PROSPECTUS DATED 7 APRIL 2017

THE UNIVERSITY OF SOUTHAMPTON
(*incorporated by Royal Charter*)

£300,000,000 2.250 PER CENT. BONDS DUE 2057

The issue price of the £300,000,000 2.250 per cent. Bonds due 2057 (the "**Bonds**") of The University of Southampton (the "**Issuer**") is 99.764 per cent. of their principal amount.

Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on 11 April 2057. The Bonds are subject to redemption, in whole but not in part, at their principal amount at the option of the Issuer at any time in the event of certain changes affecting taxation in the United Kingdom. The Bonds may also be redeemed at any time at the option of the Issuer, in whole or in part, at the Redemption Price (as defined in "*Terms and Conditions of the Bonds—Condition 5(c)—Redemption at the option of the Issuer*"*). See* "*Terms and Conditions of the Bonds—Redemption and Purchase*".

The Bonds will bear interest from and including 11 April 2017 (the "**Issue Date**") at the rate of 2.250 per cent. per annum payable semi-annually in arrear on 11 April and 11 October in each year. Payments on the Bonds will be made in sterling without deduction for or on account of taxes imposed or levied by the United Kingdom to the extent described under "*Terms and Conditions of the Bonds—Condition 7—Taxation*".

Applications have been made to the United Kingdom Financial Conduct Authority (the "**FCA**") under Part VI of the Financial Services and Markets Act 2000 (the "**FSMA**") for the Bonds to be admitted to listing on the Official List of the FCA and to the London Stock Exchange plc (the "**London Stock Exchange**") for the Bonds to be admitted to trading on the Regulated Market of the London Stock Exchange. The Regulated Market of the London Stock Exchange is a regulated market for the purposes of Directive 2004/39/EC on markets in financial instruments.

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 United States tax law requirements. The Bonds are being offered outside the United States by the Joint Lead Managers (as defined in "*Subscription and Sale*") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Bonds will be in bearer form and in the denominations of £100,000 and higher integral multiples of £1,000 (up to and including £199,000). The Bonds will initially be in the form of a temporary global bond (the "**Temporary Global Bond**"), without interest coupons, which will be deposited on or around the Issue Date with a common safekeeper for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). The Temporary Global Bond will be exchangeable, in whole or in part, for interests in a permanent global bond (the "**Permanent Global Bond**"), without interest coupons, not earlier than 40 days after the Issue Date upon certification as to non U.S. beneficial ownership. Interest payments in respect of the Bonds cannot be collected without such certification of non U.S. beneficial ownership. The Permanent Global Bond will be exchangeable in certain limited circumstances in whole, but not in part, for Bonds in definitive form in the denominations of £100,000 and higher integral multiples of £1,000 (up to and including £199,000) each with interest coupons and (if applicable) talons attached. See "*Summary of Provisions Relating to the Bonds in Global Form*".

The Bonds are expected to be assigned a rating of Aa2 (negative outlook) by Moody's Investors Service Limited ("**Moody's**") upon issue. Moody's is established in the European Economic Area ("**EEA**") and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

An investment in the Bonds involves certain risks; for a discussion of these risks see "*Risk Factors*" herein.

Joint Lead Managers

BARCLAYS **HSBC** **MORGAN STANLEY**

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IMPORTANT NOTICES

This Prospectus comprises an approved prospectus for the purposes of section 85(2) of the FSMA.

The Issuer accepts responsibility for the information contained in this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus to the best of its knowledge is in accordance with the facts and contains no omission likely to affect its import.

The Issuer has confirmed to Barclays Bank PLC, HSBC Bank plc and Morgan Stanley & Co. International plc (the "**Joint Lead Managers**") that this Prospectus contains all information which is (in the context of the issue, offering and sale of the Bonds) material; this Prospectus is true and accurate in all material respects and is not misleading; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer are honestly held or made and are not misleading and are based on reasonable assumptions; this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading; and all proper enquiries have been made to ascertain and to verify the foregoing.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Bonds other than as contained in this Prospectus or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Joint Lead Managers or the Trustee.

Neither the Joint Lead Managers nor the Trustee nor any of their respective affiliates have authorised the whole or any part of this Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Bond shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Prospectus.

This Prospectus does not constitute an offer of, or an invitation to subscribe or purchase, any Bonds. The distribution of this Prospectus and the offering, sale and delivery of Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Bonds and on distribution of this Prospectus and other offering material relating to the Bonds, see "*Subscription and Sale*".

In particular, the Bonds have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to U.S. Persons.

In this Prospectus, unless otherwise specified, references to "**£**" or "**sterling**" are to the lawful currency for the time being of the United Kingdom. References to "**billions**" are to thousands of millions.

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In connection with the issue of the Bonds, Barclays Bank PLC (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 price of the Bonds at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. 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 cease 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 the Stabilising Manager) in accordance with all applicable laws and rules.

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 (1) the Bonds are legal investments for it, (2) the Bonds can be used as collateral for various types of borrowing and (3) 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.

OVERVIEW

This overview must be read as an introduction to this Prospectus and any decision to invest in the Bonds should be based on a consideration of the Prospectus as a whole.

*Words and expressions defined in the "*Terms and Conditions of the Bonds*" below or elsewhere in this Prospectus have the same meanings in this overview.*

The Issuer:	The University of Southampton.
Joint Lead Managers:	Barclays Bank PLC, HSBC Bank plc and Morgan Stanley & Co. International plc.
Trustee:	HSBC Corporate Trustee Company (UK) Limited.
Principal Paying Agent:	HSBC Bank plc.
The Bonds:	£300,000,000 2.250 per cent. Bonds due 2057.
Issue Price:	99.764 per cent. of the principal amount of the Bonds.
Issue Date:	11 April 2017.
Use of Proceeds:	The net proceeds of the issue of the Bonds, expected to amount to £298,692,000 after deduction of the total commissions and other expenses incurred in connection with the issue of the Bonds, will be used by the Issuer for general corporate purposes. See "*Use of Proceeds*".
Interest:	The Bonds will bear interest from and including 11 April 2017 at a rate of 2.250 per cent. per annum payable semi-annually in arrear on 11 April and 11 October in each year.
Status:	The Bonds will constitute direct, unconditional and unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by applicable laws relating to creditors' rights.
Form and Denomination:	The Bonds will be issued in bearer form in the denominations of £100,000 and higher integral multiples of £1,000 (up to and including £199,000). The Temporary Global Bond and the Permanent Global Bond are to be issued in new global note form.
Final Redemption Date:	11 April 2057.
Optional Redemption:	On giving not less than 10 nor more than 20 days' notice to the Bondholders (which notice shall be irrevocable) in accordance with Condition 15 (*Notices*), the Issuer may redeem some or all of the Bonds for the time being outstanding at any time at the Redemption Price together with interest accrued to (but excluding) the date of redemption. See Condition 5(c) (*Redemption at the option of the Issuer*).
Tax Redemption:	The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable) in accordance with Condition 15 (*Notices*), at their principal amount, together with interest accrued to the date fixed for redemption, in the event of certain changes affecting taxation in the United Kingdom. See Condition 5(b) (*Redemption for tax reasons*).
Negative Pledge:	So long as any of the Bonds remain outstanding, the Issuer shall not create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues to secure any Relevant Indebtedness of

the Issuer or any guarantee or indemnity by the Issuer in respect of any Relevant Indebtedness without (a) at the same time or prior thereto securing the Issuer's obligations under the Bonds, the Coupons and the Trust Deed equally and rateably therewith or (b) providing such other security for the Issuer's obligations under the Bonds, the Coupons and the Trust Deed as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Bondholders or as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders. See Condition 3 (*Negative Pledge*).

Cross Default: The Trustee may and, if so requested in writing by holders of at least one quarter of the aggregate principal amount of the outstanding Bonds or if so directed by an Extraordinary Resolution, shall (subject, in each case, to it being indemnified and/or secured and/or prefunded to its satisfaction) give written notice to the Issuer declaring the Bonds to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality if (i) any Indebtedness of the Issuer is not paid when due or (as the case may be) within any originally applicable grace period; or (ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (provided no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; or (iii) the Issuer fails to pay when due any amount payable by it under any guarantee for, or indemnity in respect of, any Indebtedness, **provided that** the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee or indemnity referred to in sub-paragraph (iii) above individually or in the aggregate exceeds £20,000,000 (or its equivalent in any other currency or currencies). See Condition 8(c) (*Cross-default of Issuer*).

Withholding Tax: All payments of principal and interest in respect of the Bonds and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Bondholders and the Couponholders after such withholding or deduction of such amounts as would have been receivable by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond or Coupon presented for payment in the limited circumstances set out in Condition 7 (*Taxation*).

Rating: The Bonds are expected to be assigned a rating of Aa2 (negative outlook) by Moody's.

Moody's is established in the EEA and registered under the CRA 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.

Governing Law: The Bonds, the Trust Deed, the Paying Agency Agreement and any non-contractual obligations arising out of or in connection with any of them will be governed by English law.

Listing and Trading: Applications have been made for the Bonds to be admitted to listing on the Official List of the FCA and to trading on the Regulated Market of the London

	Stock Exchange.
Clearing Systems:	Euroclear and Clearstream, Luxembourg.
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of the Bonds and on the distribution of offering materials in the United Kingdom and the United States see "*Subscription and Sale*".
Risk Factors:	Investing in the Bonds involves risks. See "*Risk Factors*".
ISIN:	XS1577724492.
Common Code:	157772449.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds. All 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.

Factors which the Issuer believes may be 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 Issuer may be unable to pay interest, principal or other amounts on or in connection with the Bonds for other reasons, and the Issuer does not represent that the statements below regarding the risks of holding the Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Risks relating to the Issuer

The Issuer does not have control over the number of student applications received (or offers accepted) and this could have an impact on the revenue generated by the Issuer from its teaching activities.

The funding that the Issuer receives for teaching students is primarily dependent upon the number of students who choose to study a course provided by the Issuer and who meet the Issuer's entry criteria.

The ability of the Issuer to attract new applicants could be impacted by various factors including poor perception/reputation, aggressive competitor activity from rival universities, unattractive portfolio of courses, high entry tariff, poor marketing, recruitment or admissions processes, poor facilities or services, higher fees compared to other institutions, removal of student maintenance grants and the fact that some potential applicants may question the value of a degree in the face of the increased costs of higher education. Each of these factors has the potential to impact on the number of students choosing to apply to the Issuer, as well as the quality and calibre of those students. A decline in the quality of students may impact on the attractiveness of the Issuer to prospective high quality students, which may further impact on the numbers applying to study at the Issuer.

The economic climate, as well as the increasing availability of alternative options, may cause students to think more carefully about the financial implications of going to university and could have an impact on the willingness of students to enter higher education, and this could impact on the number of students who apply to the Issuer.

While the Issuer has historically attracted a high level of student applications (for undergraduate entry in 2016/17, 7.9 applications were received for every student enrolled), there can be no guarantee that this will continue. A significant reduction in student numbers could have a material impact on the Issuer's teaching income and overall finances.

On 1 February 2017, UCAS published its analysis of full-time undergraduate applications to the United Kingdom ("**UK**") higher education sector made by the 15 January (Equal Consideration) deadline. This analysis showed that UK applicant figures were down by 5 per cent. and European Union ("**EU**") applicant figures were down by 7 per cent. Application data specifically for the Issuer at the same point in time shows a 6.5 per cent. decrease in UK applicants and a 13.6 per cent. decrease in EU applicants. However, these figures follow an increase of 11.2 per cent. in UK students and 7.5 per cent. in EU students at the same point in the cycle in the previous year. EU applications account for 7.3 per cent. of the total undergraduate applications to the Issuer in 2017 and accounted for 7.9 per cent. of the total applications in 2016.

There is a degree of uncertainty over whether the current level of UK and other EU student numbers will be maintained, as a result of further increases to tuition fees in line with current government policy.

Reforms to funding arrangements for the university sector have resulted in the Issuer receiving teaching income for UK/EU undergraduate students primarily from two sources. The Issuer receives a grant from the Higher Education Funding Council for England ("**HEFCE**"). HEFCE is a public body established by the Further and Higher Education Act 1992 and is responsible for distributing public funds for higher education in England in accordance with an annual grant letter from the UK Government which sets out government funding and priorities for HEFCE and for higher education for the coming year. In addition, the Issuer receives tuition fees either paid directly by UK/EU undergraduate students or via the Student Loans Company Limited (in the form of tuition fees paid direct to the Issuer for newly admitted students underwritten by loans made to students). In the academic year 2015/16, income from HEFCE to the Issuer allocated to undergraduate teaching was £15.9 million and UK/EU undergraduate tuition fees received by the Issuer in the academic year 2015/16 was £123.7 million.

Since the UK Government reform of the funding arrangements for the university sector in 2012, the proportion of teaching income received from HEFCE has reduced and the proportion of teaching income derived from tuition fees has increased.

Following the introduction of the £9,000 maximum level of tuition fees for UK/EU students in 2012 (an increase from £3,375 in the previous academic year), the UK higher education sector as a whole experienced a small fall in demand for students joining in that academic year, although applications to the Issuer have increased significantly in subsequent years. With effect from 1 August 2017, the maximum level of tuition fees for UK/EU students will increase to £9,250 for eligible institutions, and the Issuer will apply this increase to all UK/EU undergraduate students commencing study in the academic year 2017/18.

The current policy of the UK Government is that tuition fees should be increased on an annual basis in line with inflation, subject to compliance with specific criteria (see "*The Issuer's ability to charge the maximum tuition fees is dependent on compliance with criteria currently set by the Office of Fair Access.*"), and that there will be differentiation between the tuition fees that universities can charge, dependent on their performance in the Teaching Excellence Framework ("**TEF**") (see "*The TEF will assess the quality of, and the standards applied to, higher education providers, and an unfavourable rating could have a financial impact on the Issuer.*").

While the Issuer has not been affected to any significant extent to date by the increases in tuition fees (and whilst the Issuer has seen an increase in student enrolment numbers since 2012), there is a risk that high tuition fees and the proposed annual increase to tuition fees in the future may impact the level of student application numbers and, if enrolment numbers are similarly impacted, the income received by the Issuer from student tuition fees. A significant reduction in student enrolment numbers could have a material impact on the Issuer's teaching income and overall finances.

The Issuer does not have complete freedom over the tuition fees that it is able to charge to UK/EU undergraduate students and this could have an impact on the revenue generated by the Issuer from its teaching activities.

The Issuer does not have complete freedom over the amount that it can charge UK/EU undergraduate students for tuition. While the Issuer can set a fee above the basic amount set by the UK Government, currently £6,000 per annum, (The Higher Education (Basic Amount) (England) Regulations 2016 will increase the basic amount to £6,165 per annum) in relation to a year and a course, the fee must not exceed the maximum amount specified by the UK Government. The maximum amount is currently £9,000 per annum. The Higher Education (Higher Amount) (England) Regulations 2016 will increase the maximum amount to £9,250 for all eligible institutions. An eligible institution is an institution listed in the Schedule to the Regulations, being those institutions which achieved a TEF rating of "meets expectations" in the academic year 2015/16. The Issuer is an eligible institution, and it will be charging the maximum tuition fee of £9,250 per annum to all UK/EU undergraduate students enrolling from September 2017 (see "*The Issuer's ability to charge the maximum tuition fees is dependent on compliance with criteria currently set by the Office for Fair Access*.").

The UK Government may increase or decrease the basic amount or the higher amount again in the future, which could impact on the income received by the Issuer from student tuition fees. This could be achieved either through the introduction of further regulations under the Higher Education Act 2004, or through the introduction of primary legislation.

The Higher Education and Research Bill ("**HERB**") is in the final stages of the legislative process and likely to become law in 2017. HERB received its third reading in the House of Lords on 4 April 2017. As set out in more detail below, the implementation of HERB is expected to make changes to, among others, (i) the ability of a university to charge the maximum tuition fee by linking this to its rating under the TEF; (ii) how funding for research is administered by allocating the responsibility for Quality Related ("**QR**") funding and competitively-won Research Council and Innovate UK grants to a new body called UK Research and Innovation ("**UKRI**"); and (iii) the regulatory framework of higher education by establishing a new principal regulator in the Office for Students ("**OfS**") with the power to impose monetary penalties, powers in relation to quality and standards, power to authorise the granting of degrees and the use of "university" in an institution's name.

Current government policy, as set out in HERB, is to enable a university to apply further inflation linked rises to the maximum tuition fee, with effect from September 2019. This will be linked to its rating under the TEF. The government will determine the level of the maximum tuition fee, the level of inflation-linked increase and the criteria that each institution must meet in order to charge the maximum tuition fee.

Accordingly, the Issuer does not have complete control over the tuition fees it is able to charge to UK/EU undergraduates, and this may have an impact on the income it derives from teaching.

The Issuer's ability to charge the maximum tuition fees is dependent on compliance with criteria currently set by the Office for Fair Access ("OFFA").

The maximum tuition fee for UK/EU undergraduate students is currently £9,000 per annum per student (rising to £9,250 for eligible institutions per annum from 1 August 2017) and is dependent upon compliance with criteria set by OFFA. In order to be able to charge any rate higher than £6,000 per annum per student (rising to £6,165 per annum from September 2017), the Issuer must comply with criteria set out by OFFA.

If the Issuer fails to comply with OFFA criteria, it may lose its ability to charge the maximum level of tuition fees for UK/EU undergraduate students. Such a reduction in the level of tuition fees would reduce the revenue generated by the Issuer from its teaching activities.

It is anticipated that HERB will transfer OFFA's functions to the OfS. A university that wants to charge the higher fee limits will need to have an access and participation plan, approved by OfS, as a condition of its continued registration as a provider of English higher education.

Failure to comply with the criteria set by OFFA (or, if HERB becomes law, OfS) could result in the Issuer no longer being able to charge the maximum tuition fees which would result in a real terms reduction in income, and place the Issuer at a financial disadvantage with universities that have continued to be eligible to apply the maximum uplift.

The TEF will assess the quality of, and the standards applied to, higher education providers across the sector and an unfavourable rating could have a financial impact on the Issuer.

It is current government policy to implement the TEF, as a way to assess the quality of, and the standards applied to, higher education providers across the higher education sector. The TEF rating is currently based on a number of metrics, which include aspects of the National Student Survey ("**NSS**"), a submission by the Issuer, the Issuer's success in retaining students and the results of the Destination of Leavers from Higher Education Survey (which surveys graduate destinations approximately six months following graduation). The TEF is being phased in over a period of years. The first TEF assessment was carried out in the academic year 2015/16 and institutions have either been awarded a rating of "meets expectations" or "does not meet expectations". The Issuer has been awarded a rating of "meets expectations", which will allow it to charge the higher tuition fees. In future years, higher education institutions who meet baseline quality standards will likely be awarded ratings of "excellent", "outstanding" and "meets expectations". The Issuer's performance in all of these measures, which may fluctuate depending on the intake of students and/or the economic outlook (in terms of employment), may therefore affect its TEF rating.

If HERB is passed and becomes law, this will establish a link between a university's performance in the TEF with an ability to apply further inflation linked rises to the maximum tuition fee, with effect from September 2019.

Current government policy is that, with effect from the academic year 2019/20, the performance of the Issuer in the TEF will determine whether or not it can take the benefit of an inflationary uplift to the maximum tuition fee. A rating of "excellent" or "outstanding" in the TEF assessment for 2018/19 will mean that, for the academic year 2019/20, an institution will be eligible for 100 per cent. of the inflationary uplift; a rating of "meets expectations" will mean that an institution will be eligible for 50 per cent. of the inflationary uplift. An average or poor performance in the TEF over a number of years could result in a real terms reduction in income from tuition fees, and place the Issuer at a financial disadvantage with those universities that consistently obtain the highest TEF rating and are eligible to apply the maximum uplift.

It is also proposed that, from the academic year 2021/22, individual courses or groups of subjects will have their own TEF rating, and potentially different fees will be charged by the Issuer for different courses, as only courses with an "excellent" or "outstanding" rating will be allowed to apply the full inflationary uplift. An average or poor performance in certain courses could result in a real terms reduction in income from tuition fees, even if the overall rating of the Issuer has previously been judged "excellent" or "outstanding".

The move towards a more competitive market for students will increase the importance of the quality of the student experience, and fluctuations in the Issuer's rating by its existing and/or former students may lead to an increase or decrease in student numbers.

In a competitive environment, institutions can differentiate themselves by the quality of experience they offer their students. The Issuer is continuously seeking to improve its facilities and enhance the overall student experience (see "*There are risks associated with greater competition between higher education providers.*").

The NSS is generally viewed as the most comprehensive survey of a student's experience in university. The NSS gathers opinions from undergraduates in their final year on their experience of their courses and time at their university including the student union (an entity largely independent from the university). The survey asks undergraduates to provide feedback on their experience of what it has been like to study at their institution. In the 2016 NSS, the Issuer received an overall satisfaction rating of 86 per cent., a slight reduction from 88 per cent. in 2015, and this compares to the Russell Group average of 87 per cent. There is a risk that the Issuer's rating could go down as well as up, which could have an adverse effect on student recruitment.

With the introduction of TEF, the importance of a high satisfaction rating in the NSS will have greater significance, as it will be one of the factors that determine the Issuer's overall TEF grade, and this in turn may impact on the ability of the Issuer to charge maximum tuition fees (see "*The TEF will assess the quality of, and the standards applied to, higher education providers across the sector and an unfavourable rating could have a financial impact on the Issuer.*")**.**

There is no guarantee that postgraduate taught student numbers can be maintained.

Between the 2012/13 academic year and the 2016/17 academic year, based on full-time equivalent figures, the Issuer saw a 38 per cent. increase in the number of students studying on taught postgraduate courses.

Postgraduate taught full-time equivalent numbers

	2012	**2013**	**2014**	**2015**	**2016**
Postgraduate taught	2,727	3,068	3,544	4,017	3,776

It is not yet clear whether the increase in the level of tuition fees for UK/EU undergraduate students will affect the number of students who go on to apply for a place on a taught postgraduate course. Although postgraduate students now have access to postgraduate student loans through the Student Loan Company Limited, there is no guarantee that postgraduate students will want to incur further debt on top of their undergraduate debt.

Any significant reduction in the numbers of taught postgraduate students may impact on the Issuer's teaching income.

There are risks that the current levels of non UK/EU ("International Students") cannot be maintained.

Although the Issuer is not subject to a fee cap in relation to International Students and is therefore able to set higher fees than those that apply for UK/EU students, the maintenance of its fee levels cannot be guaranteed. The capacity of the Issuer to set fee levels for International Students is, to an extent, determined by market forces. The Issuer is competing in a global market and its ability to command particular fee levels will depend on, amongst other things, global economic conditions, its competitors and the international reputation of the Issuer more generally.

If the Issuer is unable to maintain the current fee levels charged to International Students, this could reduce the Issuer's International Student fee income and could impact on the overall revenue of the Issuer from overseas. While the trend has been that an increasing number of students are from overseas, the flow of International Students enrolling on courses at the Issuer cannot be guaranteed.

There is a risk that changes to the overall amount of UK Government research funding research could impact adversely upon the Issuer's research funding.

HEFCE provides grants for institutions to support their research infrastructure and enable their research activities. The majority of this HEFCE-provided grant is known as "quality related" or "QR" funding. The QR funding grant allows a particular institution the freedom to decide how to use its funds. The level of QR funding received by the Issuer is linked to its performance in the Research Excellence Framework ("**REF**") (a system of assessing the quality of research in UK higher education institutions, completed in 2014) relative to the rest of the sector. In the 2015/16 academic year, 8.2 per cent. of the Issuer's total income was provided by QR funding.

The UK Government allocates an amount for research funding on an annual basis, which is then allocated by HEFCE to individual higher education institutions on the basis of research quality as demonstrated by the REF. If there is a reduction in the overall allocation for research funding by the UK Government, the amount of research funding received by the Issuer could fall.

There is a risk that the current levels of research funding received by the Issuer, as a proportion of the total amount of research funding made available to the higher education sector as a whole, may not be maintained.

The continued success of the Issuer in relation to its research activities cannot be guaranteed. A change in the assessment of the quality of the Issuer's research activities, relative to the rest of the sector, in any future REF (or successor assessment) could impact adversely on the level of QR funding received by the Issuer. The plans for implementation of the next REF are currently subject to a consultation. It is currently anticipated that submissions for the next REF will be due in late 2020, with outcomes determined in late 2021 or early 2022. Future levels of QR funding will be dependent on the success of the Issuer in the next REF submission (or successor assessment).

The results of the REF also have a much wider reputational impact. The continued success of the Issuer in relation to its research activities is an important factor in the ability of the Issuer to maintain its ranking amongst other global academic institutions and to attract further research funding.

There is an increasing expectation from the UK Government that universities deliver research benefits to society in a range of forms including in relation to the economy, society, culture, public policy and services, health, the environment and quality of life. This has been expressed in a variety of commissioned reviews (for example "A Review of Business-University Collaboration" by Professor Sir Tim Wilson DL, February 2012, and "Encouraging a British Invention Revolution: Sir Andrew Witty's Review of Universities and Growth", October 2013), the UK Science and Innovation strategy and through Higher Education and research funder policy (e.g. the inclusion of impact as a substantial criterion for the REF and the requirement for planning impact generation and reporting outcomes in Research Councils UK and National Institute of Health Research). Failure by academic staff to engage with external stakeholders and demonstrate impact from their research and knowledge exchange activity will reduce access to research and knowledge exchange funding and damage the Issuer's institutional reputation. Additionally, failure to implement systems, processes and support structures to incentivise, support, monitor and capture this impact may lead to a competitive disadvantage compared to other universities. It will also reduce the opportunity for the Issuer to benefit from promoting its contribution to wider society.

