits to employees of the university are provided by defined benefit schemes which are funded by contributions from the university and employees. Payments are made to the Teachers' Pension Scheme, the Universities Superannuation Scheme for academic staff and to the Local Government Pension Scheme for support staff. These are all independently administered schemes. Pension costs are assessed on the latest actuarial valuations of the Schemes.

The Local Government Pension Scheme is accounted for on the basis of FRS 17. The assets of the scheme are included at market value and scheme liabilities are measured on an actuarial basis using the projected unit method. The difference between the fair value of assets and liabilities measured on an actuarial basis, net of the related amount of deferred tax, are recognised in the university's Balance Sheet as a pension scheme liability or asset as appropriate. A surplus is only included to the extent that the university is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme. Changes in the defined asset or liability arising from factors other than cash contributions to the scheme are charged to the Income and Expenditure Account. The Teachers' Pension Scheme and the Universities Superannuation Scheme are multi-employer schemes where the university is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis. Contributions are charged directly to the Income and Expenditure Account as if the schemes were defined contribution scheme in accordance with FRS 17.

Provision is made for enhanced pensions not accounted for under FRS 17 where employees have taken early retirement.

10 RECOGNITION OF INCOME

Income from donations, research grants, contracts and other services rendered is included to the extent of the expenditure incurred during the year. Contributions towards overhead costs are aligned with expenditure and recognised based on expenditure to date. All income from short-term deposits and endowment asset investments is credited to the Income and Expenditure Account on a receivable basis. Income from restricted endowments not expended in accordance with the restrictions of the endowment is transferred from the Income and Expenditure Account to restricted endowments. Any realised gains or losses from dealing in the related assets are retained within the endowment in the Balance Sheet.

Donations received to be applied to the cost of land are recognised by inclusion as 'Other Income' in the Income and Expenditure Account.

11 CONSOLIDATION

The Consolidated Income and Expenditure Account and Balance Sheet include the annual accounts of the Corporation, its subsidiary undertakings, except for dormant subsidiary companies, where the combined amounts involved are insignificant, and De Montfort University Trust, an exempt charity. Details of the university's subsidiary undertakings are provided in note 7 to the accounts. The Annual Accounts have been consolidated under the acquisition method of accounting.

The consolidated financial statements do not include those of De Montfort University Students' Union Limited, as it is a separate Limited company in which the university has no financial interest. In 2009/10, the university made the recurrent grant to De Montfort University Students' Union Limited of £708,000 (2008/09: £712,000).

12 CASH FLOWS AND LIQUID RESOURCES

Cash flows comprise increases or decreases in cash. Cash includes cash-in-hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. No investments, however liquid, are included as cash.

Liquid resources comprise assets held as a readily disposable store of value. They may include term deposits, government securities and loan stock held as part of the university's treasury management activities. They exclude any such assets held as Endowment Asset Investments.

13 MAINTENANCE OF PREMISES

The cost of routine maintenance is charged to the Income and Expenditure Account in the period in which it is incurred. The university has a long-term planned maintenance programme, which is reviewed on an annual basis. The university charges actual expenditure on long-term planned maintenance to the Income and Expenditure Account in the period in which it is incurred.

14 STAFF RESTRUCTURING COSTS

Routine staff costs and expenditure on staff restructuring are charged to the Income and Expenditure Account in the year in which they are incurred.

15 PROVISIONS

Provisions are recognised when the university has a present and legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

16 INVESTMENTS

Fixed asset investments that are not listed on a recognised stock exchange are carried at cost. Investments that are listed on a recognised stock exchange are carried at market value. Current asset investments are carried at the lower of cost and net realisable value.

17 FOREIGN CURRENCIES

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at the rates at the date of the Balance Sheet or, where there are related forward exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

18 ACCOUNTING FOR CHARITABLE DONATIONS

i) Unrestricted donations

Charitable donations are recognised in the accounts when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

ii) Endowment funds

Where charitable donations are to be retained for the benefit of the Institution as specified by the donors, these are accounted for as endowments. There are three main types:

- Unrestricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the Institution
- Restricted expendable endowments – the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the Institution can convert the donated sum into income
- Restricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

iii) Donations for fixed assets

Donations received to be applied to the cost of a tangible fixed asset are shown on the Balance Sheet as a deferred capital grant. The deferred capital grant is released to the Income and Expenditure Account over the same estimated useful life that is used to determine the depreciation charge associated with the tangible fixed asset.

iv) Gifts in kind, including donated tangible fixed assets

Gifts in kind are included in ‘other income’ or ‘deferred capital grants’ as appropriate using a reasonable estimate of their gross value or the amount actually realised.

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 JULY 2010

Income	Note	2010 £'000 Total	2009 £'000 Total
Funding council grants	1a	**64,646**	68,761
Academic fees and education contracts	1b	**68,318**	57,566
Research grants and contracts	1c	**8,155**	7,419
Other operating income	1d	**8,485**	10,081
Endowment income and interest receivable	1e	**276**	1,583
Total income		**149,880**	145,410
Expenditure			
Staff costs	2	**92,902**	89,533
Other operating expenses	3	**47,353**	42,792
Interest payable	4	**3,621**	1,450
Depreciation	6	**9,004**	8,033
Total expenditure	**5**	**152,880**	141,808
(Deficit)/surplus on continuing operations after depreciation of tangible fixed assets at valuation and before exceptional items		**(3,000)**	3,602
Exceptional items: Continuing operations			
(Deficit)/surplus on disposal of tangible fixed assets		**(203)**	49
(Deficit)/surplus on continuing operations after depreciation of tangible fixed assets at valuation and disposal of assets		**(3,203)**	3,651
Transfer from accumulated income within endowments		**132**	62
(Deficit)/surplus for the year retained within general reserves		**(3,071)**	3,713

The consolidated deficit includes a surplus of £1,636k (2008/09: surplus of £3,500k) that has been dealt with in the accounts of the university.

All items dealt with above relate to continuing operations.

This statement should be read in conjunction with the report of the Chairman, the Operating and Financial Review and notes to the accounts.

STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS FOR THE YEAR ENDED 31 JULY 2010

	Note	2010 £'000 Total	2009 £'000 Total
(Deficit)/surplus on continuing operations after depreciation of tangible fixed assets at valuation and disposal of assets		**(3,203)**	3,651
Difference between historical cost depreciation charge and actual depreciation charge for the year	18	**72**	88
Realisation of revaluation surplus on disposal of assets	18	**198**	–
Historical cost (deficit)/surplus for the year		**(2,933)**	3,739
Historical cost (deficit)/surplus for the year retained after transfers in respect of endowments		**(2,801)**	3,801

This statement should be read in conjunction with the report of the Chairman, the Operating and Financial Review and notes to the accounts.

BALANCE SHEET AS AT 31 JULY 2010

	Note	Group 2010 £'000	Group 2009 £'000	Corporation 2010 £'000	Corporation 2009 £'000
Fixed assets					
Tangible assets	6	**153,040**	144,472	**153,040**	134,618
Investments	7	**296**	302	**606**	612
		153,336	144,774	**153,646**	135,230
Endowment asset investments	8	**902**	766	**902**	766
Current assets					
Stocks	9	**109**	143	**109**	111
Properties held for resale		**1,741**	2	**1,741**	2
Debtors – amounts falling due after more than one year	10	**–**	–	**–**	5,344
Debtors – amounts falling due within one year	11	**8,870**	7,514	**8,853**	7,878
Investments	12	**24,140**	32,911	**23,102**	31,669
Cash at bank and in hand		**1,076**	1,411	**1,075**	917
		35,936	41,981	**34,880**	45,921
Creditors: amounts falling due within one year	**13**	**(27,226)**	(23,915)	**(26,862)**	(23,400)
Net current assets		**8,710**	18,066	**8,018**	22,521
Total assets less current liabilities		**162,948**	163,606	**162,566**	158,517
Creditors: amounts falling due after more than one year	14	**(23,331)**	(25,565)	**(23,331)**	(25,565)
Provisions for liabilities and charges	15	**(1,553)**	(1,575)	**(1,553)**	(1,575)
		(24,884)	(27,140)	**(24,884)**	(27,140)
Total net assets excluding pension deficit		**138,064**	136,466	**137,682**	131,377
Pension deficit	30d	**(50,656)**	(56,721)	**(50,656)**	(56,721)
Total net assets including pension deficit		**87,408**	79,745	**87,026**	74,656
Represented by:					
Deferred capital grants	16	**46,865**	45,589	**46,865**	45,589
Endowments					
Expendable		**444**	334	**444**	334
Permanent		**458**	432	**458**	432
	17	**902**	766	**902**	766
Reserves					
Revaluation reserve	18	**9,693**	9,969	**9,693**	9,969
Income and expenditure account	18	**80,604**	80,142	**80,222**	75,053
Pension reserve	18	**(50,656)**	(56,721)	**(50,656)**	(56,721)
Total reserves		**39,641**	33,390	**39,259**	28,301
Total reserves and endowments		**40,543**	34,156	**40,161**	29,067
Total funds		**87,408**	79,745	**87,026**	74,656

The financial statements on pages 29 to 55 were approved by the Board of Governors on 26 November 2010 and were signed on its behalf by:

Professor W Dawson
Chairman

Professor D Shellard
Chief Executive and Vice-Chancellor

Mr J Cunningham
Director of Finance

This statement should be read in conjunction with the report of the Chairman, the Operating and Financial Review and notes to the accounts.

STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 JULY 2010

	Note	2010 £'000	2009 £'000
(Deficit)/surplus on continuing operations after depreciation of assets at valuation and disposal of assets		**(3,203)**	3,651
(Decrease)/increase in value of fixed asset investment	18	**(6)**	41
New endowed funds	17	**253**	73
Appreciation/(depreciation) of endowed funds	17	**15**	**(20)**
FRS17 actuarial gain/(loss)	30d	**9,328**	**(35,560)**
Total recognised gains/(losses) relating to the year		**6,387**	**(31,815)**
Opening reserves and endowment		**34,156**	65,971
Total recognised gains/(losses)		**6,387**	(31,815)
Closing reserves and endowments		**40,543**	34,156

This statement should be read in conjunction with the report of the Chairman, the Operating and Financial Review and notes to the accounts.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JULY 2010

	Note	2010 £'000	2009 £'000
Net cash inflow from operating activities	20	**4,786**	5,782
Returns on investments and servicing of finance			
Interest received	21	**448**	1,699
Interest paid	21	**(945)**	(628)
		(497)	**1,071**
Net cash inflow from returns on investments and servicing of finance		**4,289**	**6,853**
Capital expenditure			
Payments to acquire tangible assets		**(20,331)**	(30,153)
Proceeds of sale of tangible assets		**650**	118
Deferred capital grants received		**6,994**	10,860
Net cash outflow from capital expenditure		**(12,687)**	**(19,175)**
Net cash outflow before management of liquid resources		**(8,398)**	**(12,322)**
Management of liquid resources			
Cash transferred from term deposits	23	**8,771**	5,510
Financing			
Bank loan drawn down in year	22	**–**	7,000
Loan repayment in year	22	**(410)**	(389)
		(410)	6,611
Decrease in cash	23	**(37)**	**(201)**

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Note	2010 £'000	2009 £'000
Decrease in cash in the year	23	**(37)**	(201)
Cash outflow from liquid resources	23	**(8,771)**	(5,510)
New loans taken out in year	23	**–**	(7,000)
Loan repayment in year	23	**410**	389
Change in net funds		**(8,398)**	(12,322)
Net funds at 1 August		**9,790**	22,112
Net funds at 31 July		**1,392**	9,790

This statement should be read in conjunction with the report of the Chairman, the Operating and Financial Review and notes to the accounts.

NOTES TO THE ACCOUNTS

1. ANALYSIS OF INCOME

	2009/2010 £'000	2008/2009 £'000
a) Funding council grants		
Recurrent grants		
Higher Education Funding Council	54,821	59,277
Learning and Skills Council	879	834
Specific grants		
Employer Engagement	1,742	1,275
Teaching Quality Enhancement Fund	–	587
Higher Education Innovation Fund	1,437	1,306
Centres for Excellence in Teaching and Learning	312	588
Active Community Fund	–	61
Graduate Internship Project	149	–
HEFCE Matched Funding	167	43
Releases of deferred capital grants (note 16)		
Buildings	1,421	1,242
Equipment	3,718	3,548
Total	**64,646**	**68,761**
b) Academic fees and education contracts		
Home and EU students	43,657	36,207
Overseas students	10,547	7,848
Education contracts	12,031	12,526
Other contracts	2,083	985
Total	**68,318**	**57,566**
c) Research grants and contracts		
Research councils	1,779	2,127
UK-based charities	490	361
European commission	816	770
Other grants and contracts	5,070	4,161
Total	**8,155**	**7,419**
d) Other operating income		
Residences and catering	4,673	3,792
Other services rendered	2,011	2,894
Other income	1,122	1,512
Releases of deferred capital grants (note 16)	579	349
Donations	100	1,534
Total	**8,485**	**10,081**
e) Endowment income and interest receivable		
Income from expendable endowments (note 17)	4	12
Income from permanent endowments (note 17)	12	19
Interest on short-term investments	260	1,552
Total	**276**	**1,583**

2 STAFF COSTS AND OTHER DETAILS

a) Staff costs	2009/2010 £'000	2008/2009 £'000
Wages and salaries	**76,123**	74,068
Social security costs	**6,127**	5,952
Other pension costs	**9,376**	9,143
The financial effects of the adoption of FRS17	**576**	(266)
Restructuring costs	**700**	636
Total	**92,902**	**89,533**

b) Employee numbers

The average number of persons employed during the year, expressed as full-time equivalents, are disclosed below.	2009/2010	2008/2009
Academic		
Full-time	**756**	768
Part-time	**227**	200
Support	**1,208**	1179
Total	**2,191**	**2,147**

c) Senior post holder emoluments	2009/2010 £'000	2008/2009 £'000
Retiring Vice-Chancellor		
Emoluments of the Vice-Chancellor	204	216
Pension contributions	16	29
	220	**245**
Joining Vice-Chancellor		
Emoluments of the Vice-Chancellor	**16**	–
Pension contributions	**3**	–
	19	–

There were two serving Vice-Chancellors in office during the year, one from 1 August 2009 to 27 June 2010, the other appointed from 28 June 2010 onwards. The emoluments, including taxable benefits, of the Vice-Chancellors are shown on the same basis as for higher paid staff and exclude employer's national insurance contributions.

The university's pension contributions to the Teachers' Pension Scheme in respect of the Vice-Chancellors are paid at the same rates as for other academic staff. This represents employer's pension contributions of 14.1% (2008/09: 14.1%).