The UK Government has funded the opening of a number of dedicated research institutes in the last few years, such as the Crick Institute. If the UK Government decides to centralise research funding into such institutes or otherwise concentrates research funding, there may be a reduction in the level of research funding the Issuer receives from UK Government sources.

The Issuer receives research grant income from publicly-funded Research Councils which cannot be guaranteed to continue in the future.

In addition to the HEFCE QR grant, the Issuer receives public funding from competitively-won grants for specific research projects and programmes supported by UK Research Councils.

Further changes to the funding available to these sources, and hence the funds available to them to support research activities, cannot be ruled out. The continued success of the Issuer in relation to competitively won research grants cannot be guaranteed.

Significant changes are being made to the way in which the government delegates administration of funding for research that could impact adversely upon the Issuer's research funding.

HERB proposes to transfer the power to allocate QR funding to a new body, UK Research and Innovation ("**UKRI**"). HERB will also amalgamate the UK Research Councils as committees of UKRI. UKRI will therefore have responsibility for overseeing both QR funding for research infrastructure and competitively-won grants for specific research projects and programmes.

There is a risk that UKRI will adopt different criteria in allocating grant funding to institutions, and as a result its overall research funding is reduced.

The Issuer receives research grant income from government departments, charitable foundations, overseas sources and through collaborations with the private sector none of which can be guaranteed to continue in the future.

The Issuer receives a significant proportion of its research grant income from UK and foreign charitable foundations, overseas sources, government departments and through collaborations with the private sector. The Issuer's research income from sources other than UK Research Councils in 2015/16 was £61.8 million. Of this £12.9 million came from UK based charities and £7.2 million from other overseas sources. Changes to the funding available to these sources, and hence the funds available to them to support research activities, cannot be ruled out.

Other sources of income are important for the Issuer, the continued availability of which cannot be guaranteed.

The Issuer derives significant rental income from its student residences and additional income from catering and conference facilities. In 2015/16 these activities generated £40.2 million of income for the Issuer, of which £35.9 million represents the Issuer's residential rental income from its student residences which housed 26 per cent. of its student population (based on student headcount). There is strong demand for university accommodation but, if student numbers decline as a result of the risk factors mentioned above, this may have an adverse impact on these levels of rental income.

The Issuer also generated substantial income from other services and miscellaneous activities. In total, this amounted to £74.6 million in 2015/16. Most of this income is competitively won and there is therefore no guarantee that this level of income can be generated in the future.

The value of the Issuer's endowments can fall as well as rise.

The total endowment assets of the Issuer were valued at £12.5 million as at 31 July 2016. The value of the Issuer's investments, and the income received from them, could fall as well as rise and therefore the income, return and availability of funding to the Issuer from the endowment assets could vary considerably.

The Issuer's endowment assets are restricted for specific purposes.

Most of the endowment assets reported within the balance sheet of the Issuer are restricted for specific purposes, and must be applied solely for the purpose for which they were given to the Issuer. The value of the Issuer's endowment assets is therefore not available to holders of the Bonds or other creditors of the Issuer.

There are financial risks associated with the pensions schemes in which the Issuer participates which could have an adverse impact on the Issuer.

The principal pension schemes in which the Issuer participates are:

- the Universities Superannuation Scheme ("**USS**"), which is the Issuer's principal scheme for academic and academic-related staff; and
- the University of Southampton Pension and Assurance Scheme ("**PASNAS**").

The Issuer also participates in the National Health Service Pension Scheme ("**NHSPS**"), the Teachers' Pension Scheme ("**TPS**"), the Medical Research Council Pension Scheme ("**MRCPS**"), the Hampshire Pension Fund administered by Hampshire County Council ("**HCC**"), the National Employment Savings Trust ("**NEST**") and schemes relating to subsidiary companies.

The assets of all the schemes are held separately from those of the Issuer in separate trustee administered funds. The USS, PASNAS and HCC schemes have a full valuation every three years carried out by professionally qualified independent actuaries.

The USS, the NHSPS and the MRCPS are large multi-employer schemes. As a result of the mutual nature of the schemes, their assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The Issuer is therefore exposed to the 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 reliable basis. As such, as required by FRS 102, the Issuer accounts for the USS, the NHSPS and the MRCPS schemes as if they were defined contribution schemes.

The last triennial actuarial valuation of the USS was carried out as at 31 March 2014. At the valuation date of 31 March 2014, the value of the assets of the scheme was £41.6 billion and the value of the scheme's technical provisions was £46.9 billion, indicating a shortfall of £5.3 billion. The scheme's assets were sufficient to cover 89 per cent. of the benefits which had accrued to members after allowing for expected future increases in earning.

As part of the valuation, the trustee has determined a recovery plan to pay off the shortfall by 31 March 2031. The Issuer has a contractual commitment to this deficit recovery plan, and under FRS 102 the Issuer's share of the past service deficit is recorded as a provision within the Issuer's balance sheet. This was an amount of £62.6 million as at 31 July 2016.

The employers' contributions have increased to 18 per cent. per annum of earnings with effect from 1 April 2016 (from its previous level of 16 per cent. per annum).

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 be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the USS.

For the year ended 31 July 2016, the total pension cost to the Issuer was £27.2 million in relation to USS.

With effect from 31 March 2016 there have been a number of changes to the benefits provided by the scheme, which include the following:

- for both current Final Salary ("**FS**") and Career Revalued Basis ("**CRB**") members, accrued benefits at the implementation date will be revalued in line with increases in official pensions (currently the Consumer Price Index) each April up to the point of retirement or leaving the scheme;
- all members will accrue a pension of $^{1}/_{75}$th and a cash lump sum of $^{3}/_{75}$ths of salary for each year of service after the implementation date in respect of salary up to and including a salary threshold of £55,000 a year and the salary threshold will be automatically revalued in line with increases in official pensions subject to a review to be undertaken by 31 March 2020;
- all members will have access to a new defined contribution section, made up of individual defined contribution accounts for salary in excess of the salary threshold;
- all member contributions, for both FS and CRB members, will increase to 8 per cent. of salary;
- employer contributions have increased to 18 per cent. of salary for all members until 31 March 2020; and
- optional additional contributions into the members defined contribution account will be available with the first 1 per cent. of additional contributions being matched by the employer.

The PASNAS is the Issuer's own defined benefit scheme. A full actuarial valuation was carried out at 31 July 2015 by a qualified actuary, independent of PASNAS' sponsoring employer.

At the last full actuarial valuation of the PASNAS, the value of the assets of the PASNAS was £170 million and the value of past service liabilities was £210 million leaving a deficit of £40 million. The assets therefore were sufficient to cover 81 per cent. of the technical provisions. According to the Issuer's 2015/16 financial statements, as at 31 July 2016, the PASNAS was in deficit by £92.2 million on a FRS 102 basis.

The contribution rate payable by the Issuer during the year ended 31 July 2016 was 17.25 per cent. per annum. The total pension cost for the Issuer in respect of the scheme for the year ended 31 July 2016 was £6.4 million.

The Issuer also participates in the NHSPS. The notional assets of NHSPS are assessed by the Government Actuary and the benefits are underwritten by the UK Government. There are no underlying assets. It is not possible to identify each institution's share of the underlying assets and liabilities of the NHSPS and hence contributions to the NHSPS are accounted for as if it were a defined contribution scheme. The cost recognised within the surplus for the year in the income and expenditure account is therefore equal to the contributions payable to the NHSPS for the year.

The latest published actuarial valuation of the NHSPS was at 31 March 2012. The contribution rate payable by the Issuer during the year ended 31 July 2016 was equal to 14.3 per cent. of the total pensionable salaries, in accordance with the conclusion of the Government Actuary's report on the NHSPS.

The total pension cost for the Issuer in respect of the NHSPS for the year ended 31 July 2016 was £1.1 million.

The Issuer also participates in HCC, a final salary defined benefit scheme and a separate fund within the local government pension scheme. HCC has been able to apportion a percentage of its fund's assets and liabilities to each member, and therefore the Issuer has included its share of the scheme deficit, £2.7 million, in its financial statements at 31 July 2016.

The contribution rate payable by the Issuer during the year ended 31 July 2016 was 15.6 per cent. per annum. The total pension cost for the Issuer in respect of HCC for the year ended 31 July 2016 was £70,000.

The Issuer also participates in MRCPS. The Issuer's share of the underlying assets and liabilities cannot be identified and therefore contributions to this scheme are accounted for as if it was a defined contribution scheme. The contribution rate payable by the Issuer during the year ended 31 July 2016 was 14.9 per cent. per annum. The total pension cost for the Issuer in respect of MRCPS for the year ended 31 July 2016 was £129,000, which is recognised within the surplus for the year in the income and expenditure account.

The Issuer also participates in TPS. The Issuer's share of the underlying assets and liabilities cannot be identified and therefore contributions to this scheme are accounted for as if it was a defined contribution scheme. The contribution rate payable by the Issuer during the year ended 31 July 2016 was 14.1 per cent. per annum. The total pension cost for the Issuer in respect of TPS for the year ended 31 July 2016 was £76,000, which is recognised within the surplus for the year in the income and expenditure account.

NEST is the UK Government scheme which the Issuer offers to non-contractual workers. The Issuer contributes 3 per cent. per annum of earnings to this defined contribution scheme. Total payments in the year ended 31 July 2016 were less than £80,000.

Given the current status of the pensions schemes described above, it is possible that the Issuer may be required to make further payments in respect of those schemes which could have an adverse impact on the Issuer's finances.

The delivery of the Issuer's estate development programme includes risks associated with any major estates project and may impact the student and staff experience.

The Issuer's estate development programme is a major transformation of the Issuer's campuses. The quality of the Issuer's estate is of fundamental importance to the experience of both student and staff and the Issuer plans an extensive programme of campus development and enhancement focused on a number of its primary locations. There is also a requirement to continuously maintain and upgrade equipment/facilities and infrastructure to help maintain the Issuer's competitive position.

The Issuer plans to invest £474 million in new developments and major refurbishments by 2022 including £51 million on IT reinvestment. The programme includes a range of activities from an upgrade of its infrastructure through to specific new buildings to support student and staff experience at the Issuer alongside a small growth in student numbers.

As with any major capital project, there are risks that the works may not be completed on time and within budget, with consequent disruption to the student and staff experience if works continue over an extended period or if buildings are not available for use as planned. The Issuer's estate is in, or near, residential areas. As a result, planning approvals can be more difficult to achieve and require longer than normal time periods. This can be exacerbated if there are issues around potential listing (i.e. that a building is placed on the Statutory List of Buildings of Special Architectural or Historic Interest and therefore subject to more restrictive building restrictions) or matters pertaining to third party influence. In addition there may be land acquisitions to complete as well as infrastructure renewals, which may require third party involvement.

There is a risk that the required level of investment associated with the purchase of such equipment, or the development of new facilities, does not produce an acceptable level of return in terms of additional income generated before such equipment or facilities become obsolete. In terms of IT infrastructure, while the Issuer is continuously looking to improve its IT infrastructure (as not doing so would have an adverse impact on its operations, reputation and security) and is keen to ensure that the improvements are future proof and fit for purpose, there is no guarantee that expenditure on IT infrastructure will produce an acceptable level of return.

A deterioration in employee relations with the Issuer's staff and trade unions could lead to industrial action and impact on the Issuer's reputation, research and teaching functions.

The nature and size of the Issuer coupled with the need to remain efficient (and with the current cap on UK/EU tuition fees) means that constant organisational developments and changes are required to be made affecting various areas (pensions, pay claims, staff flexibility, strategic initiatives etc.). As a result, the Issuer may experience deterioration in employee relations with its staff and trade unions. Any such deterioration could result in industrial action, including strike action, which could impact on the Issuer's reputation (e.g. students being unable to graduate, complaints from students and stakeholders, impact on student experience), research projects, teaching functions and quality and standards. Students and stakeholders may seek compensation or other forms of legal redress. The Issuer regularly engages with the three recognised trade unions (Unison, Unite and the University and College Union) and the Issuer continues, via its human resources department, to engage in regular discussions with them and develop partnerships. However, it is possible that such interactions may result in potential delay (and dispute) in respect of the implementation of efficiency measures and changes.

There are risks associated with possible further reform to the funding and regulation of higher education, which is dependent on future government policy and priorities.

There is no guarantee that the current system or levels of university sector funding will be maintained.

The Student Loans Company Limited may be reformed, and any change to the operation of Student Loans Company Limited, particularly any change to the interest rate or repayment terms of the loans made available to students, may affect the number of students applying to universities in the UK, including the Issuer. A reduction in the number of students enrolling at the Issuer would result in a reduction in income received by the Issuer from tuition fees.

HERB, if passed, will reform the regulatory framework of higher education, and will replace HEFCE and the OFFA with the OfS. OfS will have an explicit duty to promote choice and consider the students', employers' and taxpayers' interest in all its regulatory and funding decisions. OfS is intended to have a range of powers to ensure compliance with its conditions of regulation which could have a negative impact on the Issuer if it fails to comply.

While HEFCE is regarded by the Issuer as a stable and reputable regulatory body, it is being replaced by a new body, OfS, with an expanded range of duties and powers under a new regulatory and legal framework.

If HERB becomes law, it will reform the regulatory framework of higher education, and will establish OfS as the principal regulator for higher education. HERB will also grant new powers to OfS, to enable it to meet the government policy object of promoting choice and consideration of the students', employers' and taxpayers' interest in all its regulatory and funding decisions.

HERB proposes that, in performing its duties, OfS is required to have regard to guidance issued by the Secretary of State. HERB provides that OfS must establish and maintain a register of English higher education providers and will determine the conditions that a provider must meet if it is to remain on that register. Registration as a higher education provider is a requirement for accessing student support via the Student Loans Company Limited and grant funding and for the institution being licensed to sponsor migrants under Tier 4 of the UK's points-based immigration system. If the Issuer fails to meet the conditions of its registration imposed by OfS, this could lead to a monetary penalty being imposed or the Issuer being suspended or removed from the register of English higher education providers.

HERB proposes that OfS will also determine the conditions that a provider must meet in order to charge the higher fee limits (see, "*The Issuer's ability to charge the maximum tuition fees is dependent on compliance with criteria currently set by the Office for Fair Access.*"). OfS may also be given the power, subject to conditions, to vary or revoke authorisations to award degrees, the power to revoke authorisation to use the university title and the power to repeal, revoke or modify a Royal Charter to give effect to this.

The enhanced powers of intervention could impact upon the independence of the Issuer, and, if the power to suspend university status were invoked, this would have a significant impact on the financial sustainability of the Issuer.

There are risks associated with UK Government changes throughout the life of the Bonds.

Higher education and funding policy is set by the UK Government, such as the level of student fees. As a result, the Issuer might experience a reduction in revenue if UK Government policy changes. With each new government, the higher education sector may be reformed further and it is difficult to predict the impact of any such reform on the Issuer (see "*There have been changes, and may be further changes, to the UK's immigration system which could impact negatively on the Issuer's ability to attract International Students and recruit/retain academic staff from overseas.*"). Any such reform will affect the higher education sector in the UK as a whole, not just the Issuer.

There have been changes, and may be further changes, to the UK's immigration system that could impact negatively on the Issuer's ability to attract International Students and recruit/retain academic staff from overseas.

Fee income from International Students is a significant element in the Issuer's total income. In 2015/16, tuition fee income from International Students was £81.6 million as compared with £140.6 million for tuition fee income from UK/EU students. There is no cap on fees for International Students, which allows the Issuer to set higher fees for these students.

There is a risk that current and future UK immigration arrangements will impact negatively on the competitiveness of the UK higher education sector and on the way in which the UK higher education sector is perceived internationally. The immigration rules being applied to the UK higher education sector by the Home Office are impacting on the UK's image as a friendly and welcoming destination for international students. In addition, Tier 4 students who wish to take up employment in the UK following the expiry of their Tier 4 visa are required to leave the country and apply for a Tier 2 (General) work visa which currently requires earnings of £20,800 per annum, or the designated appropriate rate for the role, whichever is higher.

It is possible that future governments may change immigration policy further which may give rise to additional issues that could further impact on the Issuer's ability to attract more International Students and recruit/retain academic staff from overseas. The loss of key academic staff members could impact on the Issuer's global reputation as a higher education provider, and could make the Issuer a less attractive place to study, which in turn could result in a decline in the numbers of students who apply to study at the Issuer.

If key academic researchers leave the Issuer, there is a risk that the overall levels of research income of the Issuer may fall.

The United Kingdom's Exit From, And New Partnership With, The European Union White Paper published on 2 February 2017 (the "**Brexit White Paper**") confirmed the UK Government's commitment to welcoming genuine students and those with the skills and expertise to contribute to the UK as a nation. However, if that commitment is not reflected in future immigration policy, this could impact on the Issuer's ability to maintain current levels of income from International Students.

There is a risk that if the Issuer loses its Tier 4 immigration sponsor licence, it would no longer be able to recruit International Students.

The Issuer's ability to continue to recruit International Students is dependent on its ability to retain its Tier 4 immigration sponsor licence. The Issuer has recently been re-awarded its Tier 4 immigration sponsor licence, which is awarded for a period of four years. Any changes to, or loss of, the licence could have implications for the Issuer's capacity to recruit International Students and therefore could reduce the Issuer's International Student fee income.

Information Technology Risks.

The Issuer is dependent upon the continued effective operation of its information technology systems and related infrastructure. If the same were to fail or be hacked it could have a significant negative impact on the effective operation of the Issuer, and carry reputational risk. In the event of operational problems occurring the Issuer has a detailed disaster recovery plan which is subject to regular internal audit. The Issuer also follows industry practice for cyber related incidents.

The introduction of the General Data Protection Regulation has the potential for the Issuer to be fined.

In May 2018 the General Data Protection Regulation will come into effect, with potential regulatory fines for breach of data protection law at up to 4 per cent. of global turnover or €20 million, whichever is greater. The Information Commissioner will also have power to ban or restrict an organisation in breach from processing data. It will place a range of stronger obligations on data controllers, including reporting certain data breaches promptly. Fines, data breaches, bans or restrictions, with attendant reputational risks, could materially affect the Issuer's business and prospects.

The impact of the UK leaving the EU may have a negative effect on the UK economy.

Following the result of the referendum on the UK's continued membership of the EU and the passing of the European Union (Notification of Withdrawal) Act 2017, the formal process of the UK leaving the EU was triggered on 29 March 2017. There is a risk that withdrawal from the EU may have a negative impact on the UK economy. If there is deterioration in public finances as a result of an economic downturn, this could lead to further public spending cuts and austerity measures, with the potential for less money being made available to the higher education sector from the UK Government, and a consequent reduction in the income of the Issuer.

A significant proportion of the Issuer's research funding comes from EU research funding programmes, and there is no guarantee that such funding will still be available once the UK has withdrawn from the EU.

In 2015/16, the Issuer's research income from the EU Commission was £14.4 million and income from services rendered from the EU was £0.5 million. There is a risk that it will become more difficult for the Issuer to obtain research grants from Horizon 2020 (the largest EU Research and Innovation programme), participate in other EU-funded projects or collaborate with other EU institutions in the run-up to the UK's withdrawal from the EU and for the Issuer to enter into research collaboration projects with EU partners, as there is continued uncertainty as to whether the UK will be able to continue to participate in these EU funded programmes when it is no longer a Member State. This could result in a reduction in EU research funding received by the Issuer prior to the UK's withdrawal from the EU.

While the UK has indicated in the Brexit White Paper that it will work with the European Commission to ensure payment of research funds that have been awarded by the European Commission to UK applicants even when the projects continue beyond the UK's departure from the EU, and that it will underwrite any research awards that are not paid, there is no guarantee that this will be the case. Even if the Issuer continues to bid for competitive EU funding on the back of these government assurances, there is no guarantee that such bids will be successful or that EU research partners will continue to collaborate with UK universities on competitive bids.

In the Autumn Statement, the UK Government confirmed its long term commitment to research and innovation, including through an additional £2 billion government investment by 2020/21 and the *Building Our Industrial Strategy Green Paper* published on 23 January 2017 set out proposals to support universities and industry in the commericalisation of research. However, as this funding for research is not ring-fenced, there is no guarantee that these levels of funding will be available, or that they will fully replace the current levels of EU research funding. There is therefore a risk that the amount of research income of the Issuer may decline in the future.

There is a risk that the numbers of EU students choosing to study in the UK will fall, both in the run-up to the withdrawal of the UK from the EU, and once that withdrawal has been completed.

On a full-time equivalent basis, in 2016/17 the Issuer had 1,426 undergraduate students, and 685 postgraduate students from the EU (excluding the UK). The departure of the UK from the EU will potentially reduce the number of EU students attending courses offered by the Issuer, as those students may be required to pay overseas students tuition fees which are higher than the capped fees set for UK/EU students. (Standard fees for

International undergraduate students in 2017/18 have been set by the Issuer at £16,054 for classroom based subjects and £19,725 for laboratory based subjects.) There is also some uncertainty as to whether EU students will be able to apply for student loans from the Student Loans Company Limited, once the UK has withdrawn from the EU, and this may make the UK a less attractive place to study. The UK Government has confirmed that existing EU students and those starting courses in 2016/17 and 2017/18 will be eligible for student loans and home fee status for the duration of their course. However, there is no guarantee of the position in future years.

In the current application cycle, applications to the Issuer from EU students are down 13.6 per cent., although this is set against a 7.5 per cent. increase in EU applicants at the same point in the cycle in the previous year. EU applicants account for 7.3 per cent. of the total applications to the Issuer as at the Equal Consideration deadline.

There is uncertainty about the status of EU citizens currently working within the UK, and whether they will be allowed to remain in the UK once the UK has withdrawn from the EU, and this uncertainty may cause some EU staff to relocate to other countries within the EU. This will potentially restrict the ability of UK universities to attract and retain the best staff, which in turn may impact on the ability to attract the same level and quality of students.

A departure from the EU might also affect staffing. As at 6 February 2017, the Issuer employed 902 staff from the EU other than the UK, from a total staff population on that day of 6,757. Of the Issuer's total academic staff, 20.5 per cent. are from the EU. The Brexit White Paper confirmed that it would be a priority of the UK Government in negotiations to leave the EU to secure the status of, and provide certainty to, EU nationals residing in the UK. However, there is no guarantee of the eventual agreement that will be made with the EU on this question.

For as long as the UK is still a member of the EU, the rights of EU nationals to work and reside in the UK will remain unchanged. However, the continued uncertainty as to the position of EU nationals residing in the UK after the UK's departure from the EU may result in EU staff leaving the Issuer in advance of formal departure from the EU and may make it more difficult for the Issuer to attract EU staff.

The loss of key academic staff members could impact on the Issuer's global reputation as a higher education provider, and could make the Issuer a less attractive place to study, which in turn could result in a decline in the numbers of students who apply to study at the Issuer.

If key academic researchers leave the Issuer, there is a risk that the overall levels of research income of the Issuer may fall.

HERB will implement a government policy that seeks to introduce a greater element of competition and to allow market forces to determine which universities succeed and which fail. HERB will provide OfS with powers to revoke a university's powers to award degrees.

It is current government policy that the framework of higher education should be adjusted to make it easier for new entrants, including private providers, to become universities and create greater competition across the sector. However, creating greater competition potentially increases the risk that an individual university may be allowed to fail.

While the Issuer is financially robust and does not regard this greater competition as a risk to its own operations, there is a risk that, if higher education providers are allowed to fail, or if new entrants fail to meet the current quality standards of the UK higher education sector, this may have a reputational impact on UK universities as a whole. The reputational risk may have a negative impact on the Issuer's ability to attract students, and to maintain current levels of tuition fee income.

There are risks associated with greater competition between higher education providers.

There has always been a high level of competition between higher education providers to attract the best students. However, the level of competition has increased since the phasing out of restrictions on the overall number of students that institutions are permitted to recruit and increases in tuition fees. This requires all universities to operate efficiently whilst investing to maintain their competitive positions.

The removal of restrictions on student numbers has increased competition for students amongst universities. While the Issuer, based on its current pattern of applications and acceptances, should be in a position to recruit additional students should it choose to do so, there is also a risk that it may lose some high quality students who would otherwise have accepted a place at the Issuer to other universities, and indeed the reverse is true. If these places are not filled by students with lower grades, the overall number of students accepting places at the Issuer may decrease, with a consequent decrease in teaching revenue.

In an increasingly competitive environment, the Issuer's ability to recruit and retain the best academics cannot be guaranteed.

The Issuer's ability to attract the highest calibre of researchers and teachers cannot be guaranteed. On the global stage, the Issuer competes for the best academics with foreign institutions a number of whom have greater endowment and other investment assets. The reputational impact of the REF going forward, the changes to the UK immigration system, the UK leaving the EU, possible changes to the academic pension scheme and potential future changes to the public funding of higher education could all have an impact on the ability of the Issuer to compete for and retain the best academics. In addition, the uncertainty over whether postgraduate student numbers can be maintained could have an adverse effect on the number and quality of the academics of the future.

Claims against the Issuer could have a material impact on the revenue or business of the Issuer.

To date, claims 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, with associated reputational damage. There is a risk that as fees for individual students continue to rise, students are more likely to bring claims against the Issuer, particularly following the review of higher education conducted by the Competition and Markets Authority.

The Issuer has the benefit of insurance for, among others, employer's liability, public liability and professional indemnity at a level which the Issuer considers to be prudent for the type of activities in which the Issuer is engaged, although there is no guarantee that this is sufficient.

Reputational risk.

The Issuer is a leading academic institution and has a reputation as a leading teaching and research institution. This reputation has been built up over a long time since the opening of the Hartley Institution in 1862. The Issuer's reputation is an important factor in attracting the best academics and the best students. If, for example, the integrity of research, behaviour of a large number of staff or students, admissions, failure to manage risk, or standards and quality of teaching and university facilities were to be called into question, this would have the potential to damage the reputation of the Issuer.

Failure to manage reputational risk effectively could materially affect the Issuer's business and prospects.

If the Issuer were to receive a low rating in the TEF, this may have a negative reputational effect, and could result in fewer students applying to the Issuer.

If the Issuer were to receive a poor TEF rating, this may have an impact on the Issuer's reputation as a provider of higher education, and may result in a decline in the numbers of students choosing to apply to study at the Issuer in subsequent years. A reduction in the numbers of students enrolling at the Issuer would have a negative impact on the income received by the Issuer from tuition fees.

Risk relating to the Bonds

There is no active trading market for the Bonds.

The Bonds are new securities which may not be widely distributed and for which there is currently no active trading market. If the Bonds are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although applications have been made for the Bonds to be admitted to listing on the Official List of the FCA and to trading on the Regulated Market of the London Stock Exchange, there is no assurance that such applications will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Bonds.

The Bonds may be redeemed prior to maturity.

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Bonds due to any withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Bonds in accordance with their terms and conditions (the "**Conditions**").

In addition the Conditions provide that the Bonds are redeemable at the Issuer's option and accordingly the Issuer may choose to redeem the Bonds at times when prevailing interest rates may be relatively low. 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.

Because the Temporary Global Bond and the Permanent Global Bond are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer.

The Bonds will initially be represented by the Temporary Global Bond and thereafter by a Permanent Global Bond except in certain limited circumstances described in the Permanent Global Bond. The Temporary Global Bond and the Permanent Global Bond will be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Bond, investors will not be entitled to receive Definitive Bonds (as defined below). Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Temporary Global Bond and the Permanent Global Bond. While the Bonds are represented by the Temporary Global Bond or the Permanent Global Bond, investors will be able to trade beneficial interests in the Bonds only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Bonds by making payments to or to the order of the common safekeeper for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in the Permanent Global Bond must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Permanent Global Bond.

Holders of beneficial interests in the Temporary Global Bond or the Permanent Global Bond will not have a direct right to vote in respect of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

Minimum Denomination.

As the Bonds have denominations consisting of the minimum denomination of £100,000 and higher integral multiples of £1,000 (up to and including £199,000), it is possible that the Bonds may be traded in amounts in excess of £100,000 that are not integral multiples of £100,000. In such case a Bondholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination of £100,000 may not receive a Definitive Bond 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 that minimum denomination.

Credit Rating.

The Bonds are expected to be assigned a rating of "Aa2" (negative outlook) by Moody's. Moody's is established in the EEA and registered under the CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Bonds.

Exchange rate risks and exchange controls.

Payments of principal and interest on the Bonds will be made 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.

Interest rate risks.

The Bonds bear interest at a fixed rate. An investment in the Bonds during that time involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

Modifications, waivers and substitution.

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters relating to the Bonds, including the modification of any provision of the Conditions or the Trust Deed and to obtain written resolutions of Bondholders without calling a meeting.

Any modification of the Conditions or the Trust Deed may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) upon the request in writing of Bondholders holding not less than one-quarter of the aggregate principal amount of the outstanding Bonds. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing at least one-third of the aggregate principal amount of the outstanding Bonds or, at any adjourned meeting, one or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented; **provided, however, that** certain proposals (including any proposal to delay or extend any date fixed for payment of principal or interest in respect of the Bonds, to reduce the amount of principal or interest payable on any date in respect of the Bonds, to alter the method of calculating the amount of any payment in respect of the Bonds or the date for any such payment, or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Bondholders at which one or more persons holding or representing not less than one-half or, at any adjourned meeting, not less than one-quarter of the aggregate principal amount of the outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders and Couponholders, whether present or not.

A written resolution signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds who for the time being are entitled to receive notice of a meeting in accordance with the provisions of the Trust Deed and whose Bonds are outstanding shall, for all purposes, take effect as an Extraordinary Resolution.

In certain circumstances, where the Bonds are held in global form in Euroclear and Clearstream, Luxembourg, the Issuer and the Trustee (as the case may be) will be entitled to rely upon:

(i) where the terms of the proposed resolution have been notified through the relevant clearing system(s) as provided in the Trust Deed, approval of a resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing systems in accordance with their operating rules and procedures 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; and

(ii) where electronic consent is not being sought, consent or instructions given in writing directly to the Issuer and/or the Trustee (as the case may be) by (a) accountholders in the clearing systems with entitlements to the Permanent Global Bond and/or, (b) where the accountholders hold such entitlement on behalf of another person, on written consent from or written instruction by the person identified by that accountholder as the person for whom such entitlement is held. For the purpose of establishing the entitlement to give any such consent or instruction, the Issuer and the Trustee shall be entitled to rely on any certificate or other document issued by, in the case of (a) above, Euroclear, Clearstream, Luxembourg or any other relevant alternative clearing system (the "**relevant clearing system**") and, in the case of (b) above, the relevant clearing system and the accountholder identified by the relevant clearing system for the purposes of (b) above.

A written resolution or an electronic consent as described above may be effected in connection with any matter affecting the interests of Bondholders, including the modification of the Conditions, that would otherwise be required to be passed at a meeting of Bondholders satisfying the special quorum in accordance with the provisions of the Trust Deed, and shall for all purposes take effect as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. 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 Conditions also provide that the Trustee may, without the consent of Bondholders, agree to any modification of the Conditions, the Trust Deed or the Paying Agency Agreement (other than in respect of a Reserved Matter), if in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of the Bondholders and to any other modification of the Conditions, the Trust Deed or the Paying Agency Agreement which is in its opinion of a formal, minor or technical nature or to correct a manifest error. The Trustee may also agree, without the consent of Bondholders, to (i) the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Bonds or the Trust Deed or (ii) determine without the consent of the Bondholders that any Event of Default or Potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Bonds in place of the Issuer, in each case in the circumstances described in Condition 12 and the Trust Deed.

TERMS AND CONDITIONS OF THE BONDS

The following is the text of the Conditions of the Bonds which (subject to amendment) will be endorsed on each Bond in definitive form (if issued):

The £300,000,000 2.250 per cent. Bonds due 2057 (the "**Bonds**", which expression includes any further Bonds issued pursuant to Condition 14 (*Further Issues*) and forming a single series therewith) of The University of Southampton (the "**Issuer**") are constituted by a trust deed dated 11 April 2017 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and HSBC Corporate Trustee Company (UK) Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed). The Issuer, HSBC Bank plc as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Bonds), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Bonds) and the Trustee have entered into a paying agency agreement dated 11 April 2017 (as amended or supplemented from time to time, the "**Paying Agency Agreement**") in relation to the Bonds. Certain provisions of these Conditions are summaries of the Trust Deed and the Paying Agency Agreement and subject to their detailed provisions. The holders of the Bonds (the "**Bondholders**") and the holders of the related interest coupons (the "**Couponholders**" and the "**Coupons**", respectively, which expressions shall, unless the context otherwise requires, include the holders of the talons for further Coupons (the "**Talonholders**" and the "**Talons**", respectively)) are bound by and have the benefit of the Trust Deed and are deemed to have notice of all the provisions of the Trust Deed and the Paying Agency Agreement applicable to them. Copies of the Trust Deed and the Paying Agency Agreement are available for inspection by Bondholders during normal business hours at the Specified Offices (as defined in the Trust Deed) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination and Title

The Bonds are serially numbered and in bearer form in denominations of £100,000 and higher integral multiples of £1,000 up to and including £199,000 with Coupons and Talons attached at the time of issue. Bonds of one denomination will not be exchangeable for Bonds of another denomination. Title to the Bonds and the Coupons will pass by delivery. The holder of any Bond or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Bonds, the Coupons or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

2. Status

The Bonds and the Coupons constitute direct, unconditional and (subject to the provisions of Condition 3 (*Negative Pledge*)) unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by applicable laws relating to creditors' rights.

3. Negative Pledge

So long as any of the Bonds remains outstanding (as defined in the Trust Deed), the Issuer shall not create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues to secure any Relevant Indebtedness of the Issuer or any guarantee or indemnity by the Issuer in respect of any Relevant Indebtedness without (a) at the same time or prior thereto securing the Issuer's obligations under the Bonds, the Coupons and the Trust Deed equally and rateably therewith or (b) providing such other security for the Issuer's obligations under the Bonds, the Coupons and the Trust Deed as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Bondholders or as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

In these Conditions:

"**Relevant Indebtedness**" means any indebtedness for money borrowed or raised which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which, for the time being, is, or is intended by the Issuer to be, listed, quoted, dealt in or traded on any stock exchange or regulated securities market; and

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

4. **Interest**

The Bonds bear interest from and including 11 April 2017 (the "**Issue Date**") at the rate of 2.250 per cent. per annum, (the "**Rate of Interest**") payable semi-annually in arrear on 11 April and 11 October in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

The amount of interest payable on each Interest Payment Date shall be £11.25 per £1,000 (the "**Calculation Amount**"). The period from and including the Issue Date to but excluding the initial Interest Payment Date, and each period from and including one Interest Payment Date to but excluding the next Interest Payment Date, shall constitute an "**Interest Period**".

Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Bondholders that it has received all sums due in respect of the Bonds up to such seventh day (except to the extent that there is any subsequent default in payment).

If interest is required to be paid in respect of a Bond on any date other than an Interest Payment Date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by a fraction (a) the numerator of which is the number of days from (and including) the most recent Interest Payment Date (or from the Issue Date if such period is before the first scheduled Interest Payment Date) to (but excluding) the date of payment; and (b) the denominator of which is the number of days (including the first such day and excluding the last such day) in the scheduled Interest Period in which the relevant calculation period falls multiplied by two, rounding the resulting figure to the nearest penny (half a penny being rounded upwards) and multiplying such rounded figure by a fraction equal to the denomination of such Bond divided by the Calculation Amount.

5. **Redemption and Purchase**

(a) ***Scheduled redemption***: Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 11 April 2057, subject as provided in Condition 6 (*Payments*).

(b) ***Redemption for tax reasons***: The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable), at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 11 April 2017; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Bonds were then due.

Prior to the publication of any notice of redemption pursuant to this Condition 5(b), the Issuer shall deliver to the Trustee:

(A) a certificate signed by two Authorised Signatories (as defined in the Trust Deed) of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

(B) an opinion in form and substance satisfactory to the Trustee of independent legal, accounting or other advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

The Trustee shall be entitled to accept and rely on such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (i) and (ii) above without liability to any person for so doing, in which event it shall be conclusive and binding on the Bondholders and the Couponholders.

Upon the expiry of any such notice as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Bonds in accordance with this Condition 5(b).

(c) ***Redemption at the option of the Issuer***: On giving not less than 10 nor more than 20 days' notice to the Bondholders in accordance with Condition 15 (*Notices*), the Issuer may redeem some or all of the Bonds for the time being outstanding at any time at the Redemption Price (as defined below) together with interest accrued to (but excluding) the date of redemption (the "**Redemption Date**").

The "**Redemption Price**" shall be the higher of: (a) the principal amount of the Bonds to be redeemed; and (b) the product of the principal amount of the Bonds to be redeemed and the price, expressed as a percentage (rounded to three decimal places, with 0.005 being rounded down), (as reported in writing to the Issuer and the Trustee by an independent financial adviser (a "**financial adviser**") appointed by the Issuer and notified to the Trustee) at which the Gross Redemption Yield on the Bonds on the Calculation Date is equal to the sum of (A) the Gross Redemption Yield at 11.00 a.m. (London time) on such date of the 4.250 per cent. Treasury Gilt due December 2055 (or, where such financial adviser advises the Issuer and the Trustee that, for reasons of illiquidity or otherwise, such stock is not appropriate for such purpose, such other government stock with an appropriate average life of maturity, as applicable, as such financial adviser may recommend) and (B) 0.15 per cent.

For such purposes:

"**Business Day**" means a day on which banks are generally open for business in London;

"**Calculation Date**" means the date which is the second Business Day prior to the date on which the notice to redeem is dispatched; and

"**Gross Redemption Yield**" means a yield, expressed as a percentage, calculated by the 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 updated, amended or supplemented from time to time) on a semi-annual compounding basis (converted on an annualised yield and rounded up (if necessary) to four decimal places) or, if such formula does not reflect generally accepted market practice at the time of redemption, a yield calculated in accordance with generally accepted market practice at such time, all as advised to the Issuer and the Trustee by such financial adviser.

Any notice given pursuant to this Condition 5(c) (*Redemption at the option of the Issuer*) shall be irrevocable and shall specify the Redemption Date and the Redemption Price. If any such notice has been given, references in these Conditions and the Trust Deed to "**principal**", "**principal moneys**" and "**principal amount**" shall, unless the context otherwise requires, be deemed to include references to the Redemption Price in relation to any redemption pursuant to such notice. Upon the expiry of any such notice, the Issuer shall be bound to redeem the Bonds so called for redemption at the applicable Redemption Price on the Redemption Date together with accrued interest as aforesaid unless previously purchased and cancelled or redeemed. The Trustee may rely absolutely on the advice of any financial adviser appointed as provided in this Condition 5(c) (*Redemption at the option of the Issuer*) and shall not be liable for so doing.

(d) ***Partial redemption***: If the Bonds are to be redeemed in part only on any date in accordance with Condition 5(c) (*Redemption at the option of the Issuer*), the Bonds to be redeemed shall be selected by the drawing of lots in such place as the Issuer approves and in such manner as shall be fair and reasonable in the circumstances, subject to compliance with applicable law and the rules of each listing authority, stock exchange and/or quotation system (if any) by which the Bonds have then been admitted to listing, trading and/or quotation, and the notice to Bondholders referred to in Condition 5(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Bonds so to be redeemed and the aggregate principal amount of the Bonds which will be outstanding after the partial redemption.

(e) ***Purchase***: The Issuer or any party acting on its behalf may at any time purchase Bonds in the open market or otherwise and at any price, **provided that** all unmatured Coupons and unexchanged Talons are purchased therewith.

Bonds purchased by or on behalf of the Issuer may, at the option of the Issuer or the relevant party, be cancelled (together with all unmatured Coupons purchased therewith) or may be held, re-issued or re-sold. Bonds held by or on behalf of the Issuer shall not entitle the holder to vote at any meetings of the Bondholders or otherwise to exercise any voting rights and such Bonds shall be deemed not to be outstanding for the purposes of calculating quorums at meetings of Bondholders or for voting on any Extraordinary Resolution or for the purposes of Condition 8 (*Events of Default*), Condition 12 (*Meetings of Bondholders; Modification and Waiver; Substitution*) and Condition 13 (*Enforcement*).

6. Payments

(a) ***Principal***: Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Bonds at the Specified Office of any Paying Agent outside the United States by transfer to a sterling account maintained by the payee with a bank in London.

(b) ***Interest***: Payments of interest shall, subject to paragraph (f) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) (*Principal*) above.

(c) ***Payments subject to fiscal laws***: All payments in respect of the Bonds are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Bondholders or Couponholders in respect of such payments.

(d) ***Deduction for unmatured Coupons***: If a Bond is presented without all unmatured Coupons relating thereto, then:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) (*Principal*) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons. No payments will be made in respect of void Coupons.

(e) ***Payments on business days***: If the due date for payment of any amount in respect of any Bond or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "**business day**" means, in respect of any place (including the place of presentation), 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 and, in the case of payment by transfer to a sterling account as referred to above, on which dealings in foreign currencies may be carried on both in London and in such place of presentation.

(f) ***Payments other than in respect of matured Coupons***: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bonds at the Specified Office of any Paying Agent outside the United States.

(g) ***Partial payments***: If a Paying Agent makes a partial payment in respect of any Bond or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and the date of such payment.

(h) ***Exchange of Talons***: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a coupon sheet relating to the Bonds (each, a "**Coupon Sheet**"), the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Principal Paying Agent for a further Coupon Sheet (including a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 9 (*Prescription*)). Upon the due date for redemption of any Bond, any unexchanged Talon relating to such Bond shall become void and no Coupon will be delivered in respect of such Talon.

7. Taxation

All payments of principal and interest in respect of the Bonds and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Bondholders and the Couponholders after such withholding or deduction of such amounts as would have been receivable by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond or Coupon presented for payment:

(a) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon by reason of its having some connection with the United Kingdom other than the mere holding of the Bond or Coupon; or

(b) more than 30 days after the Relevant Date except to the extent that the holder of such Bond or Coupon would have been entitled to such additional amounts on presenting such Bond or Coupon for payment on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Bondholders in accordance with Condition 15 (*Notices*).

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed.

If the Issuer becomes subject at any time to any taxing jurisdiction other than the United Kingdom, references in these Conditions to the United Kingdom shall be construed as references to the United Kingdom and/or such other jurisdiction.

For the avoidance of doubt, any amounts to be paid by the Issuer on the Bonds will be paid net of any deduction or withholding imposed or required pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, any intergovernmental agreement, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such sections of the Code (or any law implementing such an intergovernmental agreement) (a "**FATCA Withholding Tax**"), and the Issuer will not be required to pay additional amounts on account of any FATCA Withholding Tax.

8. Events of Default

If any of the following events occurs and is continuing (each, an "**Event of Default**"), then the Trustee at its discretion may and, if so requested in writing by holders of at least one quarter of the aggregate principal amount of the outstanding Bonds or if so directed by an Extraordinary Resolution, shall (subject in each case to it being indemnified and/or secured and/or prefunded to its satisfaction) give written notice to the Issuer declaring the Bonds to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

(a) ***Non-payment***: the Issuer fails to pay any amount of principal in respect of the Bonds on the due date for payment thereof or fails to pay any amount of interest in respect of the Bonds within three days of the due date for payment thereof; or

(b) ***Breach of other obligations***: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Bonds or the Trust Deed and such default (i) is, in the opinion of the Trustee, incapable of remedy or remediation or (ii) being a default which is, in the opinion of the Trustee, capable of remedy or remediation, remains, in the opinion of the Trustee, unremedied or unremediated for 30 days or such longer period as the Trustee may agree after the Trustee has given written notice thereof to the Issuer; or

(c) ***Cross-default of Issuer:***

(i) any Indebtedness (as defined below) of the Issuer is not paid when due or (as the case may be) within any originally applicable grace period; or

(ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (provided no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; or

(iii) the Issuer fails to pay when due any amount payable by it under any guarantee for, or indemnity in respect of, any Indebtedness,

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee or indemnity referred to in sub-paragraph (iii) above individually or in the aggregate exceeds £20,000,000 (or its equivalent in any other currency or currencies); or

(d) ***Unsatisfied judgment***: one or more judgment(s) or order(s) from which no further appeal or judicial review is permissible under applicable law for the payment of an amount in excess of £20,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate, is rendered against the Issuer and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) ***Security enforced***: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or substantially the whole of the undertaking, assets and revenues of the Issuer; or

(f) ***Insolvency, etc.***: (i) the Issuer is (or is deemed to be) insolvent or bankrupt under any applicable insolvency or other similar laws or is unable to pay its debts as they fall due; (ii) the Issuer stops or suspends payment of all or a material part of its debts being an amount not less than £20,000,000 (or its equivalent in any other currency or currencies), or makes a general assignment or composition with or for the benefit of the relevant creditors in respect of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or a material part of the debts of the Issuer being an amount not less than £20,000,000 (or its equivalent in any other currency or currencies), in each case in circumstances of the Issuer's financial distress; and/or (iii) an administrator or liquidator is appointed over the whole or substantially the whole of the undertaking, assets and revenues of the Issuer; or

(g) ***Winding up, etc.***: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer save for a solvent winding-up solely for the purposes of a reconstruction or amalgamation of the Issuer, the terms of which have been previously approved in writing by the Trustee or by an Extraordinary Resolution; or

(h) ***Failure to take action, etc.***: 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 payment obligations under and in respect of the Bonds or the Trust Deed, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Bonds, the Coupons and the Trust Deed admissible in evidence in the courts of the United Kingdom is not taken, fulfilled or done; or

(i) ***Unlawfulness***: it is or will become unlawful for the Issuer to perform or comply with any of its payment obligations under or in respect of the Bonds or the Trust Deed,

provided that, in the case of sub-paragraphs (b) and (h) above, the Trustee shall have certified in writing that the happening of the relevant event or events is in its opinion materially prejudicial to the interests of the Bondholders.

For the purpose of these Conditions, "**Indebtedness**" means indebtedness for money borrowed or raised, other than indebtedness created by the Bonds.

9. Prescription

Claims for principal shall become void unless the relevant Bonds are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. For this purpose, references to Bonds and Coupons shall not include Talons.

10. Replacement of Bonds, Coupons and Talons

If any Bond, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent and the Paying Agent having its Specified Office in London, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Bonds, Coupons or Talons must be surrendered before replacements will be issued.

11. Trustee and Paying Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and/or secured and/or prefunded before taking any steps or actions or initiating any proceedings and relieved from responsibility in certain circumstances and to be paid its costs, fees and expenses in priority to the claims of the Bondholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

The Trust Deed provides that, when determining whether an indemnity or any security or pre-funding is satisfactory to it, the Trustee shall be entitled (i) to evaluate its risk in any given circumstance by considering the worst-case scenario and (ii) to require that any indemnity or security given to it by the Bondholders or any of them be given on a joint and several basis and be supported by evidence satisfactory to it as to the financial standing and creditworthiness of each counterparty and/or as to the value of the security and an opinion as to the capacity, power and authority of each counterparty and/or the validity and effectiveness of the security.

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 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed. The Trustee may rely absolutely on the advice of any financial or other professional adviser appointed by it or the Issuer in connection with the exercise of the Trustee's powers, functions and/or discretions under the Trust Deed or the Bonds and shall not be liable to any person for so doing.

In acting under the Paying Agency Agreement and in connection with the Bonds and the Coupons, the Paying Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Bondholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee, not to be unreasonably withheld) at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor principal paying agent and additional or successor paying agents; **provided, however, that** the Issuer shall at all times maintain (a) a principal paying agent and (b) a paying agent in London.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Bondholders in accordance with Condition 15 (*Notices*).

12. Meetings of Bondholders; Modification and Waiver; Substitution

(a) ***Meetings of Bondholders***: The Trust Deed contains provisions for convening meetings of Bondholders to consider matters relating to the Bonds, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) upon the request in writing of Bondholders holding not less than one-quarter of the aggregate principal amount of the outstanding Bonds. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing at least one-third of the aggregate principal amount of the outstanding Bonds or, at any adjourned meeting, one or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented; **provided, however, that** certain proposals as set out more fully in the Trust Deed (including any proposal to delay or extend any date fixed for payment of principal or interest in respect of the Bonds, to reduce the amount of principal or interest payable on any date in respect of the Bonds, to alter the method of calculating the amount of any payment in respect of the Bonds or the date for any such payment, or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Bondholders at which one or more persons holding or representing not less than one-half or, at any adjourned meeting, not less than one-quarter of the aggregate principal amount of the outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders and Couponholders, whether present or not.

In addition, 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 then outstanding will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(b) ***Modification and waiver***: The Trustee may, without the consent of the Bondholders or Couponholders, agree to any modification of these Conditions or the Trust Deed or the Paying Agency Agreement (other than in respect of a Reserved Matter) if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Bondholders and to any modification of the Bonds, the Trust Deed or the Paying Agency Agreement which is in the opinion of the Trustee of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Bondholders or Couponholders, authorise or waive any proposed breach or breach of the Bonds or the Trust Deed 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 if, in the opinion of the Trustee, the interests of the Bondholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Bondholders by the Issuer as soon as practicable thereafter in accordance with Condition 15 (*Notices*).

(c) ***Substitution***: The Trust Deed contains provisions under which the Trustee may agree, without the consent of the Bondholders or Couponholders, to the substitution of a successor in business of the Issuer or any other person, in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Bonds **provided that** certain conditions specified in the Trust Deed are fulfilled.

No Bondholder or Couponholder shall, in connection with any substitution, be entitled to claim any indemnification or payment in respect of any tax consequence thereof for such Bondholder or (as the case may be) Couponholder except to the extent provided for in Condition 7 (*Taxation*) (or any undertaking given in addition to or substitution for it pursuant to the provisions of the Trust Deed).