The Contract of Employment of the Vice-Chancellor provides for termination by the Corporation on giving twelve months' notice or the Vice-Chancellor reaching the age of 65.

d) Remuneration of other higher paid staff

Remuneration of other higher paid staff, excluding employer's pension contributions:

	2009/2010	2008/2009
£100,000–£109,999	**3**	**7**
£110,000–£119,999	**2**	**–**
£120,000–£129,999	**1**	**–**
£130,000–£139,999	**–**	**–**
£140,000–£149,999	**2**	**1**

Compensation for loss of office payable to senior post-holders	2009/2010 £'000	2008/2009 £'000
Compensation payable	**188**	**–**

The severance pay was in accordance with the Institution's Remuneration Committee.

3 OTHER OPERATING EXPENSES

		2009/2010 £'000	2008/2009 £'000
External auditors remuneration	Group audit	**50**	50
The above remuneration includes £38k in respect of the audit of the university (2009: £38k)			
Auditors fees for non-audit services	Other services supplied pursuant to such legislation	**1**	2
	Other services relating to taxation	**3**	1
	Valuation and actuarial services	**1**	–
	Other	**–**	6
Internal audit services		**76**	86
Residences and catering		**4,090**	2,450
Rent, rates and insurance		**918**	909
Repairs and general maintenance		**4,193**	4,099
Energy		**2,881**	2,500
Administrative expenses		**5,433**	5,050
Research grants and contracts		**2,951**	2,216
Legal, professional and consultancy fees		**3,372**	3,899
General education expenses		**6,851**	6,483
Student bursaries		**7,951**	5,664
Publicity		**2,357**	3,325
Staff development		**551**	439
Travel and subsistence		**1,296**	1,248
Grant to De Montfort University Students' Union Limited		**708**	712
Consumables		**2,856**	3,317
Other		**814**	336
Total		**47,353**	**42,792**

Other operating expenses include:	**2009/2010 £'000**	**2008/2009 £'000**
Operating leases – buildings	**680**	921
Operating leases – equipments	**539**	368

Governors

No governor has received any remuneration/waived payments for the Group during the year (2009: none)

The total expenses paid to or on behalf of 24 governors was £37,739 (2009: £53,291 to 25 governors). This represents travel and subsistence incurred in attending Board and Committee meetings in their official capacity.

4. INTEREST PAYABLE

	2009/2010 £'000	2008/2009 £'000
Other loans	**934**	938
HMRC interest	**–**	(307)
Net Financing costs in Pension Scheme Liabilities (under FRS17)	**2,687**	819
Total	**3,621**	**1.450**

5. ANALYSIS OF 2009/2010 EXPENDITURE BY ACTIVITY

	Staff costs £'000	Other operating expenses £'000	Interest £'000	Depreciation £'000	Total £'000	2008/2009 Total £'000
Academic departments	57,942	11,990	–	2,531	72,463	70,014
Academic services	8,967	3,523	–	616	13,106	12,860
Admin and central services	8,374	2,904	–	728	12,006	13,032
General education expenditure	3,035	12,337	–	51	15,423	12,836
Staff and student facilities	2,723	1,941	–	63	4,727	3,960
Premises	5,423	7,120	–	4,577	17,120	15,813
Residences and catering	547	4,090	–	151	4,788	3,151
Research grants and contracts	3,753	2,951	–	287	6,991	6,273
Other services rendered	862	495	–	–	1,357	2,049
Other expenditure	–	–	934	–	934	631
Provision for restructuring	700	2	–	–	702	636
FRS17 adjustment	576	–	2,687	–	3,263	553
Total	**92,902**	**47,353**	**3,621**	**9,004**	**152,880**	**141,808**

The depreciation charge has been funded by:

	£'000
Deferred capital grants released (note 16)	4,750
Revaluation reserves released (note 18)	72
General income	4,182
	9,004

6. TANGIBLE FIXED ASSETS AND DEPRECIATION

Group	Land and buildings £'000	Buildings under construction £'000	Furniture and equipment £'000	Computer equipment £'000	Total £'000
Cost or valuation					
At 1 August 2009	136,415	27,136	12,249	11,375	187,175
Additions at cost	14,743	1,445	1,307	2,668	20,163
Transfers to land and buildings	27,094	(27,094)	–	–	–
Properties held for resale	(3,587)	–	–	–	(3,587)
Disposals	(867)	–	(45)	(1,368)	(2,280)
At 31 July 2010	**173,798**	**1,487**	**13,511**	**12,675**	**201,471**
Depreciation					
At 1 August 2009	27,483	–	7,979	7,241	42,703
Charge for the year	4,501	–	1,766	2,737	9,004
Properties held for resale	(1,849)	–	–	–	(1,849)
Disposals	(19)	–	(40)	(1,368)	(1,427)
At 31 July 2010	**30,116**	**–**	**9,705**	**8,610**	**48,431**
Net book value:					
At 31 July 2010	**143,682**	**1,487**	**3,806**	**4,065**	**153,040**
At 31 July 2009	108,932	27,136	4,270	4,134	144,472

Corporation	Land and buildings £'000	Buildings under construction £'000	Furniture and equipment £'000	Computer equipment £'000	Total £'000
Cost or valuation					
At 1 August 2009	124,128	27,136	12,249	11,375	174,888
Additions at cost	14,743	1,445	1,307	2,668	20,163
Transfers to land and buildings	27,094	(27,094)	–	–	–
Transfers from group companies	12,919	–	–	–	12,919
Asset impairment	(493)	–	–	–	(493)
Properties held for resale	(3,587)	–	–	–	(3,587)
Disposals	(1,006)	–	(45)	(1,368)	(2,419)
At 31 July 2010	**173,798**	**1,487**	**13,511**	**12,675**	**201,471**
Depreciation					
At 1 August 2009	25,050	–	7,979	7,241	40,270
Charge for the year	4,381	–	1,766	2,737	8,884
Properties held for resale	(1,849)	–	–	–	(1,849)
Transfers from group companies	2,553	–	–	–	2,553
Disposals	(19)	–	(40)	(1,368)	(1,427)
At 31 July 2010	**30,116**	**–**	**9,705**	**8,610**	**48,431**
Net book value:					
At 31 July 2010	**143,682**	**1,487**	**3,806**	**4,065**	**153,040**
At 31 July 2009	99,078	27,136	4,270	4,134	134,618

The net book value of tangible fixed assets held under finance leases at 31 July 2010 was nil (31 July 2009: £4000). Of the net book value of land and buildings, £143,682,000 as at 31 July 2010, £120,520,000 is held at cost and £23,162,000 is held at the 1995 valuation. The historical cost equivalent of the re-valued land and buildings is £14,194,000 as at 31 July 2010.

The net book value of land and buildings is comprised as follows:

	Group 2009/2010 £'000	Group 2008/2009 £'000	Corporaton 2009/2010 £'000	Corporation 2008/2009 £'000
Freehold	142,935	107,936	142,935	98,082
Long lease	747	996	747	996
Total	**143,682**	**108,932**	**143,682**	**99,078**

7. INVESTMENTS

	Group 2009/2010 £'000	Group 2008/2009 £'000	Corporation 2009/2010 £'000	Corporation 2008/2009 £'000
Movement in the year				
Balance at beginning of year	302	254	612	564
Additions	1	–	1	–
(Depreciation)/appreciation of investments	(7)	48	(7)	48
Balance at year end	**296**	**302**	**606**	**612**
Analysis of closing balance				
Shareholding in subsidiary undertakings	–	–	310	310
Other investments	258	264	258	264
Shareholding in CVCP Properties PLC	38	38	38	38
	296	**302**	**606**	**612**

a) **Shareholdings in subsidiary undertakings**
At year end, investments in subsidiary undertakings comprise:

	Group holding %	Corporation 2009/2010 £	Corporation 2008/2009 £	Description of activities
Directly owned by the university:				
De Montfort Expertise Ltd	100	310,000	310,000	Provision of contract research and development
Leicester Business School Ltd	100	1	1	Dormant company
Leicestershire Business School Ltd	100	1	1	Dormant company
De Montfort University Trust	100	–	–	Support the educational work of the university (note 1 below)
Leicester De Montfort Expertise Ltd	100	1	1	Dormant company
Leicester De Montfort Ltd	100	1	1	Dormant company
		310,004	310,004	
Shareholding of De Montfort University Trust:				
Banco Santander	<0.01	–	852	Financial services (note 2 below)
		–	852	

All of the subsidiary undertakings are incorporated in England and Wales.

b) Other investments

	Holding %	Corporation 2009/2010 £	Corporation 2008/2009 £	Description of activities
Talis Group Ltd	<0.60	–	–	Library management system (note 3 below)
Spear Therapeutics Ltd	11.06	234	234	Drug development and research
BTG PLC	<0.01	42,669	35,572	Drug development and research
UK Human Tissue Bank Ltd	–	–	1	Dormant company (note 4 below)
CYPS Ltd	100.00	100	100	Dormant company
In Smart Ltd	100.00	100	100	Dormant company
Morvus Technology Ltd	<0.50	589	589	Drug development and research
Access Pharmaceuticals Inc	<0.70	12,521	26,713	Drug development and research, incorporated in USA
Lachesis Seed Fund Ltd Partnership	20.00	200,000	200,000	Seed funding for new high technology businesses
Fiteris Ltd	33.00	150	150	Software development
Valebanner Ltd	–	–	1	Medical research (note 5 below)
Venuesim Ltd	33.00	300	1	Software development
WZVI Ltd	10.00	100	–	Science and engineering research
Banco Santander	<0.01	832	–	Financial services (note 2 below)
		257,595	**263,461**	

Notes

1. De Montfort University Trust was dissolved on 23 July 2010
2. As part of the dissolution of De Montfort University Trust, the shareholding in Banco Santander was transferred to De Montfort University
3. The shares in this company were issued without payment. This followed the reorganisation of BLCMP Library Services, in which the university was previously a shareholder
4. UKHTB Ltd was dissolved at Companies House on 17 March 2009
5. Valebanner Ltd was dissolved at Companies House on 6 July 2010

8. ENDOWMENT ASSET INVESTMENTS — GROUP AND CORPORATION

	2009/2010 £'000	2008/2009 £'000
Balance as at 1 August	766	775
New endowments invested	253	73
Increase/(decrease) in market value of investments	15	(20)
Decrease in cash balances held for endowment funds	(132)	(62)
Balance as at 31 July	**902**	**766**
Represented by:		
Securities and fixed interest stock	192	177
Bank balances	710	589
Total endowment assets	**902**	**766**

9. STOCKS

	Group 2009/2010 £'000	Group 2008/2009 £'000	Corporation 2009/2010 £'000	Corporation 2008/2009 £'000
Goods for resale	5	35	5	3
Catering and residences	5	5	5	5
Art and Design	68	60	68	60
ISAS	31	43	31	43
	109	**143**	**109**	**111**

10. DEBTORS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2009/2010 £'000	Group 2008/2009 £'000	Corporation 2009/2010 £'000	Corporation 2008/2009 £'000
Loans and prepayments to subsidiary undertakings	–	–	–	5,344
	–	**–**	**–**	**5,344**

11. DEBTORS FALLING DUE WITHIN ONE YEAR

	Group 2009/2010 £'000	Group 2008/2009 £'000	Corporation 2009/2010 £'000	Corporation 2008/2009 £'000
Student debtors	2,520	2,361	2,520	2,361
Other debtors	2,110	1,645	1,986	1,289
Research	1,506	1,542	1,506	1,542
Prepayments and accrued income	2,734	1,966	2,394	1,527
Subsidiary undertakings	–	–	447	1,159
	8,870	**7,514**	**8,853**	**7,878**

Within other debtors £121k is held in respect of HEFCE matched funding falling due after more than one year.

12. SHORT-TERM DEPOSITS – GROUP AND CORPORATION

In accordance with its established policy, the university regularly invests surplus funds on deposit or on the Money Market.

At 31 July 2010:
£24,140,000 of Group Funds was on deposit (31 July 2009: £32,911,000).
£23,102,000 of Corporation Funds was on deposit (31 July 2009: £31,669,000).

13. CREDITORS FALLING DUE WITHIN ONE YEAR

	Group 2009/2010 £'000	Group 2008/2009 £'000	Corporation 2009/2010 £'000	Corporation 2008/2009 £'000
Bank account	72	371	72	371
Obligations under finance leases (note 19)	–	4	–	4
Payments received in advance	4,343	4,569	4,319	4,569
Trade creditors	6,676	6,793	6,368	6,240
Other creditors	7,262	3,645	7,261	3,645
Taxation	1,068	1,582	1,068	1,568
Social security	945	941	945	941
Accruals	5,908	5,429	5,832	5,227
Bank loan	420	406	420	406
Student caution deposits	488	17	488	17
Access funds (note 27)	44	33	44	33
Subsidiary undertakings	–	–	45	254
East Midlands New Technology Initiative (note 28)	–	125	–	125
	27,226	**23,915**	**26,862**	**23,400**

14. CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR — GROUP AND CORPORATION

	2009/2010 £'000	2008/2009 £'000
Bank loan	23,331	23,751
Other creditors	–	1,814
	23,331	**25,565**

A Revolving Credit facility of £7 million with the Lloyds Group was drawn down on the 14 January 2009. The cost of the facility is the bank rate plus 0.2% margin.

This facility has been forward fixed to a 20 year term loan commencing 27 February 2012. The underlying cost of funds for the future term loan is 4.79% together with a margin of 0.2%, giving an overall fixed rate of 4.99%. The loan will be amortised over the term with no capital holiday. It is provided unsecured, subject only to the university providing a negative pledge over its material fixed assets.

15. PROVISIONS FOR LIABILITIES AND CHARGES — GROUP AND CORPORATION

	Future pensions £'000	Staff restructuring £'000	Total £'000
At 1 August 2009	1,424	151	1,575
Utilised in year	(202)	(151)	(353)
Transfer (from)/to Income and Expenditure Account	(84)	415	331
At 31 July 2010	**1,138**	**415**	**1,553**

The provision for future pensions represents the estimated outstanding cost to the university in respect of enhanced pension entitlements not accounted for under FRS17, and is reviewed at each financial year end. The provision for staff restructuring relates to agreements that have been reached for early retirement and severance as at the Balance Sheet date.