13. Enforcement

The Trustee may at any time, at its discretion and without notice, institute such steps, actions or proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Bonds, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the holders of at least one-quarter of the aggregate principal amount of the outstanding Bonds or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or secured and/or prefunded to its satisfaction.

No Bondholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14. **Further Issues**

The Issuer may from time to time, without the consent of the Bondholders or Couponholders and in accordance with the Trust Deed, create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Bonds. Any further bonds which are to form a single series with the Bonds shall be constituted by a deed supplemental to the Trust Deed.

15. **Notices**

Notices to the Bondholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or via a recognised information service under the Financial Services and Markets Act 2000 or equivalent. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Bondholders.

16. **Governing Law and Jurisdiction**

(a) The Bonds, the Coupons and the Trust Deed and any non-contractual obligations arising out of or in connection with the Bonds, the Coupons and the Trust Deed are governed by English law.

(b) The English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Bonds, the Coupons or the Trust Deed including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Bonds, the Coupons or the Trust Deed (a "**Dispute**") and each of the Issuer, the Trustee and any Bondholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.

(c) For the purposes of this Condition, the Issuer waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Bonds will initially be in the form of the Temporary Global Bond which will be deposited on the Issue Date with a common safekeeper for Euroclear and Clearstream, Luxembourg.

The Bonds will be issued in new global note ("**NGN**") form. On 13 June 2006 the European Central Bank (the "**ECB**") announced that Bonds in NGN form are in compliance with the "Standards for the use of EU securities settlement systems in ESCB credit operations" of the central banking system for the euro (the "**Eurosystem**"), **provided that** certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Bonds in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

The Bonds are intended to be held in a manner which would allow Eurosystem eligibility and will therefore be deposited with one of the International Central Securities Depositaries as common safekeeper. Accordingly, the Bonds are intended to be held in a manner which would allow the Bonds to 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. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria. Bondholders should note that the European Central Bank has applied a temporary extension of Eurosystem eligibility to Sterling denominated securities, the effective commencement date for this temporary extension being 9 November 2012. However, should this extension cease at any time during the life of the Bonds, the Bonds will not be in a form which can be recognised as eligible collateral.

The Temporary Global Bond will be exchangeable in whole or in part for interests in the Permanent Global Bond not earlier than 40 days after the Issue Date upon certification as to non U.S. beneficial ownership. No payments will be made under the Temporary Global Bond unless exchange for interests in the Permanent Global Bond is improperly withheld or refused. In addition, interest payments in respect of the Bonds cannot be collected without such certification of non U.S. beneficial ownership.

The Permanent Global Bond will be exchanged in whole, but not in part, for Bonds in definitive form ("**Definitive Bonds**") in the denomination of £100,000 each and higher integral multiples of £1,000 up to and including £199,000 against presentation and surrender of the Permanent Global Bond to the Principal Paying Agent if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business (an "**Exchange Event**").

So long as the Bonds are represented by a Temporary Global Bond or a Permanent Global Bond and the relevant clearing system(s) so permit, the Bonds will be tradeable only in the minimum authorised denomination of £100,000 and higher integral multiples of £1,000, notwithstanding that no Definitive Bonds will be issued with a denomination above £199,000.

Whenever the Permanent Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Coupons and (if applicable) Talons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond to or to the order of the Principal Paying Agent within 30 days of the occurrence of the relevant Exchange Event.

In addition, the Temporary Global Bond and the Permanent Global Bond will contain provisions which modify the Terms and Conditions of the Bonds as they apply to the Temporary Global Bond and the Permanent Global Bond. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Temporary Global Bond and the Permanent Global Bond will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Bond or (as the case may be) the Permanent Global Bond to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Bonds. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Bond or (as the case may be) the Permanent Global Bond, the Issuer shall procure that the payment is entered in the records of Euroclear and Clearstream, Luxembourg.

Payments on business days: In the case of all payments made in respect of the Temporary Global Bond and the Permanent Global Bond, "**business day**" means 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 London.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 5(c) (*Redemption at the option of the Issuer*) in relation to some only of the Bonds, the Permanent Global Bond may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Bonds to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 15 (*Notices*), while all the Bonds are represented by the Permanent Global Bond (or by the Permanent Global Bond and/or the Temporary Global Bond) and the Permanent Global Bond is (or the Permanent Global Bond and/or the Temporary Global Bond are) deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Bondholders in accordance with Condition 15 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg.

Meetings: The holder of the Temporary Global Bond or (as the case may be) the Permanent Global Bond shall (unless the Permanent Global Bond represents only one Bond) be treated as having one vote in respect of each £1,000 in principal amount of Bonds.

Purchase and Cancellation: Cancellation of any Bond required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Temporary Global Bond or (as the case may be) the Permanent Global Bond.

Trustee's Powers: In considering the interests of Bondholders, while the Temporary Global Bond or (as the case may be) the Permanent Global Bond is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Temporary Global Bond or (as the case may be) the Permanent Global Bond and may consider such interests as if such accountholders were the holder of the Temporary Global Bond or (as the case may be) the Permanent Global Bond.

USE OF PROCEEDS

The net proceeds of the issue of the Bonds, expected to amount to £298,692,000 after deduction of the total commissions and other expenses incurred in connection with the issue of the Bonds, will be used by the Issuer for general corporate purposes.

DESCRIPTION OF THE ISSUER

Introduction

The Issuer has its historic roots in the Hartley Institution, which was founded in 1850 following a bequest from Henry Robinson Hartley, heir to a family of Southampton wine merchants, to the Corporation of Southampton to promote the study and advancement of science and learning. The Hartley Institution was opened by Lord Palmerston in 1862 and changed its name to Hartley College in 1896, signifying a move to full time teaching. Registration as Hartley University College took place in 1902 and, on 29 April 1952, the Issuer was the first university to be granted a royal charter ("**Charter**") by Her Majesty Queen Elizabeth II and the legal name of the Issuer was changed to The University of Southampton.

The Issuer is a founding member of the Russell Group, which is now made up of 24 leading institutions in the UK and is a founding member of the Worldwide Universities Network.

Globally, the Issuer is ranked in the top 1 per cent. of universities worldwide, according to the Center for World University Rankings 2016. The Issuer was placed 87th in the QS World University rankings in 2016/17, 121st in the Times Higher Education ("**THE**") World University Rankings 2016/17 and 101-150th in the Academic Ranking of World Universities 2016. In 2016/17, the Issuer was ranked 17th in the UK in the QS World University rankings, 16th in the THE Best Universities in the UK and 16th in the Guardian University Guide. The Issuer is one of only 11 universities that appear in both the world top 100 and the UK top 20 universities (QS World University rankings).

In the 2014 REF, the system for assessing the quality of research in UK higher education institutions, the Issuer was ranked 8th in the UK based on research intensity and 11th in the UK for research power. 84 per cent. of the Issuer's research is ranked in the highest rankings of 4* (world-leading) and 3* (internationally excellent) with a further 14 per cent. ranked 2* (internationally recognised) and 1 per cent. ranked 1* (recognised nationally) in the THE Overall Ranking of Institutions. The Issuer is ranked 1st on the basis of the volume and quality of its research in General Engineering and Electrical and Electronic Engineering, Metallurgy and Materials; and in the top five nationally for the quality of its research in Ocean and Earth Science, Health Sciences, History, Modern Languages and in the top five for the volume and quality of its research in Social Policy. The Issuer's Music submission is the highest ranked GPA submission in the country on the basis of the quality of its research and its Health Sciences submission is the highest ranked on the basis of its research impact. 97 per cent. of the Issuer's research environment is regarded as being "world-leading" or "internationally excellent".

93 per cent. of the research submitted to the 2014 REF by the Issuer's Ocean and Earth Science department, based at the National Oceanography Centre, Southampton, was judged world leading or internationally excellent and was ranked 2nd in research intensity. Overall the submission was ranked 4th out of 45 both in terms of grade point average ("**GPA**") and in terms of power (GPA multiplied by the number of staff submitted).

In 2016, the Issuer was named as one of Europe's most innovative universities by Thomson Reuters and was placed 4th in the UK in the Nature Index 2016 Rising Stars supplement.

The Issuer's students pursue courses across a wide range of subjects. The Issuer offers over 350 undergraduate courses, 220 postgraduate taught degrees and has 11 Centres of Doctoral Training and Doctoral Training Partnerships. The Issuer has 32 academic units and four Research Institutes grouped into eight Faculties. "**Faculty**" for this purpose indicates a financial and administrative academic grouping of related facilities and departments for teaching and research disciplines. The Faculties are Business, Law and Art; Engineering and the Environment; Health Sciences; Humanities; Medicine; Natural and Environmental Sciences; Physical Sciences and Engineering; and Social, Human and Mathematical Sciences. The 2017 Guardian University Guide ranks the Issuer in the top 10 in the UK for teaching across a number of metrics: overall 15 subject areas; NSS overall – 7 subject areas; entry quality – 6 subject areas; value added – 10 subject areas; and career prospects – 12 subject areas.

The Issuer has also been awarded Regius Professorships in Ocean Sciences and Computer Science by Her Majesty Queen Elizabeth II.

The Issuer also has 10 enterprise units which offer a range of consultancy and other services covering a wide range of disciplines.

The Issuer's Royal Charter and strategy

As set out in its Charter, the Issuer was established to be a teaching and an examining body and to further the prosecution of research.

In May 2016, the Issuer published its strategy, *Simply better*. This identifies an ambition that the Issuer will strengthen its reputation, increasing its national and international rankings to secure a sustained position in the top 10 in the UK and top 100 internationally. The Issuer also has the following aims:

- that its student satisfaction will be among the highest in the country, reflected in the NSS;
- that its graduate prospects will be among the best;
- that its entry tariff will reflect its reputation as a leading university, with completion rates and good degrees reflecting its commitment to developing fully the potential of its students; and
- that its world-leading research will underpin an excellent REF position.

The Issuer's aim is to achieve all of this while improving its sustainability and generating a surplus that allows the Issuer to invest in itself.

History and constitution of the Issuer

The Issuer is a chartered corporation which came into existence on 29 April 1952 when Queen Elizabeth II granted a Charter constituting and founding a University by the name and style of The University of Southampton. As a university established by Royal Charter, the Issuer is a body corporate with all the powers of a natural person to do all lawful acts, subject only to compliance with its internal regulations.

The Issuer's principal constitutional document is the Charter, which provides that the Issuer shall be a teaching and an examining body and shall further the prosecution of research. The Charter also provides for the Council of the Issuer ("**Council**") to be, subject to the Statutes (as defined below), the governing and executive body of the Issuer and to have the custody and use of the Common Seal, the management and administration of the whole revenue and property of the Issuer and the conduct of all the affairs of the Issuer, and all such other powers and duties as may be conferred upon it by Statute or Ordinance (each as defined below). Further information on the Council and the governance structure of the Issuer is set out in the section titled *"Governance and Regulation of the Issuer"*.

The Senate ("**Senate**") is the body which, subject to the Ordinances of the Issuer ("**Ordinances**") and the control and approval of the Council, regulates and superintends the education and discipline of students of the Issuer.

The Charter provides that the Statutes ("**Statutes**") may prescribe or regulate, as the case may be:

- the constitution, powers and duties of the Council, the appointment and continuance in office of the members of the Council (including the continuance in office of the first members), the filling of vacancies among the members and all other matters relative to the Council which it may be thought are proper to be so prescribed and regulated;
- the constitution, functions, privileges and all other matters relative to the students' union of the Issuer which it may be thought are proper to be so prescribed and regulated; and
- such other matters as the Council may deem fit with respect to or for the governance of the Issuer, its members and constituent parts, or otherwise for the effective attainment, execution or promotion of the objects of the Charter.

The Statutes may direct that any of the matters authorised or directed by the Charter to be prescribed, governed or regulated by Statutes shall be prescribed, governed or regulated by Ordinances.

The Charter provides that the Council, on the recommendation of, or after consultation with, the Senate, may make Ordinances which may add to, amend or repeal the Ordinances from time to time in force. Such Ordinances, or such addition, amendment or repeal, shall only have effect if passed by a majority of not less than two-thirds of those present and voting at the meeting of the Council. The Ordinances of the Issuer shall prescribe or regulate as the case may be:

- the constitution, powers and duties of the Senate and all other matters relative to the Senate which it may be thought are proper to be so prescribed and regulated; and
- the constitution, powers and duties of the Boards of the Faculties, Schools or other such academic groups as may be constituted from time to time and all other matters relative to the Faculties, Schools or other such academic groups which it may be thought proper to be so prescribed and regulated.

The Council, the Senate and the Boards of the Faculties, Schools or other such academic groups as may be constituted from time to time respectively may from time to time make Standing Orders for governing the proceedings of those bodies, subject to the Charter, Statutes and Ordinances of the Issuer. The power to make Standing Orders shall include the power to add to, amend, alter or repeal any such Standing Orders.

The Issuer is therefore governed by its Charter, the Statutes, Ordinances, and Standing Orders and regulations ("**Regulations**"), together with applicable national and EU legislation.

The Charter may be revoked, amended or added to (by special resolution of the Council, following consultation with the Senate) and the Statutes may be revoked, amended or added to (by special resolution of the Council on the recommendation of or after consultation with the Senate) from time to time but any such action requires the approval of Her Majesty in Council (being the Queen acting through the Privy Council). Ordinances may be added to, amended or repealed from time to time by the Council (on the recommendation of or after consultation with the Senate) without needing to seek the approval of Her Majesty in Council. The power to make Standing Orders is vested in the Council, the Senate and the Boards of the Faculties Schools or other such academic groups as may be constituted from time to time and includes the power to add to, amend, alter or repeal any such Standing Orders without seeking the approval of Her Majesty in Council.

The Issuer is an exempt charity under Schedule 3 of the Charities Act 2011 and is therefore not required to register with the Charity Commission. HEFCE is responsible for ensuring that the Issuer, as an exempt charity, fulfils its obligations under charity law and takes the role of charity regulator. The members of the Council are the charity trustees. Further information on the charitable status of the Issuer is set out in the section titled *"Governance and Regulation of the Issuer"*.

The Higher Education and Research Bill ("**HERB**") is in the final stages of the legislative process and likely to become law in 2017. HERB will reform the regulatory framework of higher education, which will replace HEFCE with a new body, the Office for Students ("**OfS**"), as the principal regulator for higher education, in the context of delivery of education for students, whilst HEFCE's research-funding functions will be incorporated into a new research and innovation funding body, UK Research and Innovation ("**UKRI**") which will take responsibility for the funding and administration of research and innovation and will be responsible for distributing QR funding arising from REF outcomes.

HERB will also link a university's performance in the Teaching Excellence Framework ("**TEF**") with an ability to apply further inflation linked rises to the maximum tuition fee, with effect from September 2019. A rating of "excellent" or "outstanding" in the TEF assessment for 2018/19 will mean that, for the academic year 2019/20, an institution will be eligible for 100 per cent. of the inflationary uplift; a rating of "meets expectations" will mean that an institution will be eligible for 50 per cent. of the inflationary uplift. HERB proposes that funding will be allocated by the OfS.

The latest draft of HERB is currently being reviewed by the House of Lords and amendments are still being considered. Some of the suggested amendments relate to the removal from HERB of certain of the provisions referred to in this Prospectus. If these amendments are approved, this may result in, for example, the TEF not coming into force.

Student and Staff Numbers

The Issuer has undergraduate and postgraduate students from the UK, EU and overseas (outside the EU). Details of full and part-time student numbers for each of the last five academic years are set out below (expressed as full time equivalents):

FTE numbers	**2012**	**2013**	**2014**	**2015**	**2016**
Academic year	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Total students	**20,925**	**21,259**	**21,740**	**23,826**	**23,669**
Undergraduate (UG)	15,552	15,672	15,513	17,083	17,310

Mode	Full-time (FT)	15,391	15,535	15,375	17,009	17,261
	Part-time (PT)	161	136	137	74	49
Domicile	UK	12,789	12,927	12,606	13,907	13,945
	Channel Islands	55	55	56	47	49
	EU	850	850	852	1,030	1,426
	Overseas	1,859	1,839	2,000	2,100	1,891
Postgraduate Taught		2,727	3,068	3,544	4,017	3,776
Mode	Full-time (FT)	2,205	2,619	3,037	3,636	3,474
	Part-time (PT)	521	449	504	381	302
	Other	2	0	3	0	
Domicile	UK	1,195	1,137	1,256	1,144	1,186
	Channel Islands	4	5	10	5	5
	EU	207	206	227	224	262
	Overseas	1,322	1,721	2,052	2,644	2,323
Postgraduate Research		2,645	2,519	2,684	2,726	2,583
Mode	Full-time (FT)	1,993	1,923	1,968	2,008	2,265
	Part-time (PT)	365	329	320	313	319
	Other	287	267	395	405	
Domicile	UK	1,452	1,345	1,410	1,390	1,306
	Channel Islands	4	2	2	2	4
	EU	330	347	392	398	423
	Overseas	859	824	880	936	851
	Unknown	0	0	1	0	
Mode	Total Full-time	19,588	20,078	20,380	22,654	23,000
	Total Part-time	1,048	915	961	767	669
	Total Other	289	267	399	405	0
Domicile	Total UK	15,435	15,409	15,271	16,441	16,437
	Total Channel Island	62	63	67	53	58
	Total EU	1,387	1,403	1,470	1,652	2,111
	Total Overseas	4,040	4,385	4,931	5,680	5,064
	Total Unknown	0	0	1	0	0

'Other' mode = Dormant students or writing up students
Unknown = Unknown domicile

For the 2016/17 academic year, as at 1 December 2016 there were 23,669 students registered with the Issuer. Historically, additional students are registered during the course of an academic year. Competition for student places with the Issuer is strong. For undergraduate entry in 2016, a record 42,694 applications for courses were received which equates to 7.9 applications for every student enrolled.

Set out below are the numbers of undergraduate applications and undergraduate admissions for the last five academic years:

Academic year of entry	**Number of undergraduate applications received**	**Enrolments**
2016/17	42,694	5,387
2015/16	37,846	6,097
2014/15	37,645	5,012
2013/14	38,714	5,400
2012/13	35,556	4,583

In the year 2015/16 it was decided that, to ensure the best possible student experience with the resources available, the Issuer would recruit approximately 500 less students for entry in October 2016 than in the preceding year.

For undergraduate entry in the 2017/18 academic year, as at the close of applications through UCAS on 15 January 2017, the Issuer has received 37,171 undergraduate applications for places of study compared to 39,470 at the same time the previous year, a fall of 5.8 per cent.

The Issuer had an average of 5,777 full time equivalent members of staff in the year ended 31 July 2016 engaged in its activities, including 2,832 education, research and enterprise staff, 2,078 administrative and management staff, 374 technical staff and 493 community and operational staff.

The Issuer has a diverse student population with students from more than 152 countries. In 2016/17 students from the EU accounted for around 9 per cent. of the Issuer's student population based on full time equivalent numbers, with international students accounting for a further 21 per cent. The number of international students studying with the Issuer has grown by 25 per cent. from the 2012/13 academic year to 2016.17. On 1 December 2016, the Issuer's student record systems indicated that students from China accounted for no more than 10 per cent. of the Issuer's total student population based on student headcount. In 2015/16, the Issuer's tuition fee income from international students increased by 12.8 per cent. to £82 million.

Principal Activities of the Issuer

The principal activities of the Issuer can be summarised as follows:

- research and knowledge exchange;
- learning and teaching;
- social and corporate responsibility; and
- other activities, including the operation of residences, catering and conferencing facilities, museums, libraries and collections and consultancy.

Sources of Income

The Issuer's income in each of the last four academic years (as reported in the consolidated income and expenditure account in the Issuer's financial statements) is shown in the table, and described in more detail below.

	2012/13	2013/14	2014/15	2015/16
		£,000		
Tuition fees and education contracts	152,874	191,355	214,290	244,746
Funding body grants	97,655	84,965	80,734	74,649
Research grants and contracts	102,376	110,971	125,766	112,504
Other income	86,798	91,546	104,278	119,258
Investment income	4,999	2,860	1,777	1,134
Donations and endowments	2,519	2,594	5,045	3,259
Total Income	**447,221**	**484,291**	**531,890**	**555,550**

Note: Includes restatements to prior year comparator data in published financial statements, to reflect changes in Financial Reporting Standards and accounting practice.

Funding Body Grants

The Issuer receives recurrent grant funding from the UK Government through HEFCE in the form of grants for teaching, for research and for other activities. HEFCE was established by the Further and Higher Education Act 1992 and does not form part of any government department, but it is a public body whose annual priorities are set by the Secretary of State for Business, Energy and Industrial Strategy. The total amount of public funding HEFCE receives is set by the UK Government each year. The grant received from HEFCE currently relates to both the Issuer's teaching and research grants and the terms on which it is to be made available to the Issuer are set out in a Memorandum of Assurance and Accountability and funding agreement with HEFCE.

- ***Research***

  The Issuer receives a grant from HEFCE to support its research infrastructure and enable its research activities. HEFCE calculates the grant primarily on the basis of research quality, taking into account the volume and relative cost of research in different areas ("**QR funding**"). HEFCE calculates how much funding to provide for research in different subjects, and then allocates the total for each subject between institutions.

  The Issuer's performance in the REF relative to the rest of the sector affects its recurrent HEFCE QR funding for the period after 2015. Completed in 2014, the REF is a system for assessing the quality of research in UK higher education institutions, assessing research which had taken place in the period 2008 to 2013 (inclusive).

The calculation of QR funding takes into account the quality of research as measured in the 2014 REF, the volume of research using research active staff numbers and relative costs reflecting the fact that laboratory based research is more expensive than library based research. Funding is also allocated for other research related costs such as supervision of postgraduate research students and funds to support research that universities carry out with charities and with business and industry.

The Issuer was allocated £45.96 million of QR funding, representing 2.9 percent of the overall UK grant award in the 2016/17 academic year. In the 2014 REF, 84 per cent. of the Issuer's research was judged to be world leading (4*) or internationally excellent (3*) with a further 14 per cent. ranked 2* (internationally recognised) and 1 per cent. ranked 1* (recognised nationally) in the THE Overall Ranking of Institutions.

Applying data from the REF, the Issuer was ranked 8th in the UK based on research intensity (calculated by taking the percentage of full-time equivalent eligible staff submitted to the REF, and multiplying this by the Issuer's GPA giving an intensity weighted GPA) and 11th in the UK for research power (calculated by multiplying the Issuer's overall rounded GPA by the exact total number of FTE staff submitted to the REF). On quality alone the Issuer is ranked 18th overall in the UK.

Research at the Issuer is undertaken across all the disciplines embraced by its eight Faculties.

HERB proposes that HEFCE's research-funding functions will be incorporated into a new research and innovation funding body, UKRI and will be responsible for distributing the QR funding referred to above.

- ***Teaching***

University teaching is supported by a combination of the HEFCE grant and student fees.

The amount of the teaching grant is calculated by HEFCE according to the number of UK and EU (non-UK) undergraduate and postgraduate taught students enrolled on the Issuer's courses and the nature of the courses. HEFCE takes into account the fact that certain courses, such as laboratory subjects, cost more than classroom-based ones. There are also special allocations to assist UK Government priorities such as protecting strategically important subjects, widening participation and commercial collaborations.

Prior to the 2012/13 academic year, higher education institutions received a significant proportion of their funding for undergraduate teaching as part of the HEFCE grant. The Issuer received £51.97 million for teaching within its total recurrent grant for the 2011/12 academic year. Since the 2012/13 academic year, a significant proportion of funding for teaching has been distributed by the Student Loans Company Limited (as higher tuition fees paid direct to institutions for newly admitted students underwritten by loans made to those students) and the HEFCE grant has subsequently reduced. The Issuer received £17.68 million for teaching within its total recurrent grant for the 2016/17 academic year.

The funding that the Issuer receives for teaching students from the UK and other EU member states is linked directly to the number of students who choose to study on a course provided by the Issuer. The Issuer's income is therefore partly dependent upon students deciding to enter higher education. In recognition of the fact that some courses cost more to provide than the maximum fee of £9,000 (rising to £9,250 for courses starting in September 2017), HEFCE will continue to provide the Issuer with an element of teaching recurrent grant to assist with the direct funding of some of those courses, although this position may change in the future due to political influence.

HERB proposes that funding will be allocated by the OfS.

Tuition Fees and Education Contracts

Students are charged tuition fees for courses undertaken at the Issuer. The tuition fees are regulated for full-time UK and EU undergraduate students and, since the 2012/13 academic year, are a maximum of £9,000 per annum, rising to £9,250 per annum for courses starting in September 2017. The figure of £9,250 per annum is the maximum tuition fee payable for the first year of the course. Annual increases, which are also subject to the approval of Parliament, will apply to institutions which have been given a high rating in TEF and are likely to be in line with inflation. The measure of inflation to be used is RPIX (Retail Price Index excluding mortgage interest payments). It is anticipated that increases will apply at the commencement of the second and subsequent years of the programme.

HERB will also link a university's performance in the TEF with an ability to apply further inflation linked rises to the maximum tuition fee, with effect from September 2019. A rating of "excellent" or "outstanding" in the TEF assessment for 2018/19 will mean that, for the academic year 2019/20, an institution will be eligible for 100 per cent. of the inflationary uplift; a rating of "meets expectations" will mean that an institution will be eligible for 50 per cent. of the inflationary uplift.