16. DEFERRED CAPITAL GRANTS — GROUP AND CORPORATION

	Funding Council grants	Other grants	Total grants
Balance at 1 August 2009	**£'000**	**£'000**	**£'000**
Buildings	34,055	3,861	37,916
Equipment	6,898	775	7,673
Total	**40,953**	**4,636**	**45,589**
Cash receivable			
Buildings	3,228	–	3,228
Equipment	3,228	538	3,766
Total	**6,456**	**538**	**6,994**
Released to Income and Expenditure Account			
Buildings	(1,421)	(217)	(1,638)
Equipment	(3,718)	(362)	(4,080)
Total	**(5,139)**	**(579)**	**(5,718)**
	To fund depreciation (note 5)		**(4,750)**
	To fund revenue		**(968)**
			(5,718)
Balance at 31 July 2010			
Buildings	35,862	3,644	39,506
Equipment	6,408	951	7,359
Total	**42,270**	**4,595**	**46,865**

17. ENDOWMENTS — GROUP AND CORPORATION

	Unrestricted permanent £'000	Restricted permanent £'000	Total permanent £'000	Restricted expendable £'000	2009/2010 Total £'000	2008/2009 Total £'000
Capital	1	361	362	324	**686**	685
Accumulated income	–	70	70	10	**80**	90
	1	**431**	**432**	**334**	**766**	**775**
Investment income	–	12	12	4	**16**	32
Expenditure	–	(12)	(12)	(136)	**(148)**	(94)
	–	**–**	**–**	**(132)**	**(132)**	**(62)**
New endowments	–	11	11	242	**253**	73
Appreciation/(depreciation) in market value of investments	–	15	15	–	**15**	(20)
At 31 July 2010	**1**	**457**	**458**	**444**	**902**	**766**
Represented by:						
Capital value	1	387	388	435	**823**	686
Accumulated income	–	70	70	9	**79**	80
	1	**457**	**458**	**444**	**902**	**766**

18. RESERVES

	Group 2009/2010 £'000	Group 2008/2009 £'000	Corporation 2009/2010 £'000	Corporation 2008/2009 £'000
Income and expenditure reserve				
At 1 August	80,142	75,788	75,053	70,912
(Deficit)/surplus retained in the year	(3,071)	3,713	1,636	3,500
Transfer from revaluation reserve	72	88	72	88
Realisation of revaluation surplus on disposal of assets	198	–	198	–
Add back pension deficit	3,263	553	3,263	553
At 31 July	**80,604**	**80,142**	**80,222**	**75,053**
Pension reserve				
At 1 August	**(56,721)**	**(20,608)**	**(56,721)**	**(20,608)**
Actuarial gain/(loss) on pension scheme	9,328	(35,560)	9,328	(35,560)
Deficit retained within reserves	(3,263)	(553)	(3,263)	(553)
At 31 July	**(50,656)**	**(56,721)**	**(50,656)**	**(56,721)**
Revaluation reserve				
At 1 August	9,969	10,016	9,969	10,016
(Decrease)/increase in value of fixed asset investments	(6)	41	(6)	41
Contribution to depreciation	(72)	(88)	(72)	(88)
Realisation of revaluation surplus on disposal of assets	(198)	–	(198)	–
At 31 July	**9,693**	**9,969**	**9,693**	**9,969**
Total reserves	**39,641**	**33,390**	**39,259**	**28,301**

19. BORROWINGS AND LEASE OBLIGATIONS

a) Borrowings

Borrowings in respect of bank loans, overdrafts and other loans are repayable as follows:

	Group 2009/2010 £'000	Group 2008/2009 £'000	Corporation 2009/2010 £'000	Corporation 2008/2009 £'000
In one year or less	492	777	492	777
Between one and two years	503	420	503	420
Between two and five years	2,174	1,917	2,174	1,917
In five years or more	20,654	21,414	20,654	21,414
Total	**23,823**	**24,528**	**23,823**	**24,528**

b) Finance leases

	Group 2009/2010 £'000	Group 2008/2009 £'000	Corporation 2009/2010 £'000	Corporation 2008/2009 £'000
Obligations under finance leases in respect of equipment fall due as follows:				
Within one year	–	4	–	4
Leases expiring within two-five years	–	–	–	–
Total	**–**	**4**	**–**	**4**

c) Operating leases

At 31 July 2010, the university had annual commitment under operating leases as follows:

Land and buildings	Group 2009/2010 £'000	Group 2008/2009 £'000	Corporation 2009/2010 £'000	Corporation 2008/2009 £'000
Leases expiring within one year	**28**	–	**28**	–
Leases expiring within two–five years	**21**	103	**21**	753
Leases expiring thereafter	**236**	586	**236**	1,086
Total lease payments due	**285**	689	**285**	1,839
Other				
Leases expiring within one year	**96**	26	**96**	24
Leases expiring within two–five years	**187**	348	**187**	348
Total lease payments due	**283**	374	**283**	372

20. NET CASH FLOW FROM OPERATING ACTIVITIES — GROUP

	2009/2010		2008/2009	
	£'000	£'000	£'000	£'000
Income and Expenditure Account before taxation	(3,000)		3,602	
FRS17 impact on Income and Expenditure Account (including interest)	3,263		553	
Endowment income adjustment	132		62	
Interest receivable (excluding FRS17 interest)	(276)		(1,583)	
Surplus before interest receivable		119		2,634
Add back interest payable (excluding FRS17 interest):				
Bank loans	934		938	
HMRC interest	–		(307)	
Total interest payable		934		631
Surplus from operating activities		1,053		3,265
Release of capital grant		(5,718)		(5,139)
(Decrease)/increase in value of fixed asset investments		(6)		41
Depreciation		9,004		8,033
Decrease in stock		34		21
Increase in debtors		(1,528)		(1,346)
Increase in creditors		1,969		2,032
Decrease in provisions		(22)		(1,125)
Net cash inflow from ordinary operating activities		4,786		5,782

21. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE — GROUP

	2009/2010 £'000	2008/2009 £'000
Income from short term investments	448	1,699
Interest paid	(945)	(628)
	(497)	**1,071**

22. ANALYSIS OF CHANGES IN FINANCING — GROUP

	Bank loan		Finance leases		Total	
	2009/2010 £'000	2008/2009 £'000	2009/2010 £'000	2008/2009 £'000	2009/2010 £'000	2008/2009 £'000
Balance at 1 August	**24,157**	17,542	**4**	8	**24,161**	17,550
New loan principal	**–**	7,000	**–**	–	**–**	7,000
Repayment	**(406)**	(385)	**(4)**	(4)	**(410)**	(389)
Balance at 31 July	**23,751**	24,157	**–**	4	**23,751**	24,161

23. ANALYSIS OF NET FUNDS — GROUP

	At 1 August 2009 £'000	Non cash changes £'000	Cashflow £'000	At 31 July 2010 £'000
Net cash				
Cash at bank and in hand	1,411	–	(335)	**1,076**
Bank overdrafts	(371)	–	298	**(73)**
	1,040	–	(37)	**1,003**
Liquid resources				
Current asset investments	32,911	–	(8,771)	**24,140**
Debt				
Finance leases	(4)	–	4	**–**
Debts falling due within one year	(406)	(420)	406	**(420)**
Debts falling due after one year	(23,751)	420	–	**(23,331)**
	(24,161)	–	410	**(23,751)**
Net funds	**9,790**	**–**	**(8,398)**	**1,392**

24. FINANCIAL COMMITMENTS — GROUP AND CORPORATION

Provision has not been made for the following capital commitments at 31 July 2010.

	2009/2010 £'000	2008/2009 £'000
Commitments contracted for	6,407	12,350
Authorised but not contracted for	17,572	12,778
	23,979	**25,128**

25. CONTINGENT LIABILITIES

There are no material contingent liabilities.

26. RELATED PARTY TRANSACTIONS

The members of the Board of Governors have considered the requirement for disclosure concerning related parties under FRS 8.

Mr Ted Cassidy, Head of Regional and International Partnerships at the university, chairs the Board of Directors of Leicester Arts Centre Ltd. De Montfort University has made a contribution of £498,608 towards capital costs and a £20,000 revenue contribution to Leicester Arts Centre Ltd in respect of the Digital Media Centre. The total contribution held in respect of the Digital Media Centre is £675,000 which will be released to the Income and Expenditure Account over nine years. Mr Ted Cassidy is also a board member of Leicester Chamber of Commerce. De Montfort University has contributed £8,225 as a patron. Professor David Stevens, Co-opted Governor, is the Chairman of Firebird Trading, a wholly owned subsidiary of Leicester Arts Centre Ltd. The value of services provided to the university during 2009/10 is £11,343.

De Montfort University was represented, along with other local institutions, on the Board of Directors of East Midlands New Technology Initiative (EMNTI). In the 2009/10 financial year, the university has disbursed £125,000 (Note 28) of funding to EMNTI; the university also received £291,000 in respect of supporting the operations and providing facilities for EMNTI. On 31 July 2010 EMNTI ceased trading.

27. ACCESS FUNDS

	2009/2010 £'000	2008/2009 £'000
Balance unspent at 1 August	**33**	4
Funding council grants	**580**	583
Interest earned	**4**	12
	617	599
Disbursed to students	**(573)**	(566)
	44	33

Funding Council Grants are available solely for students: the university acts only as a paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

28. EAST MIDLANDS NEW TECHNOLOGY INITIATIVE (EMNTI)

The Corporation has received and disbursed funds on behalf of EMNTI during the period.

	2009/2010 £'000	2008/2009 £'000
Balance held on behalf of EMNTI at 1 August	**125**	125
Funding received during the period	**–**	500
Disbursements	**(125)**	(500)
Balance held on behalf of EMNTI at 31 July	–	125

29. INTANGIBLE FIXED ASSET

De Montfort Developments PLC, a wholly owned subsidiary, assigned a patent to the university on 20 July 2007. It is the intention not to exploit the patent in the next 12 months. Impairment has been made for the full cost in compliance with FRS10. It is considered that the transaction is immaterial and is not disclosed in the Balance Sheet as at 31 July 2010. A review of the status of the intangible asset is undertaken annually.

	Group and Corporation 31 July 2010 £
Cost	
Expenditure	**50,000**
Impairment	
Charge to date	**(50,000)**
Adjustment for the year	**–**
Net book value at 31 July 2010	**–**

30. PENSION SCHEMES

a) The two principal pension schemes for the university's staff are the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are both independently administered schemes. The schemes are defined benefit schemes which are funded by contributions from the university and employees.

The Teachers' Pension Scheme is valued every five years by the Government Actuary, using the prospective benefit method. Contributions are paid by the university at the rate specified by the Government Actuary. The Local Government Pension Scheme is valued periodically by a professionally qualified actuary, using the projected unit method. The rates of contribution are determined by the actuary.

The Institution also participates, for a strictly limited membership, in the Universities Superannuation Scheme (USS), a pension scheme which also provides benefits based on final pensionable salary. The assets of the Scheme are held in a separate trustee-administered fund. The pension valuation is assessed using the projected unit method. The level of contributions paid by the employing institutions takes into account the surpluses disclosed, the benefit improvements introduced subsequent to the valuation and the need to spread the surplus in a prudent manner over the future working lifetime of current Scheme members.

Pension summary

	TPS	LGPS	USS
Last actuarial valuation:	**31/03/04**	**31/03/07**	**31/03/08**
Investment returns per annum	**6.5%**	**6.1%**	**4.4%**
Salary rate increase per annum	**5.0%**	**4.7%**	**4.3%**
Pension increase per annum	**3.5%**	**3.2%**	**3.3%**
Market value of assets at date of last valuation:	**£163,240m**	**£2,057m**	**£28,843m**
Proportion of members' actuarial benefits covered by the actuarial valuation of the assets:	**98.0%**	**93.0%**	**71.0%**

The total pension cost for the university and its subsidiaries was:

	2009/2010 £'000	2008/2009 £'000
Contributions to TPS and USS	5,553	5,374
Contributions to LGPS	3,823	3,769
The financial effects of the adoption of FRS17:		
LGPS	576	(266)
Total	**9,952**	**8,877**

Contributions to pension schemes	**2009/2010** From April 2010	**2008/2009** From April 2009
TPS	14.10%	14.10%
USS	16.00%	16.00%
LGPS officers *	13.60%	13.60%
LGPS manual pre-1998	11.00%	11.00%

* The contribution rates for LGPS officers changed with effect from 1 April 2008. From this date, different contribution rates are applied to each range of salary bandings, the rate reported above is an average figure.

The pension charge for the year includes an amount in respect of enhanced pension entitlements of staff taking early retirement that are not accounted for under FRS17. The calculation of the cost of early retirement provisions charged to the Income and Expenditure Account in the year of retirement is based on the total capital cost of providing enhanced pensions.

An amount of £1,137,617 (2009: £1,424,022), not accounted for under FRS17, is included in provisions for liabilities and charges representing the extent to which the capital cost charged exceeds actual payments made. The provision will be released against the cost to the university of enhanced pension entitlements over the estimated life expectancy of each relevant employee.

b) Pension schemes

Teachers' Pension Scheme

The university is a member of the Teachers' Pension Scheme (TPS), a defined benefit pension scheme. The TPS is an unfunded scheme. Contributions on a 'pay-as-you-go' basis are credited to the Exchequer under arrangements governed by the Superannuation Act 1972. Actuarial valuations are carried out on a notional set of investments.

Under the definitions set out in FRS17, Retirement Benefits, the TPS is a multi-employer pension scheme. The university is unable to identify its share of the underlying (notional) assets and liabilities of the scheme. Accordingly, the university has taken advantage of the exemption in FRS17 and has accounted for its contributions to the scheme as if it were a defined contribution scheme. The university has set out below the information available on the deficit in the scheme and the implications for the university in terms of the anticipated contribution rates.

The pension cost is assessed every five years in accordance with the advice of the Government Actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Last actuarial valuation	**31 March 2004**
Actuarial method	prospective benefits
Investment returns per annum	**6.50%**
Salary scale increases per annum	5.00%
Value of notional assets at date of last valuation	**£163,240 m**
(estimated future contributions together with notional investments held at 31 March 1996)	
Proportion of members' accrued benefits covered by the actuarial value of the assets	98%

The last valuation of the TPS related to the period 1 April 2001–31 March 2004. The Government Actuary's report of October 2006 revealed that the total liabilities of the Scheme (pensions currently in payment and the estimated cost of future benefits) amounted to £166,500 million. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £163,240 million. The assumed real rate of return is 3.5% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 1.5%. The assumed gross rate of return is 6.5%.

As from 1 January 2007, and as part of the cost-sharing agreement between employers' and teachers' representatives, the standard contribution has been assessed at 19.75%, plus a supplementary contribution rate of 0.75% (to balance assets and liabilities as required by the regulations within 15 years); a total contribution rate of 20.5%. This translates into an employee contribution rate of 6.4% and employer contribution rate of 14.1% payable. The cost-sharing agreement has also introduced, effective for the first time from the 2008 valuation, a 14% cap on employer contributions payable.

c) Universities Superannuation Scheme

The Institution participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited.

Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The Institution is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Income and Expenditure Account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the scheme was at 31 March 2008. This was the first valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March are also included in this note.

The triennial valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (ie the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An 'inflation risk premium' adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.4% per annum (which includes an additional assumed investment return over gilts of 2% per annum), salary increases would be 4.3% per annum (plus an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.3% per annum.