Tuition fees for non-UK/EU students are not regulated and are variable according to cost of provision and issues such as market demand and availability of loans or other funding based upon standard (minimum) fees set by the Issuer. Standard fees for non-UK/EU undergraduate students in 2017/18 have been set by the Issuer at £16,054 for classroom based subjects and £19,725 for laboratory based subjects.

Research Grants and Contracts

The Issuer is regarded as one of the leading research universities in the UK.

In 2015/16, the Issuer ranked second in the UK based on the amount of research funding awarded by the Engineering and Physical Sciences Research Council. In the same period, the Issuer was ranked sixth in the UK based on the amount of research funding awarded by all Research Councils.

The Issuer receives income in the form of grants for specific research projects and programmes, income from UK Research Councils, charities, central government departments and hospital and health authorities. It also generates income from collaborations with the private sector and from overseas sources. The Issuer has seen a 196 per cent. growth in income from international sources (outside of the EU) in the last ten years.

Research income is recognised when the performance related conditions agreed with the funder have been met. In the absence of such conditions, income is recognised in full as soon as the Issuer is entitled to the income. Capital grants, both government and non-government, received for the purpose of purchasing or constructing specific assets are recognised as income upon the asset being brought into use, or in line with the phased completion of large construction projects. Grants where the Issuer has discretion over the assets being purchased or built are recognised in full as income when the Issuer is entitled to the income. Grant income is only recognised across the useful life of the asset to the extent that the grant specifically funds the operation/maintenance of the asset.

A breakdown of research grants and contracts income by source is set out below:

	2012-13	**2013-14**	**2014-15**	**2015-16**
		£,000		
Research Councils	44,818	50,053	54,138	50,686
UK based charities..	14,729	14,434	11,886	12,905
UK central government, hospitals and health authorities	12,483	13,240	16,135	16,000
UK Industry & Commerce.......................................	7,778	8,296	8,077	7,917
EU Government..	15,350	16,231	15,885	14,424
EU other and other overseas sources	6,076	7,551	7,534	9,184
Other sources	1,142	1,166	783	703
Research and Development Expenditure Credit*	-	-	11,328	685
Total..	**102,376**	**110,971**	**125,766**	**112,504**

* A one off exceptional tax credit for research and development expenditure. No income is expected beyond 2015-16.

Note: Includes restatements to prior year comparator data in published financial statements, to reflect changes in Financial Reporting Standards and accounting practice.

Other Income

- ***Consultancies, trading and services rendered; income from health authorities***

  The Issuer receives income from a variety of sources for consulting, trading and services rendered contracts. In 2015/16, this totalled £42.3 million (2014/15 £39.4 million). A significant contributor to this was a contract between the Department of Health and the NIHR Evaluation, Trials and Studies Coordinating Centre (NETSCC) based in the Faculty of Medicine, which manages research programmes and activities for the National Institute for Health Research. The current NETSCC contract expires on 31 March 2018 and the Issuer is currently participating in a competitive procurement process. According to the Higher Education Business and Community Interaction Survey (HE-BCI) for 2014/15 the Issuer is ranked first for consultancy income.

In addition to the income from consulting, trading and services rendered contracts, the Issuer received income of £10.7 million in 2015/16 from UK Health Authorities for staff posts funded by the NHS and income to support clinical placements and NHS leadership roles from Health Education England.

- ***Residences, catering and conferences***

Income generated by the Issuer from residences, conferences and catering is set out below:

	2012/13	2013/14	2014/15	2015/16
	Amount in £ millions			
Income from residences, catering and conferences	27.1	28.9	33.8	40.2

- ***Benefactions and Donations***

The Issuer receives benefactions and donations from a variety of different sources. These sources include trusts and foundations, corporations and individuals (from alumni of the Issuer and non-alumni). In 2015/16, the Issuer accounted for unrestricted donations of £357,000.

The Issuer also receives benefactions and donations, the use of which is restricted by the terms on which the gift or donation is made. For example, a gift to fund a specific professorship can only be used for the funding of that specific professorship. In 2015/16, the Issuer accounted for donations with restrictions of £2.85 million.

Endowment and Investment Income

The Issuer held £92.9 million as cash and cash equivalents (short-term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value) as at 31 July 2016. In addition, investments of £32.0 million were held, made up of cash held on longer term deposits (£20.5 million) and investments, including endowment funds, of £11.5 million.

The Issuer held a total of £12.5 million of endowment assets as at 31 July 2016. Endowment assets were predominantly held in unit trusts with fund manager Lazard until the closure of the Lazards Charity Unit Trust Fund in 2015. From that point the endowment assets were held on rolling fixed cash deposit while the situation was reviewed and a selection process was undertaken to appoint a new fund manager to manage its endowment portfolio. The process was completed and Kames Capital was appointed in 2016. Funds are now invested in the Kames Ethical Cautious Managed Fund which applies comprehensive ethical screening parameters appropriate to the Issuer's ethical investment principles. The endowment asset investments were reinvested in unit trusts with the new fund manager in April 2016. The Issuer's Executive Director, Finance and Planning has responsibility for monitoring the performance of the fund manager, and reviewing as appropriate.

The Issuer's Estate

The Issuer's estate is diverse and extensive with the Issuer having freehold and long leasehold interests in a wide variety of property, including academic buildings, student residences and other associated properties in the UK as well as a campus in Iskandar Puteri, Malaysia. The net book value of the freehold and long leasehold estate as at 31 July 2016 was £678 million, including assets in the course of construction, investment properties, fixtures, fittings and equipment and heritage assets.

The estate comprises seven campuses, 120 academic buildings and 25 halls of residence in 64.34 hectares of land, with a further ten hectares of playing fields three miles to the east of the Highfield Campus and a 21 hectare science park two miles to the north. Campus architectural styles range from Victorian, through to the modernist 1960s Basil Spence designs, as well as a growing range of modern buildings designed to complement the more established estate and built around attractive public and private realm. The Highfield and Avenue Campuses are adjacent to the Southampton Common, an extensive area of amenity land; the Winchester

Campus is adjacent to Winnall Moors Nature Reserve and the University of Southampton Science Park at Chilworth is embedded into a local nature reserve also owned by the Issuer. The majority of the academic and residential estate is in the Issuer's freehold ownership. The condition of the academic and administrative estate was recently assessed as having 60 per cent. of buildings in excellent or good condition (i.e. Categories A and B), with 85 per cent. of residential buildings in this category. Capital investment in the land and buildings of £252 million has been made in the last five years and the Issuer has an estate's masterplan for future improvements.

The main academic campus, Highfield, is situated to the north east edge of Southampton City with excellent access to the motorway, rail and air hubs. Further campuses in Southampton are situated within three miles of Highfield; with Avenue Campus half a mile south, Boldrewood Engineering Innovation Campus half a mile north, the Southampton University Hospital Trust two miles to the west and the National Oceanographic Centre on the waterfront three miles south. The University of Southampton Winchester School Of Art is embedded in the heart of the City of Winchester. Both cities, Southampton and Winchester, have a range of student residential accommodation, totalling 6,896 beds (including those currently being refurbished) of which over 75 per cent. are in freehold ownership and in combination offer a variety of accommodation types aimed at meeting student preferences across a range of preferences from premium cost en-suite, self-catered, catered to lower budget offers. The Issuer is in the process of selling two of its older halls of residence.

The total reinstatement cost assessment, as at 1 August 2016, of all space occupied by the Issuer (including leased space) is £944 million. The insured value of the buildings is £1,085 million. Certain buildings have been funded from HM Treasury sources at a cost of £42.4 million (at 31 July 2016). Should these particular buildings be sold, the Issuer would use the proceeds in accordance with the Memorandum of Assurance and Accountability with HEFCE.

Investment Programme

In the 2015/16 academic year, the Issuer invested £67.3 million in new academic, residential and infrastructure developments, refurbishments and equipment purchases. Recent investments include an approximate £30 million development at the Issuer's Chamberlain Halls of Residence site. There are also on-going new build projects; a Centre for Cancer Immunology at the University Hospital Southampton NHS Foundation Trust site due for completion in 2017; the National Linear Infrastructure Lab at the Boldrewood Innovation Campus and a multi-purpose teaching and learning building at the Issuer's Highfield Campus, due for completion in 2019.

The Issuer has established a track record of working with masterplans as a framework for its capital programmes. In line with the Issuer's long-term strategy, the Issuer has developed a new masterplan which outlines capital development over the next 10 years, to 2027. The Issuer aims to invest £474 million in new developments and major refurbishments by 2022 including £51 million on IT reinvestment.

Heritage Assets

The Issuer holds and conserves a significant number of rare books and manuscripts within the Special Collections Division of the Hartley Library. This includes over 6 million items in approximately 2,500 collections that have been obtained by the Issuer and its predecessors since the 1860s. The Issuer also maintains a significant number of paintings, drawings, sculptures, silverware and life science specimens. Artefacts held and conserved principally for their contribution to knowledge and culture, obtained since 1 August 2010, costing over £25,000, are capitalised and held at the lower of cost or net realisable value. Where assets are fully or substantially donated, they are capitalised and held at the lower of valuation at the time of acquisition or net realisable value. Items and collections obtained before 1 August 2010 have not been capitalised in the Issuer's financial statements as the cost or valuation at the time of acquisition cannot be economically determined.

In August 2011, the Issuer completed the acquisition of the Broadlands Archives, a significant collection of manuscripts dating from the sixteenth century to the present. Comprising more than 4,500 boxes of documents, the Broadlands Archives include correspondence of the Victorian Foreign Secretary and Prime Minister Lord Palmerston and approximately 250,000 papers and 50,000 photographs of Earl Mountbatten of Burma, including the foundation archives for the states of India and Pakistan. The collection also includes the diaries of the nineteenth-century social reformer and philanthropist, the 7th Earl of Shaftesbury and material regarding the Temple and Ashley estates in Hampshire.

An open market valuation of the Broadlands Archives was obtained in September 2012. The separate collections that comprise the Broadlands Archives, taking account of restrictions under the terms of associated grants and contracts was of £6 million. The Broadlands Archives have been capitalised at this value in the Issuer's 2015/16 financial statements.

Commercialisation of Intellectual Property

Since 2000, the Issuer has spun out 15 successful companies in which it has taken an equity position. Four have floated on London's Alternative Investment Market with a market capitalisation on flotation of £115.4 million. They are the oil exploration company Offshore Hydrocarbon Mapping, the asthma therapy development company Synairgen PLC, and the fibre laser manufacturer SPI Lasers PLC and Ilika PLC, a company developing new patentable functional materials.

There are 381 active patents in the Issuer's portfolio, where the Issuer is the applicant or co-applicant.

High power fibre laser research undertaken by the Issuer has led to the creation of a new business sector in the generation of highly efficient and highly practical fibre laser technology that revolutionised areas of industrial material processing, and enabled the development of specialist components for high–end industries such as aviation and defence as well as the development of new medical devices and procedures. The research is also directly responsible for the commercial success and sustained growth of a spin-out company SPI Lasers Ltd, which reported annual revenue for the year ending June 2016 of £49.93 million and employs more than 250 people.

The Issuer is one of the leading centres for cancer immunology in the UK and is building a dedicated research centre for cancer immunology. The Issuer has received £20.6 million in cash and pledges to the Cancer Immunology Campaign raising funds for the Cancer Immunology Centre. The Cancer Immunology Centre will build on a 40 year history of immunology research, which includes a major part in developing antibody treatments that target cancer cells and the controls of the immune system.

Ofatumumab, marketed under the name Arzerra, was approved by the FDA in 2009 (only eight years after its discovery) after the Issuer's researchers proved it was able to kill target cells resistant to similar drugs. It was granted marketing authorisation by the European Medicines Agency in 2010. Ofatumumab's initial approval was for the most prevalent form of leukaemia, chronic lymphocytic leukaemia, where it demonstrated a 42 per cent. response rate in patients who had failed to respond to the "best in class" treatments. Ofatumumab has been the subject of more than 90 clinical trials. By the end of 2012, it had launched in 26 countries and Genmab A/S, in its 2016 Annual Reports, reported that the 2016 net sales of Arzerra by Norvatis were USD 46 million. It also won the Galien Prize in the Netherlands for the "Year's Best Medicine" in 2011.

As at 31 July 2016, the Issuer had invested £1,000,000 in the Wyvern Seed Fund Limited Partnership ("**Wyvern**"). The Issuer is a limited liability partner in Wyvern, which offers venture capital to spin-out companies originating at the Issuer and the University of Bristol. This investment is held at cost.

In November 2015, the Issuer's business incubator SETsquared was rated the top university business incubator in the world; and in June 2016 it won the Times Higher Education award for the Knowledge Exchange and Transfer Initiative of the Year. The award was for the Innovation and Commercialisation of University Research Programme run from the Issuer. It is an enterprise collaboration with four other universities and supports early stage companies by providing opportunities for them to access academic research and establish research partnerships, collaborate with industry specialists and entrepreneurs and access inventors. Over 1,000 companies benefit from SETsquared support and services. A study by Warwick Economics found that businesses incubated by SETsquared have created around £3.8 billion in gross value added ("**GVA**") between 2002 and 2014 and created around 9,000 jobs in the same period.

The Issuer is second in the United Kingdom for the amount of research income received from SMEs consisting of income derived from contract research, consultancy, continuing professional development and facilities and intellectual property. 41 per cent. of the Issuer's research income comes from programmes that have commercial partners including Lloyd's Register EMEA, Arm Ltd, BAE Systems, Gates Foundation, Huawei Technologies Co, Ltd, GlaxoSmith Kline Plc and Jansen-Cilag Ltd.

The Issuer's impact on the regional national economy

It was estimated in the BiGGAR Economics Report dated 27 January 2015 that in 2012/2013 the Issuer supported economic activity in:

- Southampton of more than £729 million GVA and 11,700 jobs;

- the regional area of more than £1 billion GVA and over 16,300 jobs; and
- the UK or more than £2 billion GVA and over 26,500 jobs.

The Issuer's impact is more than the quantitative because its research has informed policy and strategy and has had a significant impact on society, including:

- supporting sectors key to the competitiveness of the local, regional and UK economy;
- contributing to Southampton's regeneration; and
- helping millions of people through its health research.

Widening Participation

The Issuer is committed to supporting access and achievement by students from under-represented groups. The Issuer introduced a Widening Access to Medicine programme as early as 2002 and was one of the first to receive the Buttle Trust Quality Mark in recognition of its support for care leavers, and was a founding institution in the Pathways to Law programme.

The Issuer is committed to widening participation and ensuring that all students with the potential to succeed, regardless of their background, are encouraged to apply to study with the Issuer. The Issuer works closely with schools, colleges, community groups and other third sector organisations to encourage prospective students to consider higher education. Programmes developed by the Issuer's Student Recruitment and Outreach team are designed to encourage young people and mature learners to be able to make more informed choices about higher education. Working with over 13,700 young people and adults in primary schools, secondary schools, sixth form colleges and community settings across the region, the Issuer delivers a wide range of workshops and activities to support learners.

Through the Issuer's Learn with US outreach programme the Issuer aims to take a long-term and targeted approach to raising the aspirations of the young people with which it engages. This programme is linked to the Issuer's Access to Southampton scheme, providing special consideration and financial support to students from designated under-represented groups. This includes students from areas where there is low participation in higher education, or who are the first generation of immediate family to apply to higher education, or who live, or have grown up in public care.

The Issuer's Learn with US transition programme provides support for sixth-form students to develop their research skills, including support for the Extended Project Qualification (EPQ). Its members of staff also provide schools and colleges with taster lectures, seminars and project days intended to tap into students' curiosity and scholarship. The Issuer was the first Russell Group university to make an alternative offer based on students attaining an A or A* in the EPQ and now makes the offer for the majority of its courses.

In the 2014/15 academic year, the Issuer recruited 84.8 per cent. of its undergraduate students from state schools. The Issuer has increased its proportion of first-year undergraduate black and minority ethnic students from 10.2 per cent. in the 2008/09 academic year to 16.5 per cent. in the 2014/15 academic year. In the 2014/15 academic year, 23.1 per cent. of its undergraduate students came from low socio-economic groups and 7.2 per cent. from low participation neighbourhoods.

To support students from low income households the Issuer provides bursaries and fee waivers of up to £3,000 per annum. The overall total for student financial support in the 2015/16 academic year was £9.8 million.

The Issuer's Solvency

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

The Issuer's Subsidiaries

The Issuer is part of a group as it has various subsidiary undertakings (together with the Issuer, the "**Group**") and interests in other entities both in the UK and overseas. The Issuer is not dependent on any other entity within the Group.

The Issuer has six active wholly owned subsidiary undertakings, and five subsidiaries which are not wholly owned. The Issuer has approved the winding-up of some of its subsidiaries. All of these subsidiaries are very small relative to the Issuer and are not material in the context of the Bonds. As at 31 July 2016 the aggregate income and net assets of all subsidiaries (excluding inter-group trading and net assets) was less than 1.7 per cent. of the Issuer's consolidated income and net assets.

The Issuer has a campus in the EduCity development in Iskandar Puteri, Malaysia, which is run through one of the Issuer's subsidiary undertakings (USMC Sdn Bhd). The campus commenced teaching in October 2012, and in 2016 the first cohort of students graduated from their programmes of study.

The University of Southampton Science Park Limited is a wholly owned subsidiary which provides office and laboratory space to a wide range of businesses engaged in research, development, "high-tech" manufacturing or services which directly support businesses on the science park. It is host to a high-tech entrepreneurial business community comprised of around 100 companies.

The Issuer's Contact Details

The contact address for the Issuer is University of Southampton, Highfield, Southampton SO17 1BJ and its telephone number is +44 (0)238 059 5000. A9.4.1.4

GOVERNANCE AND REGULATION OF THE ISSUER

Introduction

An explanation of certain key governance aspects of the Issuer, together with a summary of each of the constituent bodies and offices referred to in the summary, is set out below.

- The Issuer is a university established by a Royal Charter and as such is a body corporate with all the powers of a natural person to do all lawful acts, subject only to compliance with internal regulations.
- The Issuer has charitable status as an exempt charity (with exempt charity number X 19140).
- Under the Charter, the governing body of the Issuer is the Council.
- The Council exercises all the powers and discretions of the Issuer, subject to the laws of the Issuer and save to the extent that such exercise is reserved to the Senate by the Charter or Statues of the Issuer.
- The President and Vice-Chancellor is the chief executive officer of the Issuer and is responsible to the Council for the effective and efficient management of the Issuer, for the conduct of its business generally and for the achievement of its institutional objectives.
- The Senate is the principal academic authority of the Issuer and is responsible for the promotion of research and the regulation and superintendence of the education and discipline of the students of the Issuer.
- The University of Southampton Students' Union (the "**Students' Union**") is the students' union representing the interests of the students.
- As part of its arrangements for effective governance, management and financial control, the Council has appointed and constituted a number of governance committees including:
    - an Audit Committee;
    - a Finance Committee;
    - a Standing Committee of Council;
    - a Senior Salaries Committee;
    - a Nominations Committee; and
    - a Health and Safety Audit and Assurance Committee.

In addition to the above, there is also the University Executive Board, an executive committee which supports the President and Vice-Chancellor. Its principal role is to ensure that resources, goals and governance meet the strategic and operational needs of the Issuer in addition to the delivery of the core education and research activities of the Issuer.

The Council

The Council is the Issuer's governing body. It meets formally six times in each academic year, including an "away day" with the University Executive Board. The Council has 19 members, including eight external members, and five members of staff (one of which must not be an academic member of staff). The Council normally consists of the following members:

- five officer members (the Chair, Vice-Chair, Treasurer, and *ex officio* the President and Vice-Chancellor, and one of the Vice-Presidents);
- eight external members appointed by the Council;
- four academic members of staff appointed by the Senate;

- one non-academic member of staff; and
- the President of the Students' Union.

The Chair of the Council is appointed by the Council. The Council also appoints the Chancellor of the Issuer, following consultation with the Senate.

The Council carries the ultimate responsibility for the Issuer's overall strategic direction and for the management of its finances, property and affairs generally, including the employment arrangements for all staff. The Council is charged under the Charter with responsibility for "… the management and administration of the whole revenue and property of the [Issuer] and the conduct of all the affairs of the [Issuer]".

The Council (on the recommendation of or after consultation with the Senate) has the power to enact, amend and repeal Ordinances and Regulations for the Issuer and, subject to the approval of the Privy Council, to enact, amend or repeal any Statute and amend the Charter.

The Senate

The Senate is the principal academic authority of the Issuer and is responsible to the Council for the regulation and superintendence of the education and discipline of students of the Issuer. It is the final arbiter on purely academic matters. The Senate has approximately 150 members and is chaired by the President and Vice-Chancellor. Its core membership includes approximately 44 members who are designated *ex-officio* and reserved for those with academic management responsibilities centrally and in the Faculties, and more than half are elected academic members (professorial and non-professorial). The remaining members are either co-opted members or student representatives.

University of Southampton Students' Union

The Students' Union is the students' union of the Issuer. The constitution, functions, privileges and other matters relating to it are prescribed by Ordinance. The Students' Union is independent of the Issuer but is subject to scrutiny by the Issuer as prescribed by the Education Act 1994. The Students' Union is a company limited by guarantee (company number 08034371) and is a registered charity (charity number 1148683).

The Audit Committee

The Audit Committee is responsible for reviewing the Issuer's arrangements for risk management, control and governance and is chaired by a lay member of the Council. It also advises the Council on the criteria for the appointment and remuneration of the external auditors, the arrangements for internal audit and determines the scope of their work and reviews their interim and final reports. The risk management element of this role includes the review of the processes which lead to the statement on internal control in the annual financial statements. The Audit Committee will also prepare an annual report to the Council in respect of the most recent financial year confirming that necessary actions have been taken, or are being taken, to remedy any significant failings or weaknesses identified from any external or internal audits undertaken or from the review of the effectiveness of internal control.

Finance Committee

The Finance Committee has delegated authority from the Council to, among other things: consider and make recommendations to Council regarding the Issuer's financial plans and interests and to take into consideration both local constraints and aspirations together with the context of the wider environment of Higher Education funding, public policy and the demand for Higher Education services; review the financial performance, future prospects and resources available to the Issuer; to report on the principal internal allocation of resources and to recommend a budget to Council to enable implementation of plans of the Issuer; supervise the Issuer's treasury management policy; and monitor the Issuer's investments in any trading operations in which the Issuer has an interest. The Finance Committee also has responsibility for considering, commenting upon and forwarding to the Council: the Issuer's treasury management strategy; new capital programmes for investments over £10 million; the Issuer's annual financial statements; and recommendations for amendment of the Issuer's financial regulations. The Finance Committee has four members: the Treasurer, the Chair of the Council, the President and Vice-Chancellor and two lay members of Council, with the Director of Finance, the Chief Operating Officer and the Clerk to Council in attendance.

The Standing Committee of Council

The Standing Committee of Council is chaired by the Chair of the Council. Its other members are the Vice-Chair of the Council, the President and Vice-Chancellor, the Treasurer, and one of the Issuer's three Vice-Presidents. The Standing Committee of Council acts on behalf of the Council in the periods between Council meetings and, where necessary, authorises action in relation to individual personnel matters, and individual contractual and financial matters within agreed University policy and budgets. All major decisions taken by the Standing Committee of Council are reported to the Council at its next meeting.

The Senior Salaries Committee

The Senior Salaries Committee is chaired by the Chair of the Council. Its other members are the Vice-Chair of the Council, the President and Vice-Chancellor, the Treasurer and one lay member of the Council. The Senior Salaries Committee is responsible to the Council, under delegated authority, for determining the salary of the President and Vice Chancellor and the remuneration arrangements for senior officers of the University Executive Board. The Senior Salaries Committee also makes an annual report to the Council on the conduct of its business.

The Nominations Committee

The Nominations Committee is chaired by the Chair of the Council. In addition to the Chair, its membership is comprised of the Vice-Chair of the Council, the President and Vice-Chancellor, the Treasurer, one of the Issuer's three Vice-Presidents, one of the four members of the Council appointed by the Senate, and one lay member of the Council. The Nominations Committee is responsible for making recommendations to the Council on the appointment and re-appointment of lay members to the Council, the appointment of a Chancellor or Pro-Chancellor (after consultation with the Senate) and the appointment of the members of the Audit, Finance and Senior Salaries Committees.

The Health and Safety Audit and Assurance Committee

The Health and Safety Audit and Assurance Committee is chaired by a lay member of Council and has up to seven members with senior health and safety environment experience gained outside the Issuer and one member of the Issuer (not being a head of a budgetary group) who is appointed *ad personam* with the Issuer's Head of Safety and Occupational Health in attendance. The Health and Safety Audit and Assurance Committee is responsible for assuring Council that the Issuer is complying with statutory and other requirements and its own procedures and to make recommendations for improvements; that it has in place appropriate resources and arrangements for effective risk management; to review the outcomes and management of the audit programme; to monitor progress against objectives and to report to Council.