Standard mortality tables were used as follows:

Male members mortality	PA92 MC YoB tables – rated down 1 year
Female members mortality	PA92 MC YoB tables – no age rating

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further improvements in mortality rates. The assumed life expectations on retirement at 65 are:

Males (females) currently aged 65	22.8 (24.8) years
Males (females) currently aged 45	24.0 (25.9) years

At the valuation date, the value of the assets of the scheme was £28,842.6 million and the value of the scheme's technical provisions was £28,135.3 million indicating a surplus of £707.3 million. The assets therefore were sufficient to cover 103% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 71%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the scheme was 107% funded; on a buy-out basis (ie assuming the scheme had discontinued on the valuation date) the assets would have been approximately 79% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using a AA bond discount rate of 6.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing costs of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions except that the valuation rate of interest assumed asset out performance over gilts of 1.7% per annum (compared to 2% per annum for the technical provisions) giving a discount rate of 6.1% per annum; also the allowance for promotional salary increases was not as high. There is currently uncertainty in the sector regarding pay growth. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the costs of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

The scheme-wide contribution rate required for future service benefits alone at the date of the valuation was 16% of pensionable salaries and the trustee company, on the advice of the actuary, increased the institution contribution rate to 16% of pensionable salaries from 1 October 2009.

Since 31 March 2008 global investment markets have continued to fluctuate and at 31 March 2010 the actuary has estimated that the funding level under the new scheme specific funding regime has fallen from 103% to 91% (a deficit of £3,065 million). This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the two years and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions).

On the FRS17 basis, using an AA bond discount rate of 5.6% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2010 was 80%. An estimate of the funding level measured on a buy-out basis at that date was approximately 57%.

Surpluses or deficits which arise at future valuations may impact on the Institution's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements. The sensitivities regarding the principal assumptions used to measure the scheme liabilities on a technical provisions basis as at the date of the last triennial valuation are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Valuation rate of interest	Increase/decrease by 0.5%	Decrease/increase by £2.2 billion
Rate of pension increases	Increase/decrease by 0.5%	Decrease/increase by £1.5 billion
Rate of salary growth	Increase/decrease by 0.5%	Decrease/increase by £0.7 billion
Rate of mortality	More prudent assumption (move to long cohort future improvements from the medium cohort adopted at the valuation)	Increase by £1.6 billion

USS is a 'last man standing' scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The next formal triennial actuarial valuation is due as at 31 March 2011. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

The total pension cost for the Institution was £228,684 (2009: £174,658). This includes £nil (2009: £nil) outstanding contributions at the Balance Sheet date. The contribution rate payable by the Institution was 16% of pensionable salaries.

d) Local Government Pension Scheme

The university participates in a defined benefit scheme in the UK, the Leicestershire County Council Pension Fund. A full actuarial valuation of the fund was carried out at 31 March 2007 by a qualified independent actuary. This was updated to 31 July 2010 for FRS17 purposes by a qualified independent actuary. The major assumptions used by the actuary were as follows:

	2010	2009
Salary increase rate	3.9%	5.2%
Pension increase rate	2.9%	3.7%
Discount rate	5.4%	6.0%
Inflation assumption rate CPI	2.9%	n/a
Inflation assumption rate RPI	3.4%	3.7%
Expected return on plan assets at 31 July	6.9%	6.9%
Number of employees opting for early retirement	3	2

	2010	2010
Mortality rates	Males	Females
Current pensioners	20.8years	24.1 years
Future pensioners	22.3 years	25.7 years

Scheme assets

The assets in the scheme and the expected rate of return at 31 July 2010 were:

	Long-term rate of return expected at 31 July 2010	Value at 31 July 2010 £'000	Value at 31 July 2009 £'000
Equities	7.3%	1,645,600	1,388,820
Bonds	4.8%	143,990	158,220
Property	5.3%	246,840	158,220
Cash	4.4%	20,570	52,740
Total		**2,057,000**	**1,758,000**

	31 July 2010 £'000	31 July 2009 £'000
Opening fair value of asset plans	**80,307**	**90,868**
Expected return on assets	5,635	6,733
Contributions by members	1,855	1,831
Contributions by employer	4,032	3,831
Actuarial gains/(losses)	6,328	(20,084)
Estimated benefits paid	(3,075)	(2,872)
Total	**95,082**	**80,307**

The Group expects to contribute £3,861,000 to its defined benefit pension plan from 1 August 2010–31 July 2011.

Net pension liability

The following amounts at 31 July 2010 were measured in accordance with the requirements of FRS17:

	31 July 2010 £'000	31 July 2009 £'000
Fair value of employer assets	95,082	80,307
Present value of scheme liabilities	(145,738)	(137,028)
Net pension liability	**(50,656)**	**(56,721)**

	31 July 2010 £'000	31 July 2009 £'000
Present value of the defined benefit plan		
Opening defined benefit obligation	**137,028**	**111,476**
Current service cost	4,437	3,480
Interest cost	8,322	7,552
Contributions by members	1,855	1,831
Actuarial gains	7,199	15,476
Past service gains	(10,199)	–
Losses on curtailments	171	85
Estimated benefits paid	(3,075)	(2,872)
Closing defined benefit obligation	**145,738**	**137,028**

	Year ended 31 July 2010 £'000	Year ended 31 July 2009 £'000	Year ended 31 July 2008 £'000	Year ended 31 July 2007 £'000
Analysis of amounts charged to Income and Expenditure Account				
Charged to staff costs				
Current service cost	(4,437)	(3,480)	(3,702)	(4,093)
Past service cost	–	–	(1,134)	–
Curtailment and settlements	(171)	(85)	(52)	(12)
Employer contributions	4,032	3,831	3,302	3,345
	(576)	**266**	**(1,586)**	**(760)**
Financing:				
Expected return on pension scheme assets	5,635	6,733	7,562	6,182
Interest on scheme liabilities	(8,322)	(7,552)	(6,331)	(5,595)
Net (charge)/return	**(2,687)**	**(819)**	**1,231**	**587**
Net Income and Expenditure Account cost	**(3,263)**	**(553)**	**(355)**	**(173)**

	Year ended 31 July 2010 £'000	Year ended 31 July 2009 £'000
Actual return on plan assets	11,995	(13,327)

Analysis of amounts which would be recognised in the statement of total recognised gains and losses

	Year ended 31 July 2010 £'000	Year ended 31 July 2009 £'000	Year ended 31 July 2008 £'000	Year ended 31 July 2007 £'000
Actual return less expected return on pension scheme assets	(871)	(20,084)	(16,969)	4,934
Experience losses arising on scheme liabilities	–	–	(139)	–
Changes in financial assumptions underlying the present value of scheme liabilities	10,199	(15,476)	2,475	9,541
Actuarial gains/(losses) in pension plan recognised	9,328	(35,560)	(14,633)	14,475
Cumulative actuarial (losses)/gains	**(19,371)**	**(28,699)**	**6,861**	**21,494**

In its June 2010 budget, the Government announced that it intended for future increases in [public sector/ occupational] pension schemes to be linked to changes in the Consumer Prices Index (CPI) rather than, as previously, the Retail Price Index (RPI). The university has considered the Local Government Pension Scheme rules and associated members' literature and has concluded that, as a result, a revised actuarial assumption about the level of inflation indexation should be made, with the resulting gain recognised through the Statement of Total Recognised Gains and Losses ('STRGL'). The value of the gain recognised by the university in the STRGL is £10.2 million. At the date of these financial statements, the Urgent Issues Task Force (UITF) is in the process of consulting widely on the accounting treatment for this change and is expected to issue an Abstract towards the end of 2010. Should the Abstract call for a different accounting treatment it may be necessary to reflect any change in the financial statements for the following year.

Movement in the university's share of the scheme's deficit during the year

In total the movement in the Institution's share of the scheme's deficit during the year is made up as follows:

	31 July 2010 £'000	31 July 2009 £'000
Deficit on scheme at 1 August	(56,721)	(20,608)
Movements in year:		
- Current service cost	(4,437)	(3,480)
- Employer contributions	4,032	3,831
- Impact of settlements and curtailments	(171)	(85)
- Net return on assets	(2,687)	(819)
Total impact on Income and Expenditure Account (see note 18)	**(3,263)**	**(553)**
- Actuarial gains/(losses)	9,328	(35,560)
Total movement in the year	**6,065**	**(36,113)**
Deficit on scheme at 31 July	**(50,656)**	**(56,721)**

Experience gains and losses in the year

The experience gains and losses for the year ended 31 July 2010 were as follows:

	Year ended 31 July 2010 £'000	Year ended 31 July 2009 £'000	Year ended 31 July 2008 £'000	Year ended 31 July 2007 £'000	Year ended 31 July 2006 £'000
Difference between the expected and actual return on scheme assets	6,328	(20,084)	(16,969)	4,934	5,026
Value of assets	95,082	80,307	90,868	101,761	88,195
Percentage of scheme assets	**6.7%**	**(25.0%)**	**(18.7%)**	**4.8%**	**5.7%**
Experience losses on liabilities	–	–	(2,850)	–	(1)
Total present value of liabilities	145,738	137,028	111,476	107,381	108,117
Percentage of the total present value of scheme liabilities	**0.0%**	**0.0%**	**(2.6%)**	**0.0%**	**0.0%**
Total actuarial (gains)/losses	(9,328)	35,560	14,633	14,475	750
Total present value of liabilities	145,738	137,028	111,476	107,381	108,117
Percentage of the present value of scheme liabilities	**(6.4%)**	**26.0%**	**13.1%**	**13.5%**	**0.7%**

Sensitivity analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumptions	**Change in assumptions**	**Approximate impact on Employer FRS17 liabilities as at 31 July 2010**
Discount rate	Increase/decrease by 0.5% p.a.	Increase/decrease liability c10%
Pension increase rate	Increase/decrease by 0.5% p.a.	Increase/decrease liability c7%
Rate of salary growth	Increase/decrease by 0.5% p.a.	Increase/decrease liability c4%
Rate of mortality	Improve by one year	Increase by c3%

THE CONSOLIDATED AUDITED FINANCIAL STATEMENTS AND AUDITORS' REPORT OF THE ISSUER FOR THE YEAR ENDED 31 JULY 2011

Independent Auditor's report to the Board of Governors of De Montfort University

We have audited the Group and University financial statements (the 'financial statements') of De Montfort University for the year ended 31 July 2011 which comprise the Group Income and Expenditure Account, the Group and University Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out therein.

This report is made solely to the Board of Governors, as a body, in accordance with paragraph 13(2) of the University's Articles of Government and section 124B of the Education Reform Act 1988. Our audit work has been undertaken so that we might state to the Board of Governors those matters we are required to state to it 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 Board of Governors for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE BOARD OF GOVERNORS AND AUDITOR

As explained more fully in the Statement of Corporate Governance set out on page 18 the Board of Governors is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and University's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Governors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the affairs of the Group and University as at 31 July 2011 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

OPINION ON OTHER MATTERS PRESCRIBED IN THE HEFCE AUDIT CODE OF PRACTICE ISSUED UNDER THE FURTHER AND HIGHER EDUCATION ACT 1992

In our opinion, in all material respects:

- funds from whatever source administered by the University for specific purposes have been properly applied to those purposes;
- income has been applied in accordance with the University's Statutes; and
- funds provided by HEFCE have been applied in accordance with the Financial Memorandum and any other terms and conditions attached to them.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matter where the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992 requires us to report to you if, in our opinion:

- the statement of internal control included as part of the Statement on Corporate Governance is inconsistent with our knowledge of the University and group.

M J Rowley

For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snow Hill, Snow Hill Queensway, Birmingham, B4 6GH

Statement of Principal Accounting Policies

The following accounting policies have been applied consistently throughout the period to items which are considered material in relation to the accounts. In accordance with FRS 18, these accounting policies have been reviewed by the Board of Governors and are considered to be appropriate to the university's activities.

1 ACCOUNTING CONVENTION

The accounts are prepared under the historical cost convention modified to include the revaluation of land and buildings and acquired assets in accordance with both the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007 and applicable Accounting Standards.

2 TANGIBLE FIXED ASSETS

i) Capitalisation

Tangible assets are capitalised if they are capable of being used for a period that exceeds one year and:

- Individually have a cost equal to or greater than £10,000

  Or

- Collectively have a cost equal to or greater than £10,000 where the assets are functionally interdependent or are purchased together and intended to be used as group under common management control

  Or

- Irrespective of their individual cost, form part of the initial equipping of a new building.

ii) Valuation

Tangible fixed assets, including land and buildings inherited from the Local Education Authority, are stated at cost or, in the case of land and buildings, at valuation. The basis of valuation is depreciated replacement cost or, for properties to be sold, open market value. The latest valuation, which was for the 1994/95 Annual Accounts, was performed by the Estate Manager acting as an independent consultant, under the aegis of his professional body, the Royal Institution of Chartered Surveyors. All additions to land and buildings since 1 August 1995 are included at cost.

The university has adopted the transitional provisions of FRS 15. Consequently, no more revaluations will be made and existing land and buildings' gross valuations will be frozen at their current level. Buildings are depreciated over their expected useful life, which is normally 50 years except for certain building improvements, which are depreciated over 20 years. Leasehold property is depreciated over the life of the lease.

A review for impairment of buildings is carried out annually. If events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable, depreciation is adjusted accordingly.

iii) Depreciation

Land is not depreciated. Leasehold property including improvements to leasehold property, and other leased assets are depreciated over the life of the lease. Where assets comprise two or more major components with substantially different useful economic lives, each component is accounted for and depreciated over its individual economic life. Other tangible assets are depreciated on a straight-line basis over their useful life as follows:

Equipment	Lifespan
Computer equipment	Three years
Other equipment and furniture	Five years
Equipment acquired for specific projects	Over the life of the project (generally three years)
Expenditure which extends useful life	Over additional useful life

New buildings and major refurbishments to buildings are depreciated from the month in which they are put into service. For all other assets six months depreciation is charged in the year in which they are put into service.

Depreciation on disposals is as follows:

Buildings	Up to the month before the building is taken out of use
Equipment	Six months depreciation

iv) Funded tangible fixed assets

Where assets are acquired with the aid of specific grants or donations they are capitalised and depreciated as above. The related grants and donations are treated as deferred capital grants and released to income over the expected useful life of the asset (or the period of the grant in respect of specific projects). Grants received in respect of land are released to the Income and Expenditure Account as donations in the year in which the expenditure is incurred.

v) Tangible donated fixed assets

Tangible fixed assets other than land that have been donated to the university are capitalised at market value with the same amount being credited to deferred capital grants. Assets are depreciated over their estimated useful lives, and a corresponding amount is released from deferred capital grants to the Income and Expenditure Account.

vi) IT equipment and software licences

IT equipment, such as personal computers and related items, are purchased in bulk through the university's central purchasing and supply system. These items are capitalised as a single group of equipment and depreciated in accordance with i) and iii) above.

IT software licences are treated as a revenue cost and are charged to the Income and Expenditure Account in the year of purchase.

vii) Heritage assets

The university holds a number of collections, exhibits and artefacts of historical, artistic or scientific importance. Most of these have been donated or bequeathed to the university. In accordance with FRS 15 and FRS 30 (heritage assets), Heritage Assets acquired before 1999 have not been capitalised since reliable estimates of value are not available on a cost-benefit basis. No items above the general fixed asset minimum value of £10,000 have been acquired since 1 August 1999; therefore, no value for Heritage Assets is included in the financial statements.

The university does not have a systematic policy for acquisition of this type of asset. Most of the artwork included in the collections is on display within the university's buildings and exhibition spaces, many of which are open to the public. Discussions have taken place with local museums and galleries regarding loaning elements of the collection for public display. Items not currently on display are stored in a secure store. Conservation of items within the collection is carried out as necessary.

3 INTANGIBLE ASSETS

Intangible assets are recorded at cost and amortised over their expected useful life.

4 LEASES

Fixed assets held under finance leases and the related lease obligations are recorded in the Balance Sheet at the fair value of the leased assets at the inception of the lease. The excess of the lease payments over recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations.

Rental costs under operating leases are charged to the Income and Expenditure Account in equal amounts over the periods of the leases.

5 FUNDING COUNCIL GRANTS

Funding Council recurrent grant income represents income in support of general or specific revenue activities of the university during the period and is credited direct to the Income and Expenditure Account.

Capital grants and contributions received by the university to finance the construction or purchase of capital assets are accounted for as deferred capital grants and released to the Income and Expenditure Account over the expected useful life of the related assets.

Tuition fees represent student fees received and receivable, which are attributable to the current accounting period.

Deferred income in respect of HEFCE capital grant, which is attributable to subsequent years, is shown as a deferred credit in the Balance Sheet.

6 STOCKS

Stocks are stated at the lower of cost and net realisable value. Consumable items are charged directly to the Income and Expenditure Account.

7 TAXATION STATUS

The university is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Para 1 of Schedule 6 to the Finance Act 2010. Accordingly, the university is potentially exempt from taxation in respect of income or capital gains received within categories covered by sections 478-488 of the Corporation Tax Act 2010 (CTA 2010) (formerly enacted in Section 505 of the Income and Corporation Taxes Act 1988 (ICTA)) or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes.

All subsidiary companies are liable to Corporation tax and Value Added Tax in the same way as any other commercial organisation.

The university's principal activities are exempt from Value Added Tax, but certain ancillary supplies and services are liable to Value Added Tax at various rates. Expenditure includes irrecoverable Value Added Tax charged by suppliers to the University.

8 DEFERRED TAXATION

Provision is made for deferred taxation in respect of subsidiary companies, using the liability method on all material timing differences.

9 PENSION SCHEME ARRANGEMENTS

Retirement benefits to employees of the university are provided by defined benefit schemes which are funded by contributions from the university and employees. Payments are made to the Teachers' Pension Scheme, the Universities Superannuation Scheme for academic staff and to the Local Government Pension Scheme for support staff. These are all independently administered schemes. Pension costs are assessed on the latest actuarial valuations of the Schemes.

The Local Government Pension Scheme is accounted for on the basis of FRS 17. The assets of the scheme are included at market value and scheme liabilities are measured on an actuarial basis using the projected unit method. The difference between the fair value of assets and liabilities measured on an actuarial basis, net of the related amount of deferred tax, are recognised in the university's Balance Sheet as a pension scheme liability or asset as appropriate. A surplus is only included to the extent that the university is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme. Changes in the defined asset or liability arising from factors other than cash contributions to the scheme are charged to the Income and Expenditure Account. The Teachers' Pension Scheme and the Universities Superannuation Scheme are multi-employer schemes where the university is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis. Contributions are charged directly to the Income and Expenditure Account as if the schemes were defined contribution scheme in accordance with FRS 17.

Provision is made for enhanced pensions not accounted for under FRS 17 where employees have taken early retirement.

10 RECOGNITION OF INCOME

Income from donations, research grants, contracts and other services rendered is included to the extent of the expenditure incurred during the year. Contributions towards overhead costs are aligned with expenditure and recognised based on expenditure to date. All income from short-term deposits and endowment asset investments is credited to the Income and Expenditure Account on a receivable basis. Income from restricted endowments not expended in accordance with the restrictions of the endowment is transferred from the Income and Expenditure Account to restricted endowments. Any realised gains or losses from dealing in the related assets are retained within the endowment in the Balance Sheet.

Donations received to be applied to the cost of land are recognised by inclusion as 'Other Income' in the Income and Expenditure Account.

11 CONSOLIDATION

The Consolidated Income and Expenditure Account and Balance Sheet include the annual accounts of the Corporation, its subsidiary undertakings, except for dormant subsidiary companies, where the combined amounts involved are insignificant. Details of the university's subsidiary undertakings are provided in note 7 to the accounts. The Annual Accounts have been consolidated under the acquisition method of Accounting.

The consolidated financial statements do not include those of De Montfort University Students' Union Limited, as it is a separate Limited company in which the University has no financial interest. In 2010/11, the university made the recurrent grant to De Montfort University Students' Union Limited of £735,000 (2009/10: £708,000).

12 CASH FLOWS AND LIQUID RESOURCES

Cash flows comprise increases or decreases in cash. Cash includes cash-in-hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. No investments, however liquid, are included as cash.

Liquid resources comprise assets held as a readily disposable store of value. They may include term deposits, government securities and loan stock held as part of the university's treasury management activities. They exclude any such assets held as Endowment Asset Investments.

13 MAINTENANCE OF PREMISES

The cost of routine maintenance is charged to the Income and Expenditure Account in the period in which it is incurred. The university has a long-term planned maintenance programme, which is reviewed on an annual basis. The university charges actual expenditure on long-term planned maintenance to the Income and Expenditure Account in the period in which it is incurred.

14 STAFF RESTRUCTURING COSTS

Restructuring costs are recognised in respect of the direct expenditure of a reorganisation where plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the Balance Sheet date.

15 PROVISIONS

Provisions are recognised when the university has a present and legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

16 INVESTMENTS

Fixed asset investments that are not listed on a recognised stock exchange are carried at cost. Investments that are listed on a recognised stock exchange are carried at market value. Current asset investments are carried at the lower of cost and net realisable value.

17 FOREIGN CURRENCIES

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at the rates at the date of the Balance Sheet or, where there are related forward exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

18 ACCOUNTING FOR CHARITABLE DONATIONS

i) Unrestricted donations

Charitable donations are recognised in the accounts when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

ii) Endowment funds

Where charitable donations are to be retained for the benefit of the Institution as specified by the donors, these are accounted for as endowments. There are three main types.

- Unrestricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the Institution
- Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the Institution can convert the donated sum into income
- Restricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

iii) Donations for fixed assets

Donations received to be applied to the cost of a tangible fixed asset are shown on the Balance Sheet as a deferred capital grant. The deferred capital grant is released to the Income and Expenditure Account over the same estimated useful life that is used to determine the depreciation charge associated with the tangible fixed asset.

iv) Gifts in kind, including donated tangible fixed assets

Gifts in kind are included in ‘other income’ or ‘deferred capital grants’ as appropriate using a reasonable estimate of their gross value or the amount actually realised.

Consolidated Income and Expenditure Account

For the Year Ended 31 July 2011

Income	Note	2011 £'000 Total	2010 £'000 Total
Funding council grants	1a	64,056	64,646
Academic fees and education contracts	1b	70,917	68,318
Research grants and contracts	1c	7,095	8,155
Other operating income	1d	7,129	8,485
Endowment income and interest receivable	1e	236	276
Total income		**149,433**	**149,880**

Expenditure			
Staff costs	2	90,381	92,202
Staff restructuring costs		6,548	700
Other operating expenses	3	41,778	47,353
Interest payable	4	2,245	3,621
Depreciation	6	8,969	9,004
Total expenditure	5	**149,921**	**152,880**
Deficit on continuing operations after depreciation of tangible fixed assets at valuation and before exceptional items		**(488)**	**(3,000)**

Exceptional items: continuing operations		
Surplus/(deficit) on disposal of tangible fixed assets	255	(203)
Deficit on continuing operations after depreciation of tangible fixed assets at valuation and disposal of assets	(233)	(3,203)
Transfer from accumulated income within endowments	75	132
Deficit for the year retained within general reserves	**(158)**	**(3,071)**

The consolidated surplus includes a deficit of £33k (2009/10: surplus of £1,636k) that has been dealt with in the accounts of the University.

All items dealt with above relate to continuing operations.

This statement should be read in conjunction with the report of the Chairman, the Operating and Financial review and the notes to the accounts.

Statement of Historical Cost Surpluses and Deficits

For the Year Ended 31 July 2011

	Note	2011 £'000 Total	2010 £'000 Total
Deficit on continuing operations after depreciation of tangible fixed assets at valuation and disposal of assets		(233)	(3,203)
Difference between historical cost depreciation charge and actual depreciation charge for the year	17	61	72
Realisation of revaluation surplus on disposal of assets	17	681	198
Historical cost surplus/(deficit) for the year		509	(2,933)
Historical cost surplus/(deficit) for the year retained after transfers in respect of endowments		**584**	**(2,801)**

This statement should be read in conjunction with the report of the Chairman, the Operating and Financial Review and notes to the accounts.

Balance Sheet

As at 31 July 2011

	Note	Group 2011 £'000	Group 2010 £'000	Corporation 2011 £'000	Corporation 2011 £'000
Fixed assets					
Tangible assets	6	151,720	153,040	151,720	153,040
Investments	7	310	296	620	606
		152,030	153,336	152,340	153,646
Endowment asset investments	8	**1,068**	**902**	**1,068**	**902**
Current assets					
Stocks	9	131	109	131	109
Properties held for resale		4,432	1,741	4,432	1,741
Debtors - amounts falling due within one year	10	6,474	8,870	6,475	8,853
Investments	11	20,277	24,140	19,603	23,102
Cash at bank and in hand		217	1,076	213	1,075
		31,531	**35,936**	**30,854**	**34,880**
Creditors: amounts falling due within one year	12	(21,131)	(27,226)	(21,021)	(26,862)
Net current assets		10,400	8,710	9,833	8,018
Total assets less current liabilities		**163,498**	**162,948**	**163,241**	**162,566**
Creditors: amounts falling due after more than one year	13	(22,871)	(23,331)	(22,871)	(23,331)
Provisions for liabilities and charges	14	(3,036)	(1,553)	(3,036)	(1,553)
		(25,907)	**(24,884)**	**(25,907)**	**(24,884)**
Total net assets excluding pension deficit		137,591	138,064	137,334	137,682
Pension deficit	29d	(31,621)	(50,656)	(31,621)	(50,656)
Total net assets including pension deficit		**105,970**	**87,408**	**105,713**	**87,026**
Represented by:					
Deferred capital grants	15	44,890	46,865	44,890	46,865
Endowments					
Expendable		610	444	610	444
Permanent		458	458	458	458
	16	**1,068**	**902**	**1,068**	**902**
Reserves					
Revaluation reserve	17	8,965	9,693	8,965	9,693
Income and expenditure account	17	82,668	80,604	82,411	80,222
Pension reserve	17	(31,621)	(50,656)	(31,621)	(50,656)
Total reserves		60,012	39,641	59,755	39,259
Total reserves and endowments		**61,080**	**40,543**	**60,823**	**40,161**
Total funds		**105,970**	**87,408**	**105,713**	**87,026**

The financial statements on pages 28 to 55 were approved by the Board of Governors on 25 November 2011 and were signed on its behalf by

Mr I Blatchford
Chairman

Professor D Shellard
Chief Executive and Vice-Chancellor

This statement should be read in conjunction with the report of the Chairman, the Operating and Financial Review and notes to the accounts.

Satement of Consolidated Total Recognised Gains and Losses

For the year ended 31 July 2011

	Note	2011 £'000	2010 £'000
Deficit on continuing operations after depreciation of assets at valuation and disposal of assets		(233)	(3,203)
Increase/(decrease) in value of fixed asset investment	17	14	(6)
New endowed funds	16	231	253
Appreciation of endowed funds	16	10	15
FRS17 actuarial gain	29d	20,515	9,328
Total recognised gains relating to the year		**20,537**	**6,387**
Opening reserves and endowment		40,543	34,156
Total recognised gains		20,537	6,387
Closing reserves and endowments		**61,080**	**40,543**

This statement should be read in conjunction with the report of the Chairman, the Operating and Financial Review and notes to the accounts.

Consolidated Cash Flow Statement

For the year ended 31 July 2011

	Note	2011 £'000	2010 £'000
Net cash inflow from operating activities	19	5,197	4,786
Returns on investments and servicing of finance			
Interest received	20	233	448
Interest paid	20	(915)	(945)
		(682)	**(497)**
Net cash inflow from returns on investments and servicing of finance		**4,515**	**4,289**
Capital expenditure			
Payments to acquire tangible assets		(13,875)	(20,331)
Proceeds of sale of tangible assets		1,993	650
Deferred capital grants received		3,077	6,994
Net cash outflow from capital expenditure		**(8,805)**	**(12,687)**
Net cash outflow before management of liquid resources		**(4,290)**	**(8,398)**
Management of liquid resources			
Cash transferred from term deposits	22	**3,863**	**8,771**
Financing			
Loan drawn down in year	21	70	–
Loan repayment in year	21	(430)	(410)
		(360)	(410)
Decrease in cash	22	**(787)**	**(37)**

Reconciliation of Net Cash Flow to Movement in Net Funds

	Note	2011 £'000	2010 £'000
Decrease in cash in the year	22	(787)	(37)
Cash outflow from liquid resources	22	(3,863)	(8,771)
New loans taken out in year	22	(70)	–
Loan repayment in year	22	430	410
Change in net funds		**(4,290)**	**(8,398)**
Net funds at 1 August		**1,392**	**9,790**
Net funds at 31 July		**(2,898)**	**1,392**

This statement should be read in conjunction with the report of the Chairman, the Operating and Financial Review and notes to the accounts.