The Chancellor and Pro-Chancellors

The Chancellor is the leading ambassador and formal head of the Issuer. The Chancellor presides over graduation ceremonies and plays an active role in the development of the Issuer through activities linked to the Issuer's strategy. The Chancellor is appointed by the Council but has no executive authority and is not a member of the Council. The incumbent Chancellor is Dame Helen Alexander, DBE. Currently, at any time there are not more than three Pro-Chancellors, one of whom, subject to the Ordinances, exercises all the functions of the Chancellor in the absence of the Chancellor or during a vacancy in the office. The current Pro-Chancellors are Dr Gill Rider and Mr Jon Sopel.

The President and Vice-Chancellor

The President and Vice-Chancellor is the chief executive officer and the principal academic and administrative officer of the Issuer. In fulfilling these functions, the President and Vice-Chancellor has overall responsibility for the executive management of the Issuer and for its day-to-day direction, being accountable to the Council for the exercise of these responsibilities. The President and Vice-Chancellor is the designated Accountable Officer under the terms of the Memorandum of Assurance and Accountability between the Issuer and HEFCE. As the chief executive officer of the Issuer, the President and Vice-Chancellor exercises primary influence on the development of institutional policy and strategy, the identification and planning of new developments and in shaping its institutional ethos. The current President and Vice-Chancellor is Professor Sir Christopher Snowden, FRS, FREng, FIET, FIEEE, FCGI.

Vice-Presidents

The Issuer has three Vice-Presidents, each of which is responsible for a distinct area of the Issuer's activities: education, international, and research and enterprise. Each Vice-President has Issuer-wide oversight for their area of responsibility (providing Issuer-wide insight of all activities with an international component). The incumbent Vice-Presidents are Professor Alex Neill (Vice-President, Education), Professor Colin Grant (Vice-President, International) and Professor Mark Spearing (Vice-President, Research and Enterprise).

Chief Operating Officer

The Chief Operating Officer is appointed by the Council and provides leadership to the Issuer's professional service departments, its principal committees and the Senate. The Chief Operating Officer is secretary to Council. The Chief Operating Officer is also the head of the administration of the Issuer, responsible to the President and Vice-Chancellor for the provision of the administrative and support services required for the efficient conduct of business of the Issuer. The current Chief Operating Officer is Mr Ian Dunn.

The Senior Leadership Team – the University Executive Board

The President and Vice-Chancellor is supported in his role by three Vice-Presidents with specific policy responsibilities, eight Faculty Deans, a Chief Operating Officer, a Director of Finance and a Director of Human Resources. The current incumbents of these roles are:

- Professor Sir Christopher Snowden, President and Vice-Chancellor;
- Professor Alex Neill, Vice-President (Education);
- Professor Colin Grant, Vice-President (International);
- Professor Mark Spearing, Vice-President (Research and Enterprise);
- Professor Paul Whittaker, Dean of the Faculty of Business, Law and Art;
- Professor William Powrie, Dean of the Faculty of Engineering and the Environment;
- Professor Mandy Fader, Dean of the Faculty of Health Sciences;
- Professor Anne Curry, Dean of the Faculty of Humanities;
- Professor Iain Cameron, Dean of the Faculty of Medicine;
- Professor Rachel Mills, Dean of the Faculty of Natural and Environmental Sciences;
- Professor Bashir M Al-Hashimi, Dean of the Faculty of Physical Sciences and Engineering;
- Professor Jane Falkingham, Dean of the Faculty of Social, Human and Mathematical Sciences;
- Mr Ian Dunn, Chief Operating Officer;
- Ms Sarah Pook, Director of Finance[1]; and
- Ms Janice Donaldson, Director of Human Resources[2].

Membership of the Council

The following individuals are the current members of the Council:

Name:	Original appointment in class of membership:	Principal activities outside the Issuer:

[1] With effect from 28 November 2016, the title of "Director of Finance" was amended to "Executive Director, Finance and Planning".
[2] With effect from 28 November 2016, the title of "Director of Human Resources" was amended to "Executive Director, People and Strategy".

Name:	Original appointment in class of membership:	Principal activities outside the Issuer:
Class 1, Officers		
Dr Gill Rider – ***Chair***	August 2012	Non-Executive Director and Chair of Remuneration Committee – Intertek PLC
		Senior Independent Non-Executive Director and Chair of Sustainability Committee – Pennon PLC
		Senior Independent Non-Executive Director and Chair of Remuneration Committee - Charles Taylor PLC
Dr Ros Rivaz – ***Vice-Chair***	August 2014	Non-Executive Director and Committees' Member - Boparan Holdings, operating as 2 Sisters Food Group
		Non-Executive Director and Committees' Member - Computacenter PLC
		Non-Executive Director and Committees' Member - Ministry of Defence, Defence Equipment & Support Board
		Non-Executive Director - Your Life campaign
Dr David Price – ***Treasurer***	August 2015	Chair - Telesoft Technologies Ltd
		Chair - Optitune PLC
		Chair - Lontra Ltd
		Chair - Symetrica Ltd
		Chair - RTL Materials Ltd
		Non-Executive Director - University Hospital Southampton NHS Foundation Trust
		Advisory Board Member – SilverstreamTechnologies BV
Professor Sir Christopher Snowden – ***President and Vice-Chancellor***	October 2015	Consultant - Diamond Microwave Devices Ltd
		Non-Executive Director - ERAF Board
		Non-Executive Director –Universities UK
		Chair – Queen Elizabeth Prize Committee

Name:	Original appointment in class of membership:	Principal activities outside the Issuer:
		Director – Solent Local Economic Partnership
		Senior Consultant – Sony (Europe)
Professor Colin Grant – ***Vice-President (International)***	September 2016	Specialist Reviewer - Hong Kong QA Agency
		Reviewer - DAAD German Ac. Exchange Service
		Board Member - UUK International Strategic Advisory Board
		Board Member - British Council Education Advisory Board
		Board Member - British Council Going Global Steering Committee
		Chair – Southampton International Singapore Ltd
		Chair – University of Southampton Malaysian Campus Board of Directors (USMC Sdn Bhd)
Class 2, Lay members appointed by the Council		
Ms Francesca Barnes	November 2016	Non-Executive Director, Chair of Risk Committee and Chair of Audit Committee - Coutts and Company
		Non-Executive Director on each of:
		Capvis General Partner II Ltd
		Capvis General Partner III Ltd
		Capvis General Partner IV Ltd
		Chair of Trustees - Penny Brohn Cancer Care
		Advisory Committee member – Intouniversity
Mr Guy Berruyer	October 2015	Chair - Linaro Ltd
		Non-Executive Director – Meggitt PLC
Mr Philip Greenish	March 2011	Chief Executive - Royal Academy of Engineering
		Trustee and Board Member – Engineering UK

Name:	Original appointment in class of membership:	Principal activities outside the Issuer:
		Board Member - Big Bang Community Interest Company (subsidiary of Engineering UK)
Mr Graeme Hobbs	August 2016	Non-Executive Chairman - Bristol is Open
		Non-Executive Director - Smith Institute
		Chairman - Blue Lamp Trust
		Trustee - Institution of Engineering Technology
		Member of Audit Committee and Member of Steering Committee for Engineering Leaders Scholarships - Royal Academy of Engineering
		Visiting Professor - Bristol University
		Director - Graeme Hobbs Associates Ltd
Mr Peter Hollins	April 2016	Chair – University Hospital Southampton NHS Foundation Trust
		Chair - CLIC Sargent Cancer Care for Children
Ms Seetha Kumar	March 2012	Chief Executive – Creative Skills Set
Mr Turlogh O'Brien	April 2009	Chair - Governing Board of the Chartered Institute of Housing
		Member - Ethics & Governance Council, UK Biobank
		Chair - Management Board of Construction Industry Council's Appeals Tribunal
		Member - Planning Sub-Committee of South East Bayswater Residents Association
Mr William Shannon	July 2015	Chair - St Modwen Properties PLC
		Deputy Chair - LSL PLC
		Trustee and Chair - Audit Committee of the Royal Voluntary Society
Class 3, Academic members of staff		
Dr Bashir Lwaleed	August 2015	External Examiner – Edge Hill University

Name:	Original appointment in class of membership:	Principal activities outside the Issuer:
		External Examiner – University of Wolverhampton
		Member – Wessex Medical Research Scientific Advisory Committee
		Member – University Hospital Southampton NHS Foundation Trust
		Council Member – Gerson Lehman Group Healthcare Council
		Member – Advisory Board of European Medical Network
Professor Mahesan Niranjan	March 2016	Member - European Research Council Fellowships Panel
		External Examiner - MSc Programme, University of Edinburgh
Professor Philippa Reed	March 2016	University of Loughborough – External Examiner
		University of Surrey – External Examiner
Professor James Vickers	March 2012	
Class 4, Non-academic member of staff		
Mr Adrian Reyes-Hughes	August 2014	External Assessor - NICE-NHS Evidence Accreditation Scheme
		Senior Staff Officer (Grade 1 - Reserve List) – St. John Ambulance
Class 5, President of the Student's Union		
Mr Alex Hovden	July 2016	Union President and Director - University of Southampton Students' Union
		Director – Southampton University Students' Union Social Enterprises Ltd

The business address for each of the members of the Council is University of Southampton, University Road, Southampton, SO17 1BJ, United Kingdom.

The Issuer maintains an up-to-date register of any potential conflicts of interest between the duties to the Issuer of the persons listed above and their private interests and/or duties. The Issuer operates a conflicts of interest policy which states that Council members (as well as members of its committees and working parties) are required to declare any personal interest in the business to be discussed by the Council or any committee and the relevant member must, if necessary and as required, withdraw from the consideration of such business. On this basis, 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.

Regulation

HEFCE is responsible for ensuring that the Issuer acts in accordance with its governance obligations, that it manages itself and the funding 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 Memorandum of Assurance and Accountability and Audit Code of Practice. The Issuer is required to submit audited financial statements to HEFCE each year. The Issuer's Accountable Officer, the Chair of the Council, or both can be called before the Public Accounts Committee on matters relating to grants to the Issuer.

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 Issuer must provide HEFCE with certain information (and HEFCE's annual accounts direction states HEFCE's financial reporting requirements) such as copies of the annual audited financial statements, financial forecasts, the Audit Committee's annual report, the external auditors' management letter and the management response, and any other information HEFCE may reasonably require to understand the Issuer's risk status. The Issuer must also provide annual accountability returns to HEFCE and HEFCE, through reviewing these returns, is able to provide the Issuer with a confidential risk assessment. 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, the Accountable Officer is under a duty to inform HEFCE of that change, as well as informing HEFCE of any major changes in strategy, plans for major restructuring or merger.

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, UK Research Councils and the NHS. The Issuer materially complies with the Committee of University Chairs' (CUC) Higher Education Code of Governance published in December 2014.

The Issuer must obtain prior written consent from HEFCE before it agrees to any new financial commitment meeting either of the following criteria:

- where the total financial commitments (long term and short term) exceed five times its average earnings before tax interest depreciation and amortisation; and/or
- where it is assessed by HEFCE as being at higher risk.

On these criteria the issue of the Bonds does require specific HEFCE consent which was granted on 17 March 2017.

The Issuer is an exempt charity to which HEFCE was appointed as principal regulator on 1 June 2010. 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. As a principal regulator, 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 (the trustees being members of the Council) 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 power.

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 members of the Council are charitable trustees and, as such, must exercise their duties as trustees prudently and in accordance with the Issuer's Charter, Statutes, Ordinances and Regulations. The Charity Commission has the power to take proceedings against the members of the Council if it believes that they have acted imprudently. The actions that the Council takes should always be in the public interest.

The Charities Act 2006 (now incorporated in the Charities Act 2011) extended most of the Charity Commission's powers in relation 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 of the Charity Tribunal.

HERB is in the final stages of the legislative process and likely to become law in 2017. HERB will reform the regulatory framework of higher education, which will replace HEFCE with OfS, as the principal regulator for higher education in relation to the education of students, whilst UKRI will be responsible for funding and the administration of research and innovation.

In addition to the roles undertaken by HEFCE as described above, HERB aims to grant powers to OfS, which may enable it to:

- meet the UK Government policy object of promoting choice and consideration of the students', employers' and taxpayers' interest in all its regulatory and funding decisions; and

- subject to conditions, vary or revoke authorisations to award degrees, revoke authorisation to use the university title and repeal, revoke or modify a Royal Charter to give effect to this.

HERB provides that the OfS must establish and maintain a register of English higher education providers and will determine the conditions that a provider must meet if it is to remain on that register. Registration as a higher education provider is a requirement for accessing student support and grant funding and for the institution being licensed to sponsor migrants under Tier 4 of the UK's points-based immigration system. If the Issuer fails to meet the conditions of its registration imposed by OfS, this, this could lead to a monetary penalty being imposed or the Issuer being suspended or removed from the register of English higher education providers.

It is proposed that OfS will also determine the conditions that a provider must meet in order to charge the higher fee limits (see "*Risk Factors – The Issuer's ability to charge the maximum tuition fees is dependent on compliance with criteria currently set by the Office of Fair Access*").

TAXATION

*The following is a summary of the United Kingdom withholding tax treatment at the date hereof in relation to payments of principal and interest in respect of the Bonds. It is based on the Issuer's understanding of current law and the published practice of Her Majesty's Revenue and Customs ("**HMRC**"), which may be subject to change, sometimes with retrospective effect. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Bonds. The comments relate only to the position of persons who are absolute beneficial owners of the Bonds. The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. Bondholders who are in any doubt as to their tax position should consult their professional advisers. Bondholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Bonds are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Bonds. In particular, Bondholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.*

UK Taxation

UK Withholding Tax on UK Source Interest

Bonds listed on a recognised stock exchange

Under section 987 of the Income Tax Act 2007 ("**ITA**") securities issued by a company which carry a right to interest, such as the Bonds, will constitute "*quoted Eurobonds*" provided they are and continue to be listed on a recognised stock exchange within the meaning of section 1005 of the ITA. Whilst the Bonds are and continue to be quoted Eurobonds, payments of interest on the Bonds may be made without withholding or deduction for or on account of United Kingdom income tax. The Issuer is of the view that it is a "**company**" for the purposes of section 987 of the ITA.

Securities will be "listed on a recognised stock exchange" for this purpose if they are admitted to trading on an exchange designated as a recognised stock exchange by an order made by the Commissioners for HMRC and either they are included in the United Kingdom Official List (within the meaning of Part 6 of the Financial Services and Markets Act 2000) or they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom in which there is a recognised stock exchange.

The London Stock Exchange is a recognised stock exchange, and accordingly the Bonds issued by the Issuer will constitute quoted Eurobonds provided they are and continue to be included in the United Kingdom Official List and admitted to trading on the Regulated Market of that Exchange.

All Bonds

In all cases falling outside the "**quoted Eurobond**" exemption described above (for example, if the Bonds cease to be listed), interest on the Bonds may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.)

Where Bonds are issued at an issue price of less than 100 per cent. of their principal amount, any discount element on any such Bonds will not generally be subject to any United Kingdom withholding tax pursuant to the provisions mentioned above.

Where the Bonds are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax as outlined above.

Where interest has been paid under deduction of United Kingdom income tax, Bondholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" above mean "interest" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Bonds or any related documentation. Bondholders should seek their own professional advice as regards the withholding tax treatment of any payment on the Bonds which does not constitute "interest" or "principal" as those terms are understood in United Kingdom tax law.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer pursuant to Condition 12(c) of the Bonds or otherwise and does not consider the tax consequences of any such substitution.

UK Stamp Duty and Stamp Duty Reserve Tax

Provided that the Bonds do not carry and will not at any time carry (i) a right to interest the amount of which exceeds a reasonable commercial return on the nominal amount of the capital, or (ii) a right on repayment to an amount which exceeds the nominal amount of the capital and is not reasonably comparable with what is generally repayable (in respect of a similar nominal amount of capital) under the terms of issue of loan capital listed in the Official List of the United Kingdom Listing Authority acting in its capacity as the competent authority for the purposes of Part VI of the FSMA, no United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Bonds or on a transfer of, or agreement to transfer any Bond.

Non-UK Taxation

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Bonds (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Bonds are advised to seek their own professional advice in relation to the FTT.

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution", may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, such withholding would not apply prior to 1 January 2019. Bondholders should consult their own tax advisers regarding how these rules may apply to their investment in the Bonds. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Bonds, no person will be required to pay additional amount as a result of the withholding.

SUBSCRIPTION AND SALE

Barclays Bank PLC, HSBC Bank plc and Morgan Stanley & Co. International plc (the "**Joint Lead Managers**") have, in a subscription agreement dated 7 April 2017 (the "**Subscription Agreement**") and made between the Issuer and the Joint Lead Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Bonds at their issue price of 99.764 per cent. of their principal amount plus any accrued interest in respect thereof and less total commissions and certain expenses incurred by the Joint Lead Managers in connection with the management of the issue of the Bonds. The Issuer has also agreed to indemnify the Joint Lead Managers against certain liabilities in connection with the issue of the Bonds. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Bonds.

Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and/or its affiliates in the ordinary course of business.

General

Each Joint Lead Manager has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Bonds or possesses, distributes or publishes this Prospectus or any other offering material relating to the Bonds. Persons into whose hands this Prospectus comes are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Bonds or possess, distribute or publish this Prospectus or any other offering material relating to the Bonds, in all cases at their own expense.

United Kingdom

Each Joint Lead Manager has further represented, warranted and undertaken 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 the 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 the Bonds in, from or otherwise involving the United Kingdom.

United States of America

The Bonds have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and are subject to U.S. tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered 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 of the Securities Act. Each of the Joint Lead Managers has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds within the United States or to, or for the account or benefit of U.S. Persons. In addition, until 40 days after commencement of the offering, an offer or sale of Bonds within the United States by a dealer whether or not participating in the offering may violate the registration requirements of the Securities Act.

GENERAL INFORMATION

Authorisation

1. The creation and issue of the Bonds has been authorised by resolutions of the Council dated 19 January 2017 and 9 March 2017 and by a resolution of the Bond sub-committee of the Council dated 16 March 2017.

Listing and Admission to Trading

2. Application has been made to the FCA for the Bonds to be admitted to the Official List of the FCA, and to the London Stock Exchange for such Bonds to be admitted to trading on the Regulated Market of the London Stock Exchange. It is expected that such admission will become effective, and that dealings in the Bonds on the London Stock Exchange will commence, on or about 12 April 2017.

   The Issuer estimates that the total expenses related to the admission to trading will be approximately £7,040.

Governmental, Legal and Arbitration Proceedings

3. There are no, and have not been any, governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer and its consolidated subsidiaries (taken as a whole).

Significant Change/Material Adverse Change

4. Since 31 July 2016 there has been no material adverse change in the prospects of the Issuer nor any significant change in the financial or trading position of the Issuer and its consolidated subsidiaries (taken as a whole).

Auditors

5. The consolidated financial statements of the Issuer for the two years ended 31 July 2015 and 31 July 2016 have been audited without qualification by Mazars LLP. Mazars LLP is a member of the Institute of Chartered Accountants in England and Wales.

Documents on Display

6. Copies of the following documents may be inspected during normal business hours at the offices of the Issuer for 12 months from the date of this Prospectus:

   (a) the Charter and Statutes of the Issuer;

   (b) the Paying Agency Agreement and the Trust Deed; and

   (c) the audited consolidated financial statements of the Issuer for the years ended 31 July 2015 and 31 July 2016.

Yield

7. On the basis of the issue price of the Bonds of 99.764 per cent. of their principal amount, the gross yield of the Bonds is a semi-annual yield of 2.259 per cent. per annum as at the date of this Prospectus.

Legend Concerning U.S. Persons

8. The Bonds and any Coupons and Talons appertaining thereto will bear a legend to the following effect: "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".

ISIN and Common Code

9. The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS1577724492 and the Common Code is 157772449.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg, Luxembourg.

FINANCIAL STATEMENTS AND AUDITORS' REPORTS

The Auditors' reports and audited consolidated financial statements of the Issuer as at and for the year ended 31 July 2015 and as at and for the year ended 31 July 2016 are set out below.

The Issuer's financial statements have been prepared in accordance with:

- for the financial statements as at and for the year ended 31 July 2015 in accordance with United Kingdom Generally Accepted Accounting Practice ("**UK GAAP**");
- for the financial statements as at and for the year ended 31 July 2016 in accordance with Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland ("**FRS 102**") and Accounting for further and higher education: Statement of Recommended Practice 2015 applicable to higher education institutions preparing their accounts in accordance with FRS 102 (the "**2015 SORP**"); and
- for the purposes of the financial statements as at and for the year ended 31 July 2016, the comparator year (2015) has been restated in accordance with FRS 102.

UNIVERSITY OF Southampton

Financial Statements and Statistics
2014 - 2015

Financial Statements for the year ended 31 July 2015

Contents

Treasurer
David J Price, CBE

Director of Finance
Sarah C Pook, BSc, CPFA

Bankers
Lloyds Banking Group Plc
City Office Branch
Bailey Drive
Gillingham Business Park
Gillingham
Kent ME8 0LS

External Auditors
Mazars LLP
90 Victoria Street
Bristol
BS1 6DP

Internal Auditors
PricewaterhouseCoopers LLP
Savannah House
3 Ocean Way
Ocean Village
Southampton SO14 3TJ

Operating and Financial Review

Introduction

The income generated by the University for the year to 31 July 2015 increased by £42.6 million to a record level of £527 million, an improvement of 8.8% compared with 2013/14. This substantial growth was driven by higher academic fees, the opening of a new hall of residence and the one-off gain to research income from claiming research and development expenditure tax credits (RDEC). The university achieved a surplus of £24.0 million (4.6% of income), which includes £8.9 million (after tax) from these RDEC credits.

This year saw the opening of our Boldrewood Innovation Campus and the fruition of our partnership with Lloyd's Register who have now relocated their Global Technology Centre onto the Innovation Campus. We welcomed our students to the new city centre Mayflower halls of residence, an additional 1,100 rooms for our students. We have seen the continued growth of the University through research strength and income as well as the continued growth in our student body.

In December 2014, we reaffirmed our position as one of the world's leading research universities in the latest national assessment of research – the Research Excellence Framework (REF). We were ranked 8th in the UK based on the quality and percentage of staff whose research was submitted; with over 97% of our research environment assessed as world-leading and internationally excellent; and nearly 90% as having world-leading and internationally excellent impact, making us one of the leading universities across a wide range of disciplines.

Our position as a destination of choice for undergraduates was underlined this year with a commendation from the Quality Assurance Agency for Higher Education (QAA) for our enhancement of student learning opportunities. The commendation – the highest rating possible – was published by the QAA in its Higher Education Review report on the quality and standards of provision at Southampton, in April 2015. The report also confirmed that our academic standards, the quality of our student learning opportunities and the quality of information about our learning opportunities all meet UK expectations for standards and quality.

In the National Student Survey (NSS) overall satisfaction improved again for 2015, with 88% of students agreeing they were satisfied with the University, there are still improvements that can be made and these remain our focus. In the 2015 NSS results, the University of Southampton ranked 10th in the Russell Group (up 4 places from 14th in 2014). Students' Overall Satisfaction with their course rose from 86% to 88% this year. The University increased its satisfaction levels in 17 of the 23 core questions asked in the survey. Within individual subject rankings, Southampton tops the Russell Group in a number of areas, ranking with the highest overall satisfaction in Civil Engineering; Design Studies; Media Studies; Molecular Biology, Biophysics and Biochemistry; European Languages and Area Studies and Physics and Astronomy.

In the most recent Destination of Leavers from Higher Education survey, 85.7% of graduates whose destinations were known were in employment and/or further study within six months of graduating. 2014/15 also saw our improvements recognised in enhancements in league table performance across the board. Domestically, we are 14th in both the Complete University Guide and the Guardian University Guide and, in the Times Good University Guide, we rose two places to 16th, 7th for our research quality. The University has performed well in the global league table rankings, climbing 22 places in this year's *Times Higher Education* (*THE*) World University Rankings to rank 110 overall. Southampton remained in the top 150 of the Academic Ranking of World Universities (ARWU). In the international table published by QS, also published in September, Southampton climbed 13 places to 81.

Financial Review 2014/15

Income

The University produced a surplus of £24.0 million (£15.4 million in 2013/14), which represents 4.6% of income (3.2% in 2013/14). University income increased by £42.6 million (8.8%) to £527 million, driven by increases across the portfolio with our new halls of residence and our relationship with Lloyd's Register at Boldrewood, along with a one-off gain within research income with our ability to claim research and development expenditure credits. Increasing income is a key focus of the University because improved operating surpluses are required to fund investments against the backdrop of declining capital and teaching grants and the reductions in real cash funding of research.

Our focus is on growth with quality. The improvements in quality over the last few years have culminated in our recent success in independent assessments of the University, both in research and academic excellence, as well as in the assessments provided by our students themselves.

Operating and Financial Review (continued)

Total income from academic fees, support and teaching grants has increased by £13.2 million (6.0%) from £218.8 million in 2013/14 to £232.0 million in 2014/15. The increase in academic fees is partially offset by a 32% decrease in the teaching grant from the Higher Education Funding Council for England (HEFCE) from £27.4 million in 2013/14 to £18.5 million in 2014/15.