Notes to the Accounts

1. Analysis of income

		2010/2011 £'000	2009/2010 £'000
a)	**Funding council grants**		
	Recurrent grants		
	Higher Education Funding Council	55,027	54,821
	Learning and Skills Council	845	879
	Specific grants		
	Employer Engagement	1,083	1,742
	Higher Education Innovation Fund	2,056	1,437
	Centres for Excellence in Teaching and Learning	–	312
	Graduate Internship Project	332	149
	HEFCE Matched Funding	159	167
	E-Marketplace	43	–
Releases of deferred capital grants (note 15)			
	Buildings	1,452	1,421
	Equipment	3,059	3,718
	Total	**64,056**	**64,646**
b)	**Academic fees and education contracts**		
	Home and EU students	43,754	43,657
	Overseas students	13,460	10,547
	Education contracts	12,100	12,031
	Other contracts	1,603	2,083
	Total	**70,917**	**68,318**
c)	**Research grants and contracts**		
	Research councils	1,607	1,779
	UK-based charities	307	490
	European commission	943	816
	Other grants and contracts	4,238	5,070
	Total	**7,095**	**8,155**
d)	**Other operating income**		
	Residences and catering	3,515	4,673
	Other services rendered	1,665	2,011
	Other income	1,406	1,122
	Releases of deferred capital grants (note 15)	541	579
	Donations	2	100
	Total	**7,129**	**8,485**
e)	**Endowment income and interest receivable**		
	Income from expendable endowments (note 16)	5	4
	Income from permanent endowments (note 16)	12	12
	Interest on short-term investments	219	260
	Total	**236**	**276**

2. Staff costs and other details

a)	Staff costs	2010/2011 £'000	2009/2010 £'000
	Wages and salaries	74,865	76,123
	Social security costs	6,093	6,127
	Other pension costs	9,277	9,376
	The financial effects of the adoption of FRS17	146	576
	Total	**90,381**	**92,202**

b) Employee numbers

The average number of persons employed during the year, expressed as full-time equivalents, are disclosed below.

	2010/2011	2009/2010
Academic		
Full-time	734	756
Part-time	221	227
Support	1,155	1,208
Total	**2,110**	**2,191**

c) Senior post holder emoluments

	2010/2011	2009/2010
Vice-Chancellor		
Emoluments of the Vice-Chancellor	207	16
Pension contributions	30	3
	237	**19**
Retired Vice-Chancellor		
Emoluments of the Vice-Chancellor	–	204
Pension contributions	–	16
	–	**220**

The Vice-Chancellor was appointed on 28th June 2010. The emoluments, including taxable benefits, of the Vice-Chancellor are shown on the same basis as for higher paid staff and exclude employer's national insurance contributions.

The University's pension contributions to the Teachers' Pension Scheme in respect of the Vice-Chancellor is paid at the same rates as for other academic staff. This represents employer's pension contributions of 14.1% (2009/10: 14.1%).

The Contract of Employment of the Vice-Chancellor provides for termination by the Corporation on giving twelve months' notice or the Vice-Chancellor reaching the age of 65.

d) Remuneration of other higher paid staff

Remuneration of other higher paid staff, excluding employer's pension contributions:

	2010/2011	2009/2010
£100,000 - £109,999	3	3
£110,000 - £119,999	4	2
£120,000 - £129,999	2	1
£130,000 - £139,999	–	–
£140,000 - £149,999	1	2
£150,000 - £159,999	1	–

Compensation for loss of office payable to senior post-holders	2010/2011 £'000	2009/2010 £'000
Compensation payable	–	188

The severance pay was in accordance with the Institution's Remuneration Committee.

3. Other operating expenses

		2010/2011 £'000	2009/2010 £'000
External auditors remuneration	Group audit	46	50
The above remuneration includes £38k in respect of the audit of the University (2010: £38k)			
Auditors fees for non-audit services	Other services supplied pursuant to such legislation	3	1
	Other services relating to taxation	–	3
	Valuation and actuarial services	–	1
	Other	27	–
Internal audit services		85	76
Residences and catering		2,380	4,090
Rent, rates and insurance		789	918
Repairs and general maintenance		3,389	4,193
Energy		2,152	2,881
Administrative expenses		4,454	5,433
Research grants and contracts		2,071	2,951
Legal, professional and consultancy fees		4,117	3,372
General education expenses		5,454	6,851
Student bursaries		8,817	7,951
Publicity		2,101	2,357
Staff development		468	551
Travel and subsistence		1,334	1,296
Grant to De Montfort University Students' Union Limited		735	708
Consumables		2,427	2,856
Other		929	814
Total		**41,778**	**47,353**

Other operating expenses include:	2010/2011 £'000	2009/2010 £'000
Operating leases - buildings	296	680
Operating leases - equipments	282	539

Governors

No governor has received any remuneration/waived payments for the Group during the year (2010: none).

The total expenses paid to or on behalf of 26 governors was £38,435 (2010: £37,739 to 24 governors).
This represents travel and subsistence incurred in attending Board and Committee meetings in their official capacity.

4. Interest payable

	2010/2011 £'000	2009/2010 £'000
Other loans	911	934
Net Financing costs in Pension Scheme Liabilities (under FRS17)	1,334	2,687
Total	**2,245**	**3,621**

5. Analysis of 2010/2011 expenditure by activity

	Staff costs £'000	Other operating expenses £'000	Interest £'000	Depreciation £'000	Total £'000	2009/2010 Total £'000
Academic departments	57,218	10,053	–	2,014	69,285	72,463
Academic services	9,175	4,011	–	871	14,057	13,106
Admin and central services	9,087	2,873	–	945	12,905	12,006
General education expenditure	2,360	12,354	–	71	14,785	15,423
Staff and student facilities	2,586	1,866	–	38	4,490	4,727
Premises	5,243	5,739	–	4,624	15,606	17,120
Residences and catering	446	2,380	–	150	2,976	4,788
Research grants and contracts	3,651	2,071	–	256	5,978	6,991
Other services rendered	469	424	–	–	893	1,357
Other expenditure	–	–	911	–	911	934
Provision for restructuring	6,548	7	–	–	6,555	702
FRS17 adjustment	146	–	1,334	–	1,480	3,263
Total	**96,929**	**41,778**	**2,245**	**8,969**	**149,921**	**152,880**

The depreciation charge has been funded by:	**£'000**
Deferred capital grants released (note 17)	4,608
Revaluation reserves released (note 17)	61
General income	4,300
	8,969

6. Tangible fixed assets and depreciation

Group and Corporation	Land and buildings £'000	Buildings under construction £'000	Furniture and equipment £'000	Computer equipment £'000	Total £'000
Cost or valuation					
At 1 August 2010	173,798	1,487	13,511	12,675	201,471
Additions at cost	1,337	7,215	1,115	2,412	12,079
Transfers to land and buildings	687	(687)	–	–	–
Properties held for resale	(4,983)	–	–	–	(4,983)
Disposals	(260)	–	(20)	(1,616)	(1,896)
At 31 July 2011	**170,579**	**8,015**	**14,606**	**13,471**	**206,671**
Depreciation					
At 1 August 2010	30,116	–	9,705	8,610	48,431
Charge for the year	4,584	–	1,716	2,669	8,969
Properties held for resale	(553)	–	–	–	(553)
Disposals	(260)	–	(20)	(1,616)	(1,896)
At 31 July 2011	**33,887**	–	**11,401**	**9,663**	**54,951**
Net book value:					
At 31 July 2011	**136,692**	**8,015**	**3,205**	**3,808**	**151,720**
At 31 July 2010	143,682	1,487	3,806	4,065	153,040

The net book value of tangible fixed assets held under finance leases at 31 July 2011 was nil (31 July 2010: nil). Of the net book value of land and buildings, £136,692,000 as at 31 July 2011, £111,284,000 is held at cost and £25,408,000 is held at the 1995 valuation. The historical cost equivalent of the re-valued land and buildings is £16,514,000 as at 31 July 2011.

The net book value of land and buildings is comprised as follows:

Group and Corporation

	2010/2011 £'000	2009/2010 £'000
Freehold	136,125	142,935
Long lease	567	747
Total	**136,692**	**143,682**

7. Investments

	Group 2010/2011 £'000	Group 2009/2010 £'000	Corporation 2010/2011 £'000	Corporation 2009/2010 £'000
Movement in the year				
Balance at beginning of year	296	302	606	612
Additions	–	1	–	1
Disposals	(1)	–	(1)	-
Appreciation/(depreciation) of investments	15	(7)	15	(7)
Balance at year end	**310**	**296**	**620**	**606**
Analysis of closing balance				
Shareholding in subsidiary undertakings	–	–	310	310
Other investments	272	258	272	258
Shareholding in CVCP Properties PLC	38	38	38	38
	310	**296**	**620**	**606**

a) Shareholdings in subsidiary undertakings

At year end, investments in subsidiary undertakings comprise:

	Group holding %	Corporation 2010/2011 £	Corporation 2009/2010 £	Description of activities
Directly owned by the University:				
De Montfort Expertise Ltd	100	310,000	310,000	Provision of contract research and development
Leicester Business School Ltd	100	1	1	Dormant company
Leicestershire Business School Ltd	100	1	1	Dormant company
Leicester De Montfort Expertise Ltd	100	–	1	Dissolved at Companies House on 28 June 2011
Leicester De Montfort Ltd	100	–	1	Dissolved at Companies House on 28 June 2011
		310,002	**310,004**	

All of the subsidiary undertakings are incorporated in England and Wales.

b) Other investments

	Holding	Corporation		Description of activities
		2010/2011	2009/2010	
	%	£	£	
Talis Group Ltd	<0.50	–	–	Library management system (note 1 below)
Spear Therapeutics Ltd	11.06	234	234	Drug development and research
BTG PLC	<0.01	56,672	42,669	Drug development and research
CYPS Ltd	100.00	100	100	Dormant company
In Smart Ltd	100.00	100	100	Dormant company
Morvus Technology Ltd	<0.40	589	589	Drug development and research
Access Pharmaceuticals Inc	<0.70	13,834	12,521	Drug development and research, incorporated in USA
Lachesis Seed Fund Ltd Partnership	20.00	200,000	200,000	Seed funding for new high technology businesses
Mediatag Ltd	32.47	150	150	Software development (previously named Fiteris Ltd)
Venuesim Ltd	33.00	300	300	Software development
WZVI Ltd	10.00	100	100	Science and Engineering Research
Banco Santander	–	–	832	Financial services (note 2 below)
		272,079	**257,595**	

Notes

1 The shares in this company were issued without payment. This followed the reorganisation of BLCMP Library Services, in which the University was previously a shareholder.

2. The shares in Banco Santander were sold on 23 February 2011.

8. Endowment asset investments - Group and Corporation

	2010/2011 £'000	2009/2010 £'000
Balance as at 1 August	902	766
New endowments invested	231	253
Increase in market value of investments	10	15
Decrease in cash balances held for endowment funds	(75)	(132)
Balance as at 31 July	**1,068**	**902**
Represented by:		
Securities and fixed interest stock	202	192
Bank balances	866	710
Total endowment assets	**1,068**	**902**

9. Stocks - Group and Corporation

	2010/2011 £'000	2009/2010 £'000
Goods for resale	1	5
Catering and residences	4	5
Art and Design	90	68
ITMS	36	31
	131	**109**

10. Debtors falling due within one year

	Group 2010/2011 £'000	Group 2009/2010 £'000	Corporation 2010/2011 £'000	Corporation 2009/2010 £'000
Student debtors	1,463	2,520	1,463	2,520
Other debtors	991	2,110	880	1,986
Research	1,228	1,506	1,228	1,506
Prepayments and accrued income	2,792	2,734	2,618	2,394
Subsidiary undertakings	–	–	286	447
	6,474	**8,870**	**6,475**	**8,853**

11. Short Term Deposits - Group and Corporation

In accordance with its established policy, the university regularly invests surplus funds on deposit or on the Money Market.

At 31 July 2011:
£20,277,000 of Group Funds was on deposit (31 July 2010: £24,140,000).
£19,603,000 of Corporation Funds was on deposit (31 July 2010: £23,102,000).

12. Creditors falling due within one year

	Group 2010/2011 £'000	Group 2009/2010 £'000	Corporation 2010/2011 £'000	Corporation 2009/2010 £'000
Bank account	1	72	1	72
Payments received in advance	5,174	4,343	5,174	4,319
Trade creditors	3,477	6,676	3,341	6,368
Other creditors	4,492	7,262	4,492	7,261
Taxation	1,428	1,068	1,425	1,068
Social security	931	945	931	945
Accruals	4,591	5,908	4,562	5,832
Loans	520	420	520	420
Student caution deposits	515	488	515	488
Access funds (note 26)	2	44	2	44
Subsidiary undertakings	–	–	58	45
	21,131	**27,226**	**21,021**	**26,862**

13. Creditors falling due after more than one year - Group and Corporation

	2010/2011 £'000	2009/2010 £'000
Bank loan	22,828	23,331
Other loans	43	–
	22,871	**23,331**

A Revolving Credit facility of £7 million with the Lloyds Group was drawn down on the 14 January 2009. The cost of the facility is the bank rate plus 0.2% margin.

This facility has been forward fixed to a 20 year term loan commencing 27 February 2012. The underlying cost of funds for the future term loan is 4.79% together with a margin of 0.2%, giving an overall fixed rate of 4.99%. The loan will be amortized over the term with no capital holiday. It is provided unsecured, subject only to the University providing a negative pledge over its material fixed assets.

14. Provisions for liabilities and charges - Group and Corporation

	Future pensions £'000	Staff restructuring £'000	Total £'000
At 1 August 2010	1,138	415	1,553
Utilised in year	(79)	(415)	(494)
Transfer to Income and Expenditure Account	1,294	683	1,977
At 31 July 2011	**2,353**	**683**	**3,036**

The provision for future pensions represents the estimated outstanding cost to the University in respect of enhanced pension entitlements not accounted for under FRS17, and is reviewed at each financial year end. The provision for staff restructuring relates to agreements that have been reached for early retirement and severance as at the Balance Sheet date.