Late in this financial year, as part of the summer budget of the new Government, we were subject to in year grant reductions to our teaching grant from HEFCE, as a result of an efficiency measure across the government's financial year 2014/15. This totalled close to £0.5 million. There are further grant reductions in 2015/16 as the transitional research grant funding we received following our success in the REF was removed just three months after its announcement with a reduction of a further £1.5 million of grant funding. We were able to absorb the reduction in teaching grant income without adverse impacts for our students. This signals the growing impact of government spending restrictions on higher education, with the spending review now underway and modelling significant reductions. Whilst we are increasingly less reliant on such grant funding, it is essential to ensure the full costs of research and the additional costs of teaching Science, Technology, Engineering and Maths subjects are funded.

Research grant and contracts income has increased by 11.9% to £124.2 million, which includes £11.3 million from the research and development expenditure tax credits. Grants from the UK Research Councils saw a modest increase of £1.3 million to £51.4 million, ahead of the broadly flat funding allocations from the Research Councils nationally. The contribution to indirect costs arising from research grants (excluding the RDEC claim) fell by £0.6 million to £30.6 million, reflecting in part the impact of efficiency savings imposed on UK universities following the Research Councils UK (RCUK) Wakeham Review which are suppressing funding below sustainable levels. The savings reduce real cash funding to institutions by limiting both allowances for future inflation on multi-year grants and the contribution to meet indirect costs. This is counter to the pronounced UK policy of full economic cost funding and further lowers the real price paid for our work.

Other operating income increased by 15.3% to £108.6 million (2013/14 £94.1 million) due to the opening of our new city centre Mayflower halls of residence with 1,100 bedrooms, the opening of our Boldrewood campus and the success of our partnership with Lloyd's Register, and the continued development of our enterprise activity across the University.

Endowment income and interest receivable reduced from £2.9 million to £1.8 million, with income from short-term deposits and investments reducing from £2.3 million to £1.6 million, and income from endowments reducing from £0.6 million to £0.2 million. The average interest rate achieved on cash balances and short-term deposits in 2014/15 of 1.23% is less than the 1.7% achieved in 2013/14. This reflects both the continued reduction of rates available in the market and the redemption at maturity of some longer term deposits which were benefitting from favourable interest rates.

Expenditure

University expenditure increased by £31 million (6.7%) from £469 million to £500 million.

Staff expenditure increased by 6.1% from £265 million to £282 million. The 2014 national pay award was 1% and around 40% of staff are entitled to annual pay scale increments of 3% in addition to this. The number of average full-time equivalent staff employed by the University during the year increased by 3.2%. The increase in staff numbers can in part be attributed to our further investment in academic staff, as a strategy to ensure our success in the REF exercise, where the contributions of over 1,100 staff were included in our return. In addition, approximately 40 full-time equivalent members of staff have been recruited to support the operation of the new Mayflower halls of residence.

Other operating expenditure increased by £8.1 million (4.7%) to £181.2 million (2013/14 £173.1 million). Bursaries, fellowships, scholarships and prizes increased by £3.9 million in line with our continuing commitment to improve access to the University for talented students regardless of their background. Part of this increase can also be attributed to more of our students opting to take their funding as a bursary rather than a fee waiver.

The depreciation charge has increased by £4.4 million (17.9%) to £28.9 million. This reflects the impact of the completion of capital projects at our Boldrewood campus which are now being depreciated, the first year of depreciation associated with the Mayflower halls of residence and additional depreciation relating to equipment purchases.

Interest payable has increased by £2.9 million (50.6%) to £8.6 million. These additional costs relate to the finance lease associated with the Mayflower halls of residence, which has increased interest costs by £3.1 million in the year, offset by

Operating and Financial Review (continued)

reducing interest costs on our bank loans as they are repaid. Our expenditure includes the operations of our campus in Johor, Malaysia (USMC) where teaching commenced for a first year cohort in October 2012. The operation is planned to make deficits in the initial years as student numbers build up and new programmes come on stream. In 2014/15 the deficit was £2.0 million (2013/14 deficit of £1.5 million). In addition to the development of our two plus two undergraduate degree courses with students taught in Malaysia for two years and then in the UK for two years, we had a successful first intake to our foundation programme in Engineering. We are slowly developing our offering from USMC, ensuring an excellent student experience and a successful transfer to Southampton in the UK.

Balance Sheet

The University committed £87 million acquiring or constructing capital assets. The largest single item was the signing of the finance lease for the Mayflower halls of residence in the centre of Southampton, valued at £49 million, offering excellent accommodation along with gym facilities and learning space. Our development of the Southampton Boldrewood Innovation Campus continued with experimentation facilities including a new world class towing tank due for completion in the first semester of 2015/16. The final development on this site, due for completion in 2018, is now underway supported by Government following confirmation in the summer budget of funding for the UK Collaboratorium for Research in Infrastructure and Cities (UKCRIC). We were successful in our bid for HEFCE funding for capital to be match funded by the University to increase our teaching facilities for STEM subjects and over the summer completed two significant enhancements; one for our laboratories at the National Oceanography Centre Southampton with 38 additional spaces and the other in our electronics and computer science labs where we built state of the art laboratories for 216 students. The total investment will be over £10 million in these facilities including the Boldrewood Innovation Campus development.

The University has maintained a strong liquidity position. Our cash and near cash decreased by £2.2 million to finish the year at £111 million. This is more than sufficient to meet our treasury policy requirements of holding more than two months payroll costs (approximately £47 million) in funds that are available within a month. Our cash inflow from operating activities increased to £36.2 million (£32.1 million in 2013/14).

The net current assets stand at £24.3 million (2013/14 £15.5 million). In 2014/15 the University entered into a finance lease relating to the Mayflower halls of residence, which added £44.8 million to our long-term financing arrangements as at 31 July. Other capital expenditure has been funded without the need for additional long-term loans. Therefore, our long-term financing arrangements have risen by £36.3 million from £89.3 million to £125.5 million, which includes the capital repayment of existing loans of £8.5 million. The financing arrangements are held with a number of commercial banks with final repayments due from 2016 to 2047. Further information on this, the rates payable and security arrangements are outlined in note 17 to the financial statements.

The pension liability of the PASNAS fund has increased by £3.4 million to a deficit of £64.1 million; this is primarily due to a decrease in the discount rate assumption used to estimate the present value of future cash flows. This demonstrates the volatility that the retirement benefits accounting standard, FRS 17, can bring to the balance sheet as a result of changes in highly sensitive assumptions. The triennial valuation of the PASNAS scheme falls due on 31 July 2015 and the deficit recovery plan for the valuation outcomes will be in place for the accounts next year. It will be valued at this time of low gilt yields and discount rates.

2014/15 has also seen considerable activity following the outcome of the USS triennial valuation. The initial valuation resulted in a significant increase in the deficit on the scheme from £2.9 billion (92% funded) at 31 March 2011 to over £12 billion at 31 March 2014. To ensure employer and employee contributions remained affordable, there was a major consultation on changes to the benefits structure. In July 2015 the scheme actuaries were able to submit a deficit recovery plan to the Pensions Regulator for a deficit of £5.3 billion (89% funded). This involves an increase in employer contributions from 16% to 18% from 1 April 2016, the closure of the final salary scheme on 31 March 2016 with benefits increased in line with CPI and members moved to a career average scheme with a threshold salary of £55,000 per annum above which contributions are made into the defined contribution section of the scheme. In line with the move to FRS 102 for 2015/16, the University's share of this deficit recovery plan will be accounted for with a significant impact for the balance sheet and income and expenditure account.

Despite the increase in the PASNAS pension liability, total net assets increased by £28 million to £409 million. This has been primarily driven by the operating surplus, the acquisition of fixed assets and through repaying long-term loans.

Operating and Financial Review (continued)

Performance of Investments
The continuation of historically low interest rates has again impacted on the performance of our investments. The main impact is due to longer term deposits, negotiated at better rates several years ago, coming to an end and being replaced by deposits with lower rates. The rates on longer term deposits are similar to those on short-term funds. As such there has been little benefit in placing funds long-term so we have reduced the average longevity of deposits. We have closely monitored our deposit counterparties throughout the year. Given the market conditions, the University considers that an average return rate of 1.23% is an acceptable outcome for the year.

In January 2015 the Lazard Charity Unit Trust fund was closed unexpectedly and the endowment funds were returned to the University as cash. The sale was concluded in an orderly fashion at no detriment to the University. We are currently undertaking due diligence to locate a new fund manager that is appropriate to the University's needs and meets our investment policies.

The University of Southampton Science Park continues to trade strongly, contributing a surplus to the consolidated accounts of £1.4 million. The net asset value on the balance sheet of the company is £22 million (2013/14 £22 million). As well as making a valuable contribution to our operating surplus, the Science Park supports our strategy with opportunities for our research to spin out into enterprise activities and for employment for our students as they graduate as well as driving economic growth and social development in our city and region.

Key Performance Indicators (KPIs) 2010/11 to 2014/15

The University has over-achieved against three of the four medium-term financial targets set within the University strategy (2010-2015): salary costs, cash generated from ordinary activities and maximum net debt as a percentage of income. The operating surplus for the year has improved from 3.2% to 4.6% of income against a target of 5% for 2015 and cash generated from ordinary activities has exceeded the target of 8%, rising from 7.1% to 8.9%, although the one-off receipt of RDEC credits in the year has contributed to the improvement in both these targets.

Financial Measure (as a % of income)	**Strategic Plan 2015 Target**	**2013/14 Achievement**	**2014/15 Achievement**
Surplus on Ordinary Activity	5%	3.2%	4.6%
Cash Generation from Ordinary Activities[1]	8%	7.1%	8.9%
Maximum Net Debt	Less than 15%	-3.2%	4.6%
Salary Costs	Less than 55%	54.8%	53.5%

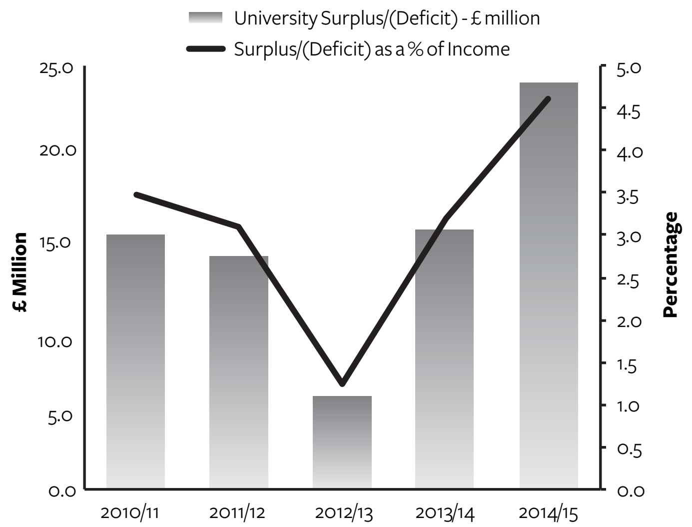
The refreshed "Vision 2020" strategy (2015-2020) was approved at Council in July 2014 and is summarised below. The financial key performance indicators (KPIs) that will be used to monitor progress in future are Surplus on Ordinary Activities, Salary Costs as a percentage of income and liquid assets expressed as a numbers of months of payroll costs. Further KPIs relating to cashflow and balance sheet strength will be developed within a new treasury strategy that will explore the approach to funding the next capital programme.

1 Cash generation from ordinary activities is defined as the surplus excluding depreciation and HEFCE deferred capital grants released in year

Operating and Financial Review (continued)

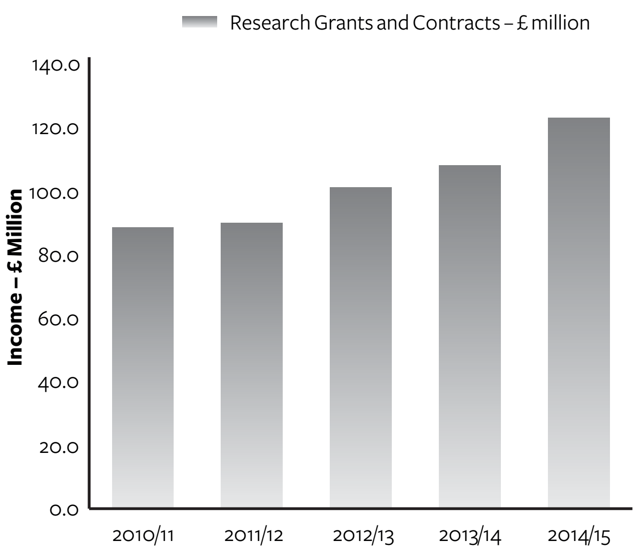
University Surpluses on Ordinary Activity 2010/11 – 2014/15

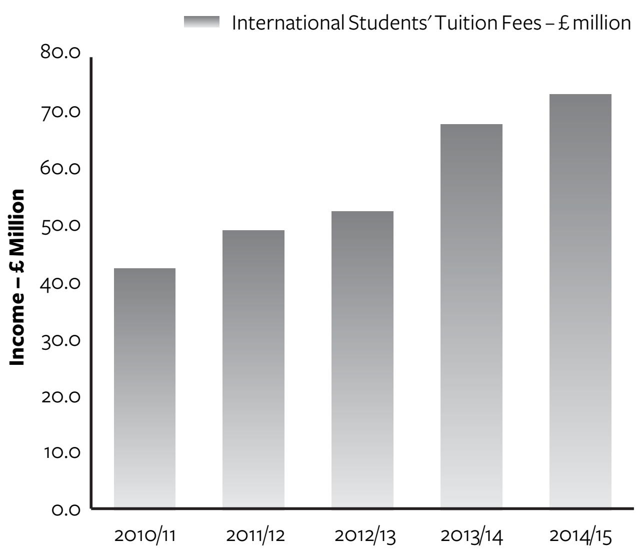
The surplus in 2014/15 represented 4.6% (2013/14 3.2%) of income and continues a long-term trend of sound financial performance. The surplus includes the receipt of £8.9 million (after tax) in respect of the University's claim for research and development expenditure credits from HMRC. The lower than planned level of recruitment in 2012 continues to hamper our ability to generate surpluses at the targeted level but strong income growth over the last two years coupled with ongoing constraint of expenditure increases has produced a steady underlying surplus.



Research Grants and Contracts and International Students' Tuition Fees 2010/11 – 2014/15

We identified research grant and contract earnings and international students' tuition fees as the two key sources of income where significant growth could be achieved through the University's efforts. The 2014/15 results continue the trend of strong growth. Success in winning research awards, which have shown strong growth in recent years, continues to feed through to research income and is expected to drive further increases in future years. The receipt of RDEC credits of £11.3 million has also provided a one-off boost to our research performance in this year.

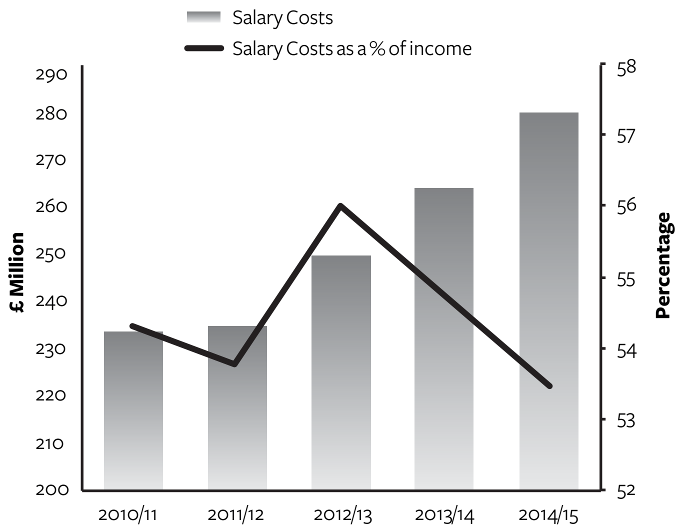




Operating and Financial Review (continued)

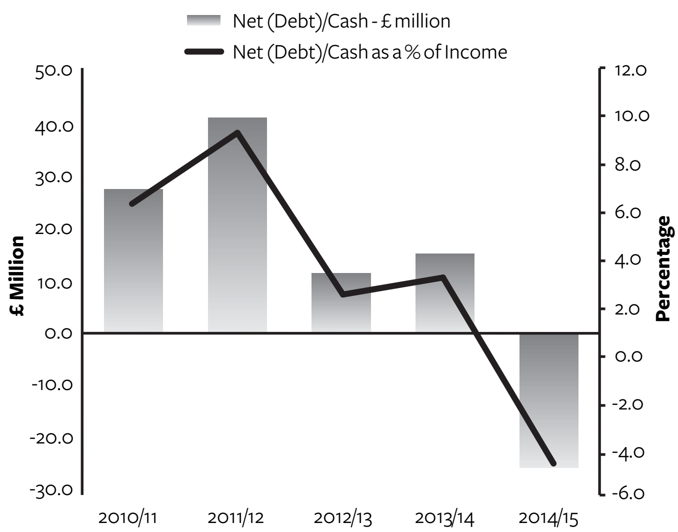
Salary Costs as Proportion of Income 2010/11 – 2014/15

The growth in staff numbers reflect planned investments as we approached the Research Excellence Framework (REF) submission in November 2013, with over 1,100 staff being included in our submission. Salary costs as a percentage of income peaked as planned in 2012/13 and further increases in staff numbers over the last two years have been constrained in line with growth in student numbers and research grant and contract activity. In addition, approximately 40 full-time equivalent members of staff have been recruited to support the operation of the new Mayflower halls of residence.



Movement of (Net Debt)/Net Cash 2010/11 – 2014/15

The level of University debt exceeds cash holdings by £24.4 million (2013/14 cash exceeded debt by £16 million). In 2014/15 the University entered into a finance lease relating to the Mayflower halls of residence, which added £44.8 million to our long-term financing arrangements as at 31 July. The University plans to continue to fund capital programme spend from cash balances and debt as a result of the decline in HEFCE capital funding.



Operating and Financial Review (continued)

Vision 2020 – The University Strategy (2015-2020)

In July 2014, Council approved a refresh of the University strategy (2010-2015). The original strategy was approved in July 2010 and took us to 2015. The new strategy, "Vision 2020", builds on the successes achieved between 2010 and 2014, reflects market developments since and now takes us through to 2020.

The vision within "Vision 2020" is to "be a distinctive, global leader in education, research and enterprise. By 2020 we expect to be clearly recognised as a successful and highly influential international university. We aspire to be a place of opportunity and inspiration that attracts the most talented staff and students from the UK and across the globe. We will grow our University resources and facilities to meet fully the expectations and ambitions of our high-performing staff and students."

Our aims
By 2020 we will have:

Revolutionised our education
We will harness current and emerging technologies to broaden our reach and optimise student engagement in learning. Our curriculum structures, teaching delivery and extension activities will offer greater flexibility, enabling students to personalise their learning and to participate in teaching programmes connected to all parts of the globe.

Transformed our global research competitiveness
Our future reputation depends upon our competitive edge in research. We will sustain the peaks of excellence in which we are international leaders and invest in emerging researchers and groups who are capable of global recognition. We will continue to grow our academic community in line with our overall growth and, through enhanced diversification of funding, increase our total research income to £135 million by 2020.

Become a globally connected University
We will build on our international success in research and education. By strengthening existing relationships and developing new partnerships we will increase our global presence and reach. Our international research collaborations will grow along with our international student population based in the UK and overseas.

Made important contributions to our society and the economy
We will further strengthen the economic and societal impact of the University and be a first point of engagement for business and policy makers. We will achieve further success in incubating new forms of enterprise and spin-out companies and maintain our position as one of the UK's top five universities for business and enterprise.

Become a partner for growth in our city and region
We will continue to make a major contribution to economic growth and social development in our city and region, creating jobs and working with local authorities, business organisations and our Science Park to attract future inward investment.

Strengthened our community in keeping with our values
Ultimately, the University's strength lies in the vitality, quality and diversity of our people. We aspire to be an empowered and mutually supportive community. This will be evident from our behaviours, our systems of reward and recognition, and the working environment we create.

Major Financial Risks

University Council and Audit Committee review the University risk register at regular intervals. Both consider that it is consistent with their knowledge of the University's activities and addresses the key aspects of the University's Strategic Plan.

A comprehensive financial risk assessment was considered by Council in setting the 2015/16 University budget. The major risk areas are summarised below:

Risk of reduced recruitment of students
In the UK, competition for students has increased substantially since the introduction of £9,000 fees and the steady deregulation of intake quotas. The trend of highly volatile recruitment continues, and competition has intensified in 2015 with the removal of remaining student number controls. Longer term, the number of 18 year olds within the UK is declining up until 2020. The International recruitment market is also highly competitive but is influenced by different factors such as exchange rates, UK government visa policies which are subject to short notice changes and competition from other countries. The Home PGT market has been substantially impacted by the changes to funding for Home undergraduates. For 2015/16 the Government introduced a first step to improve the accessibility of PGT study through a match funded bursary

Operating and Financial Review (continued)

scheme for students from disadvantaged backgrounds. A consultation was launched on a loan scheme for PGT students from 2016/17 which would improve support for students.

The strategy of the University is to grow overall student numbers, both in the UK and globally, but not at the cost of quality of intake and the student experience. The growth requires significant investments in facilities, information technology and new locations for study abroad. The availability of funds to invest will, in turn, be dependent on the University's abilities to generate sufficient surpluses to service the investment requirements.

Risk of the outcome of the 2015 Government Spending Review reducing the funding the University receives from one or more sources

Whilst the changes to funding for Home and EU students have significantly reduced our reliance on Government, we recognise that our research is heavily reliant on RCUK and HEFCE grant funding, which has to date been subject to pressures through the lack of real term growth. We have substantial relationships with Government around training teachers, doctors and health care professionals and we continue to work with Government on many areas of national infrastructure investment in our research and in our graduates. Following the real terms reduction in research funding over previous years, we saw in year reduction to Government grant funding in 2014/15 from the Summer Budget and we anticipate revenue and capital pressures from the spending review. We consider these risks in our business planning and budgeting and they are a key consideration in our future focus on the improvements we need in our operating model to ensure sustainability.

Risk of not meeting student expectation of their education and other experiences

The changes to higher education funding within the UK places a stronger emphasis on maintaining a consistent high-quality student experience. Failure to satisfy students would lead to reputational damage and eventually lower recruitment. The University has placed continued student experience improvements at the centre of its strategic plan. While the University's National Student Survey results in 2015 are generally positive (with an improved rank of 4 places to 10th in the Russell Group for overall satisfaction), our strategy demands further improvement. Therefore, we are taking targeted action to address weaknesses in certain parts of the University. Moreover, by generating sufficient surpluses, the University will be able to invest in areas that further improve the student experience.

Risk that the University staff costs will become unsustainable

Following the recovery plan for the USS, employer contributions are set to increase in 2015/16 by 2% for 65% of the staff employed by the University. Government changes to the contracting out from State Pensions means that employers' NI contributions increase further in 2015/16 by around 2%. The continuation of large deficits in the USS and PASNAS schemes remains a concern. The PASNAS scheme deficit has increased significantly in the year because of declines in gilt yields and discount factors. The valuation for PASNAS at 31 July 2015 is underway and the expectation is of an increased deficit for the University (as major employer) to consider. The budget for 2015/16 has built in provision for these significant pressures on pay inflation at a time of frozen Home/EU tuition fees and reducing government grants.

Capital Developments

2014/15 has seen the occupation of the first stage of our Innovation Campus on the Boldrewood site, in collaboration with Lloyd's Register. The campus has seen our staff, students and 400 staff from Lloyd's Register move into world class facilities for marine and maritime teaching and research. The project has been delivered within the overall cost plan. Construction was completed on phase 2, the hydromechanics building, and the facility was operational in the first semester of 2015/16 enabling the towing tank together with the anechoic wind chamber to be used.

As part of the residences strategy the University saw students moving into the Mayflower halls of residence. This was delivered in August 2014 and within the overall budget approved by Council. This new student accommodation comprises three residential blocks of up to 17 floors housing 1,100 students and includes a shop and gym. Situated next door to the Mayflower Theatre, the build represents a substantial investment in the city. This has been followed by the delivery of around 350 beds at the City Gateway halls in August 2015 on a long-term operating lease and construction is underway for around 350 beds in the new Chamberlain Halls on the University's Glen Eyre site for occupation in September 2016.

We launched our Cancer Science Immunology campaign to fund the first dedicated cancer immunology centre in the UK.

Operating and Financial Review (continued)

Connected to leading institutions worldwide, this cutting-edge research hub will enable our interdisciplinary teams to expand clinical trials, explore new areas and develop lifesaving drugs. This is the biggest fundraising campaign the University has ever undertaken. We have already received donations totalling more than £13 million from our supporters.

We were successful in winning a bid for match funded capital grant funding from HEFCE to invest in growing and enhancing our teaching facilities for STEM. Work progressed over the summer to deliver enhanced teaching facilities for Electronics and Computer Sciences, and Ocean and Earth Sciences, to increase our capacity and ultimately grow the numbers of top quality graduates in key STEM disciplines and cross-disciplinary areas studying at Southampton.

Future Plans

Future plans include the progression and completion of existing construction projects on the Chamberlain Halls of residence, the completion of Boldrewood with the National Infrastructure Laboratory, a world class structures laboratory, as part of the UK Collaboratorium for Research in Infrastructure and Cities (UKCRIC), a multi university collaboratorium providing leadership and support for a step change in the nation's approach to infrastructure investment and the Cancer Immunology Centre being built on the University Hospital Southampton NHS Foundation Trust site.