15. Deferred capital grants - Group and Corporation

	Funding Council Grants £'000	Other grants £'000	Total Grants £'000
Balance at 1 August 2010			
Buildings	35,862	3,644	39,506
Equipment	6,408	951	7,359
Total	42,270	4,595	46,865
Cash receivable			
Buildings	1,481	–	1,481
Equipment	1,549	47	1,596
Total	**3,030**	**47**	**3,077**
Released to Income and Expenditure Account			
Buildings	(1,452)	(216)	(1,668)
Equipment	(3,059)	(325)	(3,384)
Total	**(4,511)**	**(541)**	**(5,052)**
	To fund depreciation (note 5)		**(4,608)**
	To fund revenue		**(444)**
			(5,052)
Balance at 31 July 2011			
Buildings	35,891	3,428	39,319
Equipment	4,898	673	5,571
Total	**40,789**	**4,101**	**44,890**

16. Endowments - Group and Corporation

	Unrestricted permanent £'000	Restricted permanent £'000	Total permanent £'000	Restricted expendable £'000	2010/2011 Total £'000	2009/2010 Total £'000
Capital	1	377	378	445	823	686
Accumulated income	–	70	70	9	79	80
	1	**447**	**448**	**454**	**902**	**766**
Investment income	–	12	12	5	**17**	16
Expenditure	–	(13)	(13)	(79)	**(92)**	(148)
	–	(1)	(1)	(74)	(75)	(132)
New endowments	–	1	1	230	231	253
Appreciation in market value of investments	–	10	10	–	10	15
At 31 July 2011	**1**	**457**	**458**	**610**	**1,068**	**902**
Represented by:						
Capital value	1	388	389	605	994	823
Accumulated income	–	69	69	5	74	79
	1	**457**	**458**	**610**	**1,068**	**902**

17. Reserves

	Group 2010/2011 £'000	Group 2009/2010 £'000	Corporation 2010/2011 £'000	Corporation 2009/2010 £'000
Income and expenditure reserve				
At 1 August	**80,604**	**80,142**	**80,222**	**75,053**
(Deficit)/surplus retained in the year	(158)	(3,071)	(33)	1,636
Transfer from revaluation reserve	61	72	61	72
Realisation of revaluation surplus on disposal of assets	681	198	681	198
Add back pension deficit	1,480	3,263	1,480	3,263
At 31 July	**82,668**	**80,604**	**82,411**	**80,222**
Pension reserve				
At 1 August	**(50,656)**	**(56,721)**	**(50,656)**	**(56,721)**
Actuarial gain on pension scheme	20,515	9,328	20,515	9,328
Deficit retained within reserves	(1,480)	(3,263)	(1,480)	(3,263)
At 31 July	**(31,621)**	**(50,656)**	**(31,621)**	**(50,656)**

Revaluation reserve				
At 1 August	**9,693**	**9,969**	**9,693**	**9,969**
Increase/(decrease) in value of fixed asset investments	14	(6)	14	(6)
Contribution to depreciation	(61)	(72)	(61)	(72)
Realisation of revaluation surplus on disposal of assets	(681)	(198)	(681)	(198)
At 31 July	**8,965**	**9,693**	**8,965**	**9,693**
Total reserves	**60,012**	**39,641**	**59,755**	**39,259**

18. Borrowings and lease obligations - Group and Corporation

a) Borrowings

Borrowings in respect of bank loans, overdrafts and other loans are repayable as follows:

	2010/2011 £'000	**2009/2010 £'000**
In one year or less	521	492
Between one and two years	707	503
Between two and five years	2,301	2,174
In five years or more	19,863	20,654
Total	**23,392**	**23,823**

b) Operating leases

At 31 July 2011, the University had annual commitment under operating leases as follows:

	2010/2011 £'000	**2009/2010 £'000**
Land and buildings		
Leases expiring within one year	–	28
Leases expiring within two-five years	22	21
Leases expiring thereafter	275	236
Total lease payments due	**297**	**285**
Other		
Leases expiring within one year	36	96
Leases expiring within two-five years	105	187
Leases expiring thereafter	6	–
Total lease payments due	**147**	**283**

19. Net cash flow from operating activities - Group

	2010/2011 £'000	2010/2011 £'000	2009/2010 £'000	2009/2010 £'000
Income and Expenditure Account before taxation	(488)		(3,000)	
FRS17 impact on Income and Expenditure Account (including interest)	1,480		3,263	
Endowment income adjustment	75		132	
Interest receivable (excluding FRS17 interest)	(236)		(276)	
Surplus before interest receivable		831		119
Add back interest payable (excluding FRS17 interest):				
Bank loans	911		934	
Total interest payable		**911**		**934**
Surplus from operating activities		**1,742**		**1,053**
Release of capital grant		(5,052)		(5,718)
Increase/(decrease) in value of fixed asset investments		15		(6)
Depreciation		8,969		9,004
(Increase)/decrease in stock		(22)		34
Decrease/(increase) in debtors		2,399		(1,528)
(Decrease)/increase in creditors		(4,337)		1,969
Increase/(decrease) in provisions		1,483		(22)
Net cash inflow from ordinary operating activities		**5,197**		**4,786**

20. Returns on investments and servicing of finance - Group

	2010/2011 £'000	2009/2010 £'000
Income from short term investments	233	448
Interest paid	(915)	(945)
	(682)	**(497)**

21. Analysis of changes in financing - Group

	Bank loan		Finance leases		Total	
	2010/2011 £'000	2009/2010 £'000	2010/2011 £'000	2009/2010 £'000	2010/2011 £'000	2009/2010 £'000
Balance at 1 August	23,751	24,157	–	4	23,751	24,161
New loan principal	70	–	–	–	70	–
Repayment	(430)	(406)	–	(4)	(430)	(410)
Balance at 31 July	**23,391**	**23,751**	**–**	**–**	**23,391**	**23,751**

22. Analysis of net funds - Group

	At 1 August 2010 £'000	Non cash changes £'000	Cash flow £'000	At 31 July 2011 £'000
Net cash				
Cash at bank and in hand	1,076	–	(859)	217
Bank overdrafts	(73)	–	72	(1)
	1,003	**–**	**(787)**	**216**
Liquid resources				
Current asset investments	**24,140**	**–**	**(3,863)**	**20,277**
Debt				
Debts falling due within one year	(420)	(530)	430	(520)
Debts falling due after one year	(23,331)	530	(70)	(22,871)
	(23,751)	**–**	**360**	**(23,391)**
Net funds	**1,392**	**–**	**(4,290)**	**(2,898)**

23. Financial commitments - Group and Corporation

Provision has not been made for the following capital commitments at 31 July 2011.

	2010/2011 £'000	2009/2010 £'000
Commitments contracted for	7,558	6,407
Authorised but not contracted for	4,027	17,572
	11,585	**23,979**

24. Contingent liabilities

There are no material contingent liabilities.

25. Related party transactions

The members of the Board of Governors have considered the requirement for disclosure concerning related parties under FRS 8.

Mr Ted Cassidy, Head of Regional and International Partnerships at the University and Mr John Cunningham, Director of Finance, sit on the Board of Directors of Leicester Arts Centre Ltd. De Montfort University has made a £15,000 revenue contribution to Leicester Arts Centre Ltd in respect of the Digital Media Centre. The total contribution held in respect of the Digital Media Centre is £600,000 which will be released to the Income and Expenditure Account over eight years. Mr Ted Cassidy is also a board member of Leicester Chamber of Commerce. De Montfort University has contributed £6,200 as a patron. Professor David Stevens, Co-opted Governor, is the Chairman of Firebird Trading, a wholly owned subsidiary of Leicester Arts Centre Ltd. The value of services provided to the University during 2010/11 was £3,711. Professor Stevens also provided consultancy services to the University the value of which was £2,800. Professor Paul Fleming, Acting Director of Institute of Energy & Sustainable Development at the University was the principle investigator in a project where the partner is his spouse, project payments to his spouse were £26,770.

It is a new requirement of HEFCE that transactions during the year between Institutions and the autonomous, non-consolidated students' unions are reported as a related party transaction. Mr Liam Davies, President of De Montfort Students' Union sits on the University's board. The grant paid to the students' union during the year was £735,000.

26. Access funds

	2010/2011 £'000	2009/2010 £'000
Balance unspent at 1 August	44	33
Funding council grants	540	580
Interest earned	3	4
	587	**617**
Disbursed to students	(585)	(573)
	2	44

Funding Council Grants are available solely for students: the university acts only as a paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

27. East Midlands New Technology Initiative (EMNTI)

The Corporation has received and disbursed funds on behalf of EMNTI during the period.

	2010/2011 £'000	2009/2010 £'000
Balance held on behalf of EMNTI at 1 August	–	125
Funding received during the period	–	–
Disbursements	–	(125)
Balance held on behalf of EMNTI at 31 July 2011	**–**	**–**

On 31 July 2010 EMNTI ceased trading.

28. Intangible fixed asset

De Montfort Developments PLC, a wholly owned subsidiary, assigned a patent to the University on 20 July 2007. It is the intention not to exploit the patent in the next 12 months. Impairment has been made for the full cost in compliance with FRS10. It is considered that the transaction is immaterial and is not disclosed in the Balance Sheet as at 31 July 2011. A review of the status of the intangible asset is undertaken annually.

	Group and Corporation 31 July 2011 £
Cost	
Expenditure	50,000
Impairment	
Charge to date	(50,000)
Adjustment for the year	–
Net book value at 31 July 2011	**–**

29. Pension schemes

a) The two principal pension schemes for the University's staff are the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are both independently administered schemes. The schemes are defined benefit schemes which are funded by contributions from the university and employees.

The Teachers' Pension Scheme is valued every five years by the Government Actuary, using the prospective benefit method. Contributions are paid by the university at the rate specified by the Government Actuary. The Local Government Pension Scheme is valued periodically by a professionally qualified actuary, using the projected unit method. The rates of contribution are determined by the actuary.

The Institution also participates, for a strictly limited membership, in the Universities Superannuation Scheme (USS), a pension scheme which also provides benefits based on final pensionable salary. The assets of the Scheme are held in a separate trustee-administered fund. The pension valuation is assessed using the projected unit method. The level of contributions paid by the employing institutions takes into account the surpluses disclosed, the benefit improvements introduced subsequent to the valuation and the need to spread the surplus in a prudent manner over the future working lifetime of current Scheme members.

Pension summary

	TPS	LGPS	USS
Last actuarial valuation:	**31/03/04**	**31/03/07**	**31/03/08**
Investment returns per annum	6.5%	6.1%	4.4%
Salary rate increase per annum	5.0%	4.7%	4.3%
Pension increase per annum	3.5%	3.2%	3.3%
Market value of assets at date of last valuation:	**£163,240m**	**£2,057m**	**£28,843m**
Proportion of members' actuarial benefits covered by the actuarial valuation of the assets:	**98.0%**	**93.0%**	**71.0%**

The total pension cost for the University and its subsidiaries was:-

	2010/2011 £'000	2009/2010 £'000
Contributions to TPS and USS	5,474	5,553
Contributions to LGPS	3,803	3,823
The financial effects of the adoption of FRS17:		
LGPS	146	576
Total	**9,423**	**9,952**

Contributions to pension schemes	2010/2011 From April 2011	2009/2010 From April 2010
TPS	14.10%	14.10%
USS	16.00%	16.00%
LGPS officers *	13.60%	13.60%
LGPS manual pre-1998	11.00%	11.00%

* The contribution rates for LGPS officers changed with effect from 1 April 2008. From this date, different contribution rates are applied to each range of salary bandings, the rate reported above is an average figure.

The pension charge for the year includes an amount in respect of enhanced pension entitlements of staff taking early retirement that are not accounted for under FRS17. The calculation of the cost of early retirement provisions charged to the Income and Expenditure Account in the year of retirement is based on the total capital cost of providing enhanced pensions.

An amount of £2,353k (2010: £1,137k), not accounted for under FRS17, is included in provisions for liabilities and charges representing the extent to which the capital cost charged exceeds actual payments made. The provision will be released against the cost to the university of enhanced pension entitlements over the estimated life expectancy of each relevant employee.

b) Pension schemes

Teachers' Pension Scheme

The university is a member of the Teachers' Pension Scheme (TPS), a statutory, contributory, defined benefit pension scheme. The TPS is an unfunded scheme. Contributions on a 'pay-as-you-go' basis are credited to the Exchequer under arrangements governed by the Superannuation Act 1972. Actuarial valuations are carried out on a notional set of investments.

Under the definitions set out in FRS17, Retirement Benefits, the TPS is a multi-employer pension scheme. The university is unable to identify its share of the underlying (notional) assets and liabilities of the scheme. Accordingly, the university has taken advantage of the exemption in FRS17 and has accounted for its contributions to the scheme as if it were a defined contribution scheme. The university has set out below the information available on the deficit in the scheme and the implications for the university in terms of the anticipated contribution rates.

Not less than every four years the Government Actuary (GA), using normal actuarial principles, conducts a formal actuarial review of the TPS. The aim of the review is to specify the level of future contributions. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Last actuarial valuation	31 March 2004
Actuarial method	prospective benefits
Investment returns per annum	6.50%
Salary scale increases per annum	5.00%
Value of notional assets at date of last valuation	£163,240m
(estimated future contributions together with notional investments held at 31 March 1996)	
Proportion of members' accrued benefits covered by the actuarial value of the assets	98%

The contribution rate paid into the TPS is assessed in two parts. First, a standard contribution rate (SCR) is determined. This is the contribution, expressed as a percentage of the salaries of teachers and lecturers in service or entering service during the period over which the contribution rate applies, which if it were paid over the entire active service of these teachers and lecturers would broadly defray the cost of benefits payable in respect of that service. Secondly, a supplementary contribution is payable if, as a result of the actuarial investigation, it is found that accumulated liabilities of the Account for benefits to past and present teachers, are not fully covered by standard contributions to be paid in future and by the notional fund built up from past contributions. The total contribution rate payable is the sum of the SCR and the supplementary contribution rate.

The last valuation of the TPS related to the period 1 April 2001-31 March 2004. The Government Actuary's report of October 2006 revealed that the total liabilities of the Scheme (pensions currently in payment and the estimated cost of future benefits) amounted to £166,500 million. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £163,240 million. The assumed real rate of return is 3.5% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 1.5%. The assumed gross rate of return is 6.5%.

As from 1 January 2007, and as part of the cost-sharing agreement between employers' and teachers' representatives, the standard contribution has been assessed at 19.75%, plus a supplementary contribution rate of 0.75% (to balance assets and liabilities as required by the regulations within 15 years); a total contribution rate of 20.5%. This translates into an employee contribution rate of 6.4% and employer contribution rate of 14.1% payable. The cost-sharing agreement has also introduced, effective for the first time from the 2008 valuation, a 14% cap on employer contributions payable.

c) Universities Superannuation Scheme

The Institution participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited.

Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The Institution is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest triennial actuarial valuation of the scheme was at 31 March 2008. This was the first valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out regular reviews of the funding levels. In particular, he carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2011 are also included in this note.

The triennial valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (ie the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An 'inflation risk premium' adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.4% per annum (which includes an additional assumed investment return over gilts of 2% per annum), salary increases would be 4.3% per annum (plus an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.3% per annum.

Standard mortality tables were used as follows;

Male members mortality	PA92 MC YoB tables - rated down 1 year
Female members mortality	PA92 MC YoB tables - no age rating

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further improvements in mortality rates. The assumed life expectations on retirement at 65 are;

Males (females) currently aged 65	22.8 (24.8) years
Males (females) currently aged 45	24.0 (25.9) years

At the valuation date, the value of the assets of the scheme was £28,842.6 million and the value of the scheme's technical provisions was £28,135.3 million indicating a surplus of £707.3 million. The assets therefore were sufficient to cover 103% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 71%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 107% funded; on a buy-out basis (ie, assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 79% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using a AA bond discount rate of 6.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing costs of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions except that the valuation rate of interest assumed asset out performance over gilts of 1.7% per annum (compared to 2% per annum for the technical provisions) giving a discount rate of 6.1% per annum; also the allowance for promotional salary increases was not as high. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the costs of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

The scheme-wide contribution rate required for future service benefits alone at the date of the valuation was 16% of pensionable salaries and the trustee company, on the advice of the actuary, increased the Institution contribution rate to 16% of pensionable salaries from 1 October 2009.

Since 31 March 2008 global investment markets have continued to fluctuate and at 31 March 2011 the markets assessment of inflation has increased slightly. The Government has also announced a change to the inflation measure used in determining the 'Official Pensions Index' from the Retail Prices Index to the Consumer Prices Index. The actuary has taken this all into account in his funding level estimates at 31 March 2011 by reducing the assumption for pension increases from 3.3 per annum to 2.9 per annum. The actuary has estimated that the funding level as at 31 March 2011 under the new scheme specific funding regime has fallen from 103% to 98% (a deficit of circa £700 million). Over the past 12 months, the funding level has improved from 91%, as at 31 March 2010 to 98%. This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the three years and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions). The next formal valuation is at 31 March 2011 and this will incorporate updated assumptions agreed by the trustee company.

On the FRS17 basis, using a AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 86%. An estimate of the funding level measured on a buy-out basis at that date was approximately 54%.

Surpluses or deficits which arise at future valuations may impact on the Institution's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements. The sensitivities regarding the principal assumptions used to measure the scheme liabilities on a technical provisions basis as at the date of the last triennial valuation are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Valuation rate of interest	Increase/decrease by 0.5%	Decrease/Increase by £2.2 billion
Rate of pension increases	Increase/decrease by 0.5%	Decrease/Increase by £1.5 billion
Rate of salary growth	Increase/decrease by 0.5%	Decrease/Increase by £0.7 billion
Rate of mortality	More prudent assumption (move to long cohort future improvements from the medium cohort adopted at the valuation	Increase by £1.6 billion

USS is a 'last man standing' scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The next formal triennial actuarial valuation is due as at 31 March 2011. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

The total pension cost for the Institution was £252,256 (2010: £228,684). This includes £nil (2010: £nil) outstanding contributions at the balance sheet date. The contribution rate payable by the Institution was 16% of pensionable salaries.

d) Local Government Pension Scheme

The university participates in a defined benefit scheme in the UK, the Leicestershire County Council Pension Fund. A full actuarial valuation of the fund was carried out at 31 March 2007 by a qualified independent actuary. This was updated to 31 July 2011 for FRS17 purposes by a qualified independent actuary. The major assumptions used by the actuary were as follows:

	2011	2010
Salary increase rate	4.0%	3.9%
Pension increase rate	2.7%	2.9%
Discount rate	5.3%	5.4%
Inflation assumption rate CPI	2.7%	2.9%
Inflation assumption rate RPI	3.5%	3.4%
Expected return on plan assets at 31 July	6.6%	6.9%
Number of employees opting for early retirement	8	3

	2011	2011
Mortality rates	Males	Females
Current pensioners	20.9 years	23.3 years
Future pensioners	23.3 years	25.6 years

Scheme assets

The assets in the scheme and the expected rate of return at 31 July 2011 were:

	Long term rate of return expected at 31 July 2011	Value at 31 July 2011 £'000	Value at 31 July 2010 £'000
Equities	7.1%	1,782,300	1,645,600
Bonds	4.7%	159,950	143,990
Property	5.1%	274,200	246,840
Cash	4.0%	68,550	20,570
Total		**2,285,000**	**2,057,000**

	31 July 2011 £'000	31 July 2010 £'000
Opening fair value of asset plans	95,082	80,307
Expected return on assets	6,461	5,635
Contributions by members	1,824	1,855
Contributions by employer	3,998	4,032
Actuarial gains / (losses)	1,255	6,328
Estimated benefits paid	(8,588)	(3,075)
Total	**100,032**	**95,082**

The Group expects to contribute £3,898,000 to its defined benefit pension plan from 1 August 2011 - 31 July 2012.

Net pension liability

The following amounts at 31 July 2011 were measured in accordance with the requirements of FRS17:

	31 July 2011 £'000	31 July 2010 £'000
Fair value of employer assets	100,032	95,082
Present value of scheme liabilities	(131,653)	(145,738)
Net pension liability	**(31,621)**	**(50,656)**

	31 July 2011 £'000	31 July 2010 £'000
Present value of the defined benefit plan		
Opening defined benefit obligation	**145,738**	**137,028**
Current service cost	3,980	4,437
Interest cost	7,795	8,322
Contributions by members	1,824	1,855
Actuarial (losses)/gains	(19,260)	7,199
Past service gains	–	(10,199)
Losses on curtailments	164	171
Estimated benefits paid	(8,588)	(3,075)
Closing defined benefit obligation	**131,653**	**145,738**

	Year ended 31 July 2011 £'000	Year ended 31 July 2010 £'000	Year ended 31 July 2009 £'000	Year ended 31 July 2008 £'000	Year ended 31 July 2007 £'000
Analysis of amounts charged to Income and Expenditure Account					
Charged to staff costs					
Current service cost	(3,980)	(4,437)	(3,480)	(3,702)	(4,093)
Past service cost	–	–	–	(1,134)	–
Curtailment and settlements	(164)	(171)	(85)	(52)	(12)
Employer contributions	3,998	4,032	3,831	3,302	3,345
	(146)	**(576)**	**266**	**(1,586)**	**(760)**
Financing:					
Expected return on pension scheme assets	6,461	5,635	6,733	7,562	6,182
Interest on scheme liabilities	(7,795)	(8,322)	(7,552)	(6,331)	(5,595)
Net (charge)/return	**(1,334)**	**(2,687)**	**(819)**	**1,231**	**587**
Net Income and Expenditure Account cost	**(1,480)**	**(3,263)**	**(553)**	**(355)**	**(173)**

	Year ended 31 July 31 2011 £'000	Year ended 31 July 2010 £'000
Actual return on plan assets	**–**	**11,995**

Analysis of amounts which would be recognised in the statement of total recognised gains and losses

	Year ended 31 July 2011 £'000	Year ended 31 July 2010 £'000	Year ended 31 July 2009 £'000	Year ended 31 July 2008 £'000	Year ended 31 July 2007 £'000
Actual return less expected return on pension scheme assets	20,515	(871)	(20,084)	(16,969)	4,934
Experience losses arising on scheme liabilities	–	–	–	(139)	–
Changes in financial assumptions underlying the present value of scheme liabilities	–	10,199	(15,476)	2,475	9,541
Actuarial gains/(losses) in pension plan recognised	20,515	9,328	(35,560)	(14,633)	14,475
Cumulative actuarial gains/(losses)	**1,144**	**(19,371)**	**(28,699)**	**6,861**	**21,494**

In its June 2010 budget, the Government announced that it intended for future increases in [public sector/ occupational] pension schemes to be linked to changes in the Consumer Prices Index (CPI) rather than, as previously, the Retail Price Index (RPI). The University considered the Local Government Pension Scheme rules and associated members' literature and concluded that, as a result, a revised actuarial assumption about the level of inflation indexation was made, with the resulting gain recognised through the Statement of Total Recognised Gains and Losses ('STRGL').

Movement in the university's share of the scheme's deficit during the year

In total the movement in the Institution's share of the scheme's deficit during the year is made up as follows:

	31 July 2011 £'000	31 July 2010 £'000
Deficit on scheme at 1 August	(50,656)	(56,721)
Movements in year:		
– Current service cost	(3,980)	(4,437)
– Employer contributions	3,998	4,032
– Impact of settlements and curtailments	(164)	(171)
– Net return on assets	(1,334)	(2,687)
Total impact on Income and Expenditure Account (see note 18)	**(1,480)**	**(3,263)**
– Actuarial gains/(losses)	20,515	9,328
Total movement in the year	**19,035**	**6,065**
Deficit on scheme at 31 July	**(31,621)**	**(50,656)**

Experience gains and losses in the year

The experience gains and losses for the year ended 31 July 2011 were as follows:

	31 July 2011 £'000	31 July 2010 £'000	31 July 2009 £'000	31 July 2008 £'000	31 July 2007 £'000
Difference between the expected and actual return on scheme assets	1,255	6,328	(20,084)	(16,969)	4,934
Value of assets	100,032	95,082	80,307	90,868	101,761
Percentage of scheme assets	**1.3%**	**6.7%**	**(25.0%)**	**(18.7%)**	**4.8%**
Experience gains/(losses) on liabilities	5,282	–	–	(2,850)	–
Total present value of liabilities	131,653	145,738	137,028	111,476	107,381
Percentage of the total present value of scheme liabilities	**4.0%**	**0.0%**	**0.0%**	**(2.6%)**	**0.0%**
Total actuarial (gains)/losses	(20,515)	(9,328)	35,560	14,633	14,475
Total present value of liabilities	131,653	145,738	137,028	111,476	107,381
Percentage of the present value of scheme liabilities	**(15.6%)**	**(6.4%)**	**26.0%**	**13.1%**	**13.5%**

Sensitivity analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumptions	Change in assumptions	Approximate impact on Employer FRS17 liabilities as at 31 July 2011
Discount rate	Increase/decrease by 0.5% p.a.	Increase/decrease liability c11%
Pension increase rate	Increase/decrease by 0.5% p.a.	Increase/decrease liability c8%
Rate of salary growth	Increase/decrease by 0.5% p.a.	Increase/decrease liability c3%
Rate of mortality	Improve by one year	Increase by c3%

TAXATION

United Kingdom

The following applies only to persons who are the beneficial owners of Bonds and is a summary of the Issuer's understanding of current United Kingdom law and published HM Revenue & Customs practice relating to certain aspects of United Kingdom taxation. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Bondholders depends on their individual circumstances and may be subject to change in the future. Prospective Bondholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

A. Interest on the Bonds

1. *Payments of interest on the Bonds*

Payments of interest on the Bonds may be made without deduction of or withholding on account of United Kingdom income tax provided that the Bonds continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the **Act**). The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Bonds remain so listed, interest on the Bonds will be payable without withholding or deduction on account of United Kingdom tax.

Interest on the Bonds may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Bonds is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Bonds is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HM Revenue & Customs (**HMRC**) has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest on the Bonds on account of United Kingdom income tax at the basic rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Bondholder, HMRC can issue a notice to the Issuer to pay interest to the Bondholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Bondholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Bondholder. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Bondholder is resident for tax purposes.

2 *EU Savings Directive*

Under EC Council Directive 2003/48/EC (the **Directive**) on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts to the holder of the Bonds or to otherwise compensate the holder of the Bonds for the reduction in the amounts that they will receive as a result of the imposition of such withholding tax.

The European Commission has proposed certain amendments to the Directive, which may if implemented amend or broaden the scope of the requirements described above.

3 *Further United Kingdom Income Tax Issues*

Interest on the Bonds constitutes United Kingdom source income for tax purposes and, as such, may be subject to income tax by direct assessment even where paid without withholding.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Bondholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Bondholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Bonds are attributable (and where that Bondholder is a company, unless that Bondholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Bonds are attributable). There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Bondholders.

B. United Kingdom Corporation Tax Payers

In general, Bondholders which are within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Bonds (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

C. Other United Kingdom Tax Payers

1. *Taxation of Chargeable Gains*

The Bonds will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Bondholder of a Bond will not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

2. *Accrued Income Scheme*

On a disposal of Bonds by a Bondholder, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 of the Act, if that Bondholder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Bonds are attributable.

D. Stamp Duty and Stamp Duty Reserve Tax (SDRT)

No United Kingdom stamp duty or SDRT is payable on the issue of the Bonds or on a transfer by delivery of the Bonds.

SUBSCRIPTION AND SALE

Barclays Bank PLC (the **Sole Bookrunner**) has, pursuant to a Subscription Agreement (the **Subscription Agreement**) dated 16 July, 2012, agreed to subscribe or procure subscribers for the Bonds at the issue price of 96.403 per cent. of the principal amount of Bonds less a combined management and underwriting commission. The Issuer will also reimburse the Sole Bookrunner in respect of certain of its expenses, and has agreed to indemnify the Sole Bookrunner against certain liabilities, incurred in connection with the issue of the Bonds. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

United States

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder.

The Sole Bookrunner has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds (a) as part of its distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Bonds within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

The Sole Bookrunner has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

General

No action has been taken by the Issuer or the Sole Bookrunner that would, or is intended to, permit a public offer of the Bonds in any country or jurisdiction where any such action for that purpose is required. Accordingly, the Sole Bookrunner has undertaken that it will not, directly or indirectly, offer or sell any Bonds or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Bonds by it will be made on the same terms.

GENERAL INFORMATION

Authorisation

The issue of the Bonds was duly authorised by a resolution of the Board of Governors of the Issuer on 21 June, 2012.

Listing

Application has been made to the UK Listing Authority for the Bonds to be admitted to the Official List and to the London Stock Exchange for such Bonds to be admitted to trading on the London Stock Exchange's regulated market. It is expected that official listing will be granted on or about 18 July, 2012, subject only to the issue of the Temporary Global Bond.

The Issuer estimates that the total expenses related to the admission to trading will be £8,015.

Clearing Systems

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS0805475364 and the Common Code is 080547536.

The address of Euroclear is Euroclear Bank S.A./N.V., 1 Boulevard du Roi Albert II, B-1210 Brusssels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

No significant change

There has been no significant change in the financial position of the Issuer or the Issuer's Group (being the Issuer and its Subsidiaries) since 31 July, 2011 and there has been no material adverse change in the financial position or prospects of the Issuer or the Issuer's Group since 31 July, 2011.

Litigation

Neither the Issuer nor the Issuer's Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer or the Issuer's Group.

Auditors

The auditors of the Issuer are KPMG LLP, Birmingham, who have audited the Issuer's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for each of the two financial years ended on 31 July, 2010 and 31 July, 2011. The auditors of the Issuer have no material interest in the Issuer.

U.S. tax

The Bonds and Coupons will contain the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

Documents Available

For the period of 12 months following the date of this Offering Circular, copies of the following documents will be available for inspection from the principal office of the Issuer and from the specified office of the Principal Paying Agent:

(a) the Issuer's Instrument of Government and the Articles of Government;

(b) the consolidated audited financial statements of the Issuer in respect of the financial years ended 31 July, 2010 and 31 July, 2011, in each case together with the audit reports in connection therewith. The Issuer currently prepares audited consolidated accounts on an annual basis; and

(c) the Trust Deed and the Agency Agreement.

Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to this issue of Bonds, other than as required pursuant to Condition 6.1 (*Information Covenant*).

Yield

Indication of the yield on the Bonds: 5.625 per cent. The yield is calculated at the Closing Date on the basis of the Issue Price. It is not an indication of future yield.

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