The next capital programme is well developed and will support the development of the Business School, the enhancement of teaching and learning facilities for our students and an improvement in our core infrastructure enabling effective business processes.

For 2015/16 all universities will move to a new Financial Reporting Standard (FRS 102). We are advanced in our planning for the change which will substantially change the presentation of our annual financial statements. We are working with our key stakeholders to ensure the change and any associated apparent volatility is well understood.

We welcome Sir Christopher Snowden as our new Vice-Chancellor and will be working with him to sharpen our strategy to address the changing higher education environment. The comprehensive spending review will bring new challenges, and the development of the Teaching Excellence Framework will put additional focus on the student experience alongside our continued focus on our Research Excellence. In sharpening the strategy, we will be looking at further improving our sustainability ensuring we can generate the funds we need to continue to invest in our ambition to change the world for the better through our teaching, research and enterprise.

Conclusion

The University has had a good year. Our performance in the UK national assessment of research that took place in December 2014 was excellent, with outstanding achievements in both our research intensity and the impact of our research on society. Both our research income and academic fees have grown to record levels. The quality of our teaching has received the highest level of commendation from the QAA and the feedback from the National Student Survey has shown that we have continued to improve our student experience. All of these have contributed to improvements in both our national and international university rankings. The University has, therefore, made good progress against its strategic goals to change the world for the better through our research, education, innovation and enterprise.

During the year, the University invested over £86 million in new buildings and equipment. Further investment to complete the Innovation Campus, create a new centre for cancer immunology, new teaching and learning facilities as well as more student accommodation will be required for the coming year. A new Vice-Chancellor, a strong cash position and our recent successes in research and education provide an excellent foundation for the future.

David Price
University Treasurer

Public Benefit

Introduction

The University of Southampton is a Chartered Corporation, established by Royal Charter on 29 April 1952 to be a teaching and examining body and to further the prosecution of research. Details of our Charter are available online at www.calendar.soton.ac.uk/sectionIII/charter.html.

Our reputation for excellence in research and education, which is reflected in our UK and international league table rankings, is built on a long history of world-changing achievements. We are a founding member of the Russell Group of research intensive universities and our successes continue to be acknowledged with prestigious awards.

Our position as a destination of choice for undergraduates was underlined this year with a commendation from the Quality Assurance Agency for Higher Education (QAA) for our enhancement of student learning opportunities. The commendation – the highest rating possible – was published by the QAA in its Higher Education Review report on the quality and standards of provision at Southampton, in April 2015.

In December 2014, we reaffirmed our position as one of the world's leading research universities in the latest national assessment of research – the Research Excellence Framework (REF). We were ranked 8th in the UK based on the quality and percentage of staff whose research was submitted.

We featured highly in university league tables in 2014/15, retaining our ranking in the top 1% of universities worldwide.

We invest heavily in the development of our students, working with partners around the world to provide a relevant, flexible education that prepares our students for their future. In 2014/15, over 23,000 full and part-time students benefitted from our world-class educational programmes.

At the same time, our leading-edge research continues to have a tangible impact on individuals, communities and the economy. Through our research and enterprise activities, we connect with businesses to foster innovations that address some of society's greatest challenges. Over the past year, as a result of our investment in student communications, a Southampton initiative to better present financial information to students has been identified by HEFCE as a good practice case study. We asked our students how they wanted us to communicate financial information, and learned, for example, that they would prefer it communicated graphically where possible, with narrative text reserved for the highlighting of key messages. Our finance and communications and marketing teams have been working with the Students' Union to refine our approach.

Charitable status

The University has charitable status as one of the exempt charities listed in Schedule 3 to the Charities Act 2011. We are responsible to the Higher Education Funding Council for England (HEFCE), our principal regulator. The University reports annually on the ways in which it has delivered charitable purposes for the public benefit.

The University's governing body, the University Council, has due regard to the Charity Commission's guidance on public benefit requirements in setting and reviewing the University's objectives and activities. Members of the University Council are also the charitable trustees of the University.

Beneficiaries of the University's charitable objectives are our students, both undergraduate and postgraduate, our research collaborators, employers, industry, policymakers and the wider public, who derive considerable benefit from the contributions of the University's teaching, research and enterprise. The local, regional and national economies also benefit significantly from our activities.

Economic and social impact

In February 2015, a detailed economic and social impact assessment of the University was produced by independent consultancy BiGGAR Economics. Their study demonstrates how the University's activities create benefits and impacts for both the economy and for society, underlining our role as a major contributor to the local area of Southampton, the wider region, the UK and beyond. http://www.southampton.ac.uk/about/impact.page

The BiGGAR report shows that in addition to education and research and our purchase of goods and services, the University drives economic impact through partnership with businesses and the public sector, leading to invention and innovation in products, services, policy, strategy and health care delivery and also the creation and growth of businesses. The report's authors estimate that the University of Southampton annually supports economic activity in Southampton of more than £729 million and 11,700 jobs. For the regional area the figure is over

Public Benefit (continued)

£1.0 billion and 16,300 jobs; and for the UK it is over £2.0 billion and 26,500 jobs.

The report also highlights our role as a major regional employer – with well over 6,400 members of staff – most of whom live in the region and contribute to the communities in which they live. It further highlights the economic and social contribution of our students, through volunteering activities and part-time employment, as well as through their purchase of goods and services.

Student education, admissions and widening participation

The University offers a distinctive education in a modern learning environment underpinned by world-class research. More than most universities of our type, we offer choice and flexibility in study options and support our students as they prepare for employment and life after university. Our programmes are designed to challenge our students to develop the critical thinking and independent learning they will need in their future careers.

Since the introduction of our first MOOCs (massive open online courses) in November 2013, over 250,000 learners have enrolled on our free online courses. We now have a suite of nine MOOCs (soon to be 10) all of which have the benefit of being available online, making our educational resources available to anyone in the world with internet access.

We have a strong track record in supporting access and achievement by students from under-represented groups. We were one of the first universities to introduce a Widening Access to Medicine programme (BM6); one of the first to receive the Buttle Trust Quality Mark in recognition of our support for care leavers; and a founding institution in the Pathways to Law programme.

We work closely with schools, colleges and local communities to encourage prospective students to consider higher education. Ambitious local school children are able to make more informed choices about higher education through programmes developed by our Student Recruitment and Outreach Team. In Southampton's primary and secondary schools and local sixth form colleges, we deliver workshops and seminars on a wide range of practical life skill topics.

Through our "Learn with US" outreach programme we take a long-term and targeted approach to raising aspirations among school-age children. This programme is linked to our Access to Southampton scheme, providing special consideration and financial support to students from designated under-represented groups, including those who are the first generation of immediate family to apply to Higher Education or those who live, or have grown up in public care.

Our ground-breaking "Learn with US transition" programme provides unique support for sixth-form students to develop their research skills, including support for the Extended Project Qualification (EPQ). Its research-active members of staff also provide schools and colleges with taster lectures, seminars and our 'Research-Based Learning Project' to tap into students' curiosity and scholarship. We are the only Russell Group university to make an alternative offer based on students attaining an A or A* in the EPQ for disciplines in areas such as Humanities or Social Sciences (for example: ABB plus an "A" in an EPQ, rather than AAB).

The impact of our commitment to widening access and student success has been evidenced in our performance indicators for UK students. We have performed consistently well in recruiting state school students, being third highest in the Russell Group, with 86.1% in 2013/14. In the last five years, we have increased our proportion of first-year undergraduate black and minority ethnic students from 10.2% in 2008/09 to 15.2% in 2013/14. In 2013/14, 22.5% of our students came from low socio-economic groups and 7% from low participation neighbourhoods.

The University's contribution to student financial support consists of primarily bursaries and fee waivers that are administered centrally, independently from decisions over admissions. We operate a 'needs blind' admissions policy. Students in health care disciplines may be supported by non-repayable bursaries from the NHS.

The overall total for student financial support has risen in 2014/15 to £9.3 million. This is analysed as follows:

- Payments in 2014/15 of £8.7 million under our current OFFA agreement, relating to bursaries and partial fee waivers of up to £3,000 per annum for students from low income households entering since 2012/13.
- Payments in 2014/15 of £0.6 million for undergraduate students entering the University from less well-off backgrounds under the previous student funding framework.

Public Benefit (continued)

Investment from the University and the Higher Education Funding Council (HEFCE) is supporting a multi-million pound transformation of our undergraduate Electronic and Computer Science laboratories in 2015. We have also invested significantly in our teaching facilities for Ocean and Earth Science at the National Oceanography Centre Southampton.

Outreach

The University continued to expand its public engagement activities in 2014/15.

- Our annual “Bringing research to life” roadshow tours regionally and nationally between March and September, showcasing an expanded selection of Southampton research. It reaches on average over 20,000 visitors annually, with invaluable support from an enthusiastic team of volunteer research-communicators and undergraduate Student Ambassadors. Our touring Planetarium Shows continue to be popular and we run successful Stargazing Live events which tie in with the BBC show. In total, over 25,500 people have participated in our Physics and Astronomy outreach activities in the past year.
- Since 2010, we have provided the funding for local school students to learn more about science by visiting the Winchester Science Centre and Planetarium. In 2014/15 a total of 2,403 pupils accompanied by 407 staff/helpers attended on a no-fee basis as a result of the grant offered by the University of Southampton.
- Our LifeLab project, overseen by academics in Medicine and Education, helped 1,442 schoolchildren from Southampton and the surrounding areas learn about science and health, through visits to our hospital-based classroom and laboratory facility in 2014/15. The project has been shortlisted for a Times Higher Education award.
- We have engaged with local secondary school students and teachers in the RCUK-funded project “Talk to US!” over the past three years. Researchers from our Education School work with colleagues from other disciplines on a range of projects to help teachers and students develop a research culture.
- In the past year, pupils from 12 different schools attended five Royal Institution Mathematics Masterclasses at the University, aimed at helping talented Year 9 pupils. The annual sessions are designed to encourage, inspire and engage young people in the art and practice of Maths.
- In this International Year of Light, Southampton researchers have been highlighting the importance of photonics, the science of light, in many global industries such as lighting, telecommunications, medicine and manufacturing. One initiative involved the Optoelectronics Research Centre (ORC) and Physics and Astronomy collaborating with an award-winning garden designer to create a garden for the RHS Tatton Flower Show, taking visitors on a journey into the world of light-based technology. This was voted Best Garden in the People’s Choice Awards at the show.
- Our Researchers’ Café events continue to take place on campus and in town; and in May this year a number of Southampton researchers took part in highly successful Pint of Science public engagement events in local pubs.
- In 2014, the University had three projects shortlisted for the national Engage Awards 2014, winning Best Individual-Led Project.
- In a joint initiative, scientists from the School of Ocean and Earth Science worked in partnership with the city’s SeaCity museum to bring a major dinosaur exhibition to the city.

Social impact

The University contributes significantly to improvements to health and well-being through its research. We annually train around 250 doctors and 520 nurses and midwives, together with other allied health professionals, health visitors and school nurses – many of whom work in this region. The work of our student volunteers and our schools’ outreach programmes benefit the wider community and open up the University to groups who might not otherwise have a connection with us.

We have a close working relationship with hospitals in the region. Patients are regularly diagnosed and treated by University medical professionals. Our medical staff work with colleagues at University Hospital Southampton NHS Foundation Trust in translational research, offering patients novel and effective treatment options in areas as diverse as cancer, osteoporosis, asthma and eye disease.

We are a major investor in the city of Southampton – building facilities for education, research and enterprise, as well as for residences for our students – and providing work for local contractors.

We recently launched a £25 million fundraising campaign to build the first dedicated cancer immunology centre in the UK. Southampton researchers have been leading the way in cancer immunology research and immunotherapy treatments for over 40 years and the last few years have seen exciting

Public Benefit (continued)

developments, harnessing the power of people's immune system to seek out, destroy and eradicate cancers, potentially providing lifelong immunity. http://www.southampton.ac.uk/youreit/get-involved/

In April 2015, our Auditory Implant Service, based in the Institute of Sound and Vibration Research, celebrated 25 years of helping deaf adults and children to hear. Since it was established in 1990, the Service (formerly known as the South of England Cochlear Implant Centre) has implanted over 1,000 cochlear implants – devices that help people to regain their hearing or allow them to hear for the first time. It has also developed a number of firsts in clinical treatment, including the UK's first bilateral implant, and has conducted ground breaking research into speech processing, measuring hearing improvement and assessing patient quality of life.

In April 2015, Enactus Southampton won the national social enterprise final for the fourth time in five years and will again represent the UK at the World Cup in October. The Southampton group, now over 200 members strong, supports projects in the UK and Africa.

Research impact

We have a global reputation for the quality, depth and breadth of our research at Southampton.

The 2014 Research Excellence Framework, ranked us first on the basis of the volume and quality of our research in Electronic and Electrical Engineering and General Engineering; first on the quality of research in Music; and first in Nursing and Allied Health Professions in terms of research intensity. Southampton achieved top five nationally in Ocean and Earth Science; History; Modern Languages; and Social Policy (including criminology, demography, gerontology, and sociology). These results provide an endorsement of the extremely high quality of research produced here and confirm our reputation as one of the most respected universities in the UK and around the world.

Our academics are tackling some of the most pressing challenges facing society today and deliver a range of direct public benefits from their work. We have an open access policy for research which aims to maximise the visibility, usage and impact of our research through global access.

The University is a major driver of innovation with the exploitation of world-leading research and development undertaken by our academics and students. We are global leaders in the aerospace and defence sector, with research strengths in structures, power-plants, materials, fluid dynamics, electronics, optoelectronics and cyber-systems, as well as supply chains and logistics. We help a wide range of companies from multi-national blue chip companies through to SMEs find solutions to their most challenging problems using our knowledge and world-class facilities.

Over 40% of our annual research is conducted in collaboration with industrial partners. As one of the top three UK universities in terms of working with SMEs, industrial partnerships are strategically very important to us and are a proven route for wider benefit and impact of our research activities. Our Science Park, located in Chilworth, has provided a nurturing home for many start-up and rapidly growing businesses over the past 30 years. New development on the Park has been approved to expand the available rental space.

We also run a successful business incubation programme to support high-tech, high-growth companies. The SETsquared partnership, of which the University is a founding member, retains its number one ranking of university business incubation activities in Europe and number two in the world.

Our Public Policy@Southampton initiative works to increase the reach and impact of University of Southampton research by bringing together the expertise of world-leading researchers with the expertise and experience of key policymakers and practitioners to address issues of social, cultural, economic and political importance. http://publicpolicy.southampton.ac.uk.

The University's marine and maritime expertise boosts growth in the maritime sector across the region and the UK. The first new buildings on our £140 million Boldrewood Innovation Campus were completed in 2014, with staff from Engineering and the Environment moving into their new state-of-the-art accommodation. Marine specialists, Lloyd's Register, have also moved 400 jobs to their new base at the campus. The company relocated its Global Technology Centre to Southampton in order to be close to the University's marine experts and state-of-the-art facilities.

Public Benefit (continued)

Research highlights from 2014/15

Environment and sustainability

- The University is leading one of three major research projects that make up a £4.5 million investment from the EPSRC to safeguard the UK's water, energy and food security.
- Researchers are working in Assam, India, to investigate the effects of climate factors on the production of tea – one of the most important beverage crops in the world.
- Southampton geographers have developed a new way of measuring the 'health' of poor regional communities. Their methodology examines the balance between factors such as standards of living, natural resources, agriculture, industry and the economy. They aim to improve the wellbeing of people by guiding sustainable development practices to help avoid social and environmental collapse.
- University of Southampton research has shown consumers reduce their water consumption by 16.5% after they receive a metered connection – based on the study of a five-year programme to install nearly half a million water meters in the south-east of England.

Critical infrastructures

- Southampton researchers have led a national EPSRC-funded project to help the UK rail industry reduce delays and achieve multi-million-pound savings. Practical measures to aid landslip prevention and enhance track stability are among the improvements pinpointed.
- The University of Southampton is to join forces with the European Commission and the Japanese government to develop new technologies for high-speed networks in densely populated user areas.

Health and well-being

- What does it take for us to get to 100 years old? What are our chances of living beyond a century? How do our early years, lifestyle, work and where we live affect our lifespan? These are just some of the questions raised in a new exhibition taken around the UK by population experts at the University of Southampton.
- Engineering researchers have helped to develop pioneering "tweezers" that use ultrasound beams to grip and manipulate tiny clusters of cells, which could lead to life-changing medical advances, such as better cartilage implants that reduce the need for knee replacement operations.
- Scientists at the University are set to analyse research investments into infectious diseases, particularly pneumonia and maternal and neonatal infections, after receiving over £370,000 in funding from the Bill & Melinda Gates Foundation.
- A new drug with the potential to reverse resistance to immunotherapy has been developed by scientists at Southampton. It has shown great promise in pre-clinical models and will be available to patients with certain leukaemias and non-Hodgkin lymphomas in clinical trials later this year.
- Cancer patients can return to pre-treatment fitness levels within six weeks using a novel 'prehabilitation' programme, developed by doctors and scientists at Southampton. Researchers at the NIHR Southampton Respiratory Biomedical Research Unit studied the effect of tailored exercise programmes on bowel cancer patients after chemotherapy and radiotherapy but before surgery.
- An international study involving the University of Southampton suggests there could be a rise in measles cases of 100,000 across the three countries most affected by the Ebola outbreak in West Africa due to health system disruptions.

Advanced materials, manufacturing and technologies

- Southampton is to play a major role in helping to boost the UK's ability to develop and exploit the vast potential of robotics and autonomous systems, as a founding partner of the EPSRC UK Robotics and Autonomous Systems Network (UK-RAS Network).
- The University of Southampton is to share in £20 million of funding to advance the UK's manufacturing capability. Southampton will receive £3.1 million to revolutionise the manufacture and use of specialised glass, called chalcogenides, in a range of products from optical fibre and infrared lenses to electronic devices, including logic and memory. The University's Composite Material Facility, unique to the UK, will also help to develop and manufacture radically new and advanced materials.

Humanities

- Archaeologists from the University of Southampton have revealed for the first time the plan of a network of buildings in a once thriving medieval city at the historic site of Old Sarum, near Salisbury.
- The experiences of a young soldier killed in the First World War underpin a major new work by the world-renowned composer and University of Southampton professor, Michael Finnissy.
- Experts on the Battle of Agincourt attending the University of Southampton conference to mark its 600th anniversary

Public Benefit (continued)

heard new evidence suggesting Henry V's naval fleet, used to transport troops, was much smaller than previously thought.
- To coincide with the 200th anniversary of the Battle of Waterloo, an exhibition at the University's Hartley Library gave a unique perspective on the Duke of Wellington's role in the battle, using material from the Wellington Archives, held and conserved by the Library.

Values

Southampton is a world-class university built on the quality and diversity of our community. We place a high value on excellence and creativity, supporting independence of thought, and the freedom to challenge existing knowledge and beliefs through critical research and scholarship. Through our education and research, we transform people's lives and change the world for the better. The University's continued drive to improve fairness and equality for women has gained us a silver and four bronze awards as part of the UK-wide Athena SWAN initiative.

Four core values underpin our activities and shape our culture, ultimately enabling us to achieve our vision:
- Excellence: We aspire to be the best in all we do, inspiring the confidence and ambition that enable our staff and students to reach their full potential.
- Creativity: We are imaginative and resourceful, thriving in an environment that values independent thought and encourages originality and innovation amongst its staff and students.
- Community: We achieve more together, we are an inclusive, collegial community that builds tolerance, respect and mutual support amongst staff and students.
- Integrity: We are committed to the highest standards. Our personal and institutional conduct is consistent and honest, engendering trust between and within our University communities.

Private benefit

Private benefit arising from commercially funded research and knowledge transfer activity is incidental to the University's principal objects. The University's trustees are aware of their obligations in respect of our public benefit principles and ensure that the University has appropriate procedures and policies in place to manage any potential for conflict of interest.

Public and community engagement and culture

With over 6,400 members of staff, the University is one of the largest employers in Southampton and offers a wide variety of employment opportunities. Many of our students contribute to the city through their volunteering activities, and many remain in the region after graduation, providing a skilled workforce and contributing professionally.

Our excellent sports facilities and arts venues are open to members of the local community, and uniquely within UK higher education, we support three world-class arts venues that are "national portfolio organisations" funded by Arts Council England. These are the John Hansard Gallery, the Turner Sims concert hall and the Nuffield theatre. In 2015, the John Hansard Gallery was selected to join the Plus Tate contemporary visual arts network, and Nuffield was voted Regional Theatre of the Year 2015 at The Stage Awards.

We work closely with our Students' Union, local agencies and neighbours to promote the positive benefits of the University's presence in the community and to ensure that we mitigate any potentially negative impacts that might arise.

Members of the public are invited to use the University library for reference, without charge; and we offer borrowing rights to a number of community groups. Our Library houses a large and valuable collection of archives, including the Wellington Papers and the Broadlands Archives – a large collection of original documents relating to the lives and work of, among others, the Seventh Earl of Shaftesbury, Viscount Palmerston and Earl Mountbatten of Burma.

Creating a sustainable organisation

We recognise that there is a tension between the University's aspirations for globalisation and growth, and our desire to minimise the environmental impacts of our activities. Our vision is to embed the principles of sustainability into all aspects of our work, integrating sustainable development into our business planning and policy-making (Vision 2020).

To manage our environmental impacts we have an environmental management system certified to the ISO 14001 standard. ISO 14001 is an internationally recognised standard for environmental management. External auditors reviewed our systems and processes in July 2015, to verify that we are continuing to meet the requirements of the standard – they

Public Benefit (continued)

remarked on the considerable effort we put into maintaining our environmental management system.

We manage a range of activities to reduce our environmental impacts from energy use, waste and travel. Engaging our students and staff in our activities is a positive way to achieve change. The integration of sustainability into our taught curriculum ensures we provide all students with an opportunity to engage in sustainability to equip them with the skills to contribute to a low carbon, sustainable society. During the course of the year, we held a series of events such as Blackout – a switch-off campaign, Waste Wars – a waste audit and Swop Shop – a clothes exchange.

The University has an aspirational target to achieve a 20% reduction in carbon dioxide equivalent emissions by 2020 (from a 2005/06 baseline), and we have a strategic carbon management plan in place. This is a very challenging target, given that we had already established plans for significant growth from 2005/06 levels of activity. Since 2005/06 our student and staff full-time equivalent (FTE) numbers have increased by around 11%, yet in 2014/15 our energy and carbon dioxide emissions per FTE were approximately 6% less than the 2005/06 baseline year.

Over the last year, our Unilink bus service carried approximately 5.5 million passengers – half a million more than the previous year. In September 2014, we increased the frequency of buses to and from the city centre to provide better connections with rail services from Southampton Central station and to support students at our Mayflower halls of residence. We have installed additional cycle storage facilities across our campuses, and continue to work closely with local authority partners to develop and improve the local cycle network. These measures have helped us meet our Travel Plan objectives for 2015; we have set new objectives to take us up to 2020.

The University continues to manage its resources efficiently. In 2012/13, we achieved the 60% recycling target following introduction of a comprehensive recycling and waste management scheme. In 2013/14, this increased to 70% and this rate has been maintained in 2014/15. A revised target of 75% has been set for July 2016. Additionally, none of our non-recyclable waste is being sent to landfill.

In June 2015, we collaborated with the city council to run another Southampton BioBlitz event, which saw local people join wildlife groups and university scientists in a race against the clock to find as many species of plants and animals as possible in 24 hours. Visitors took part in some important citizen science and learned more about the wildlife that surrounds them. The data collected will be added to a vast database at the Hampshire Biological Information Centre, to compare Southampton's biodiversity with other places in the county.

Over the next year we will continue to work towards meeting our energy, travel and waste targets – we will also work with students and staff to reduce our printing and explore new ways of encouraging sustainable behaviours.

Corporate Governance

Summary of Corporate Governance

The University of Southampton is an exempt charity under the terms of the Charities Act 2011.

The University was established in 1952 by Royal Charter which, together with the Statutes that came into force at the same time, provides the framework for the corporate governance of the institution. The Council is the governing body of the University, and is charged by the Charter with responsibility for "...the management and administration of the whole revenue and property of the University and the conduct of all the affairs of the University..." (Article 11 of the Charter). In carrying out its functions, the Council is bound by the terms of the Memorandum of Assurance and Accountability with the Higher Education Funding Council for England (HEFCE), which is updated annually, and the acceptance of which is a precondition for the receipt of HEFCE grants. The Senate is the other principal decision-making body.

The University has complied with the key recommendations of the Committee of University Chairs' 'The Higher Education Code of Governance'. The Statement of Primary Responsibilities adopted by the University's governing body can be viewed at:
http://www.southampton.ac.uk/aboutus/councilmembers/

Council has a membership consisting of *ex officio* members, lay members, representatives of the academic and other staff and the President of the Students' Union (see below for Council membership). The Chair and Vice-Chair of Council are appointed from among the lay membership which forms a majority on the Council.

Whilst the Chancellor is the titular head of the University, the Vice-Chancellor is the University's principal academic and administrative officer, and Accountable Officer. The Treasurer is a lay and non-executive member of the Council whose remit is to advise generally on matters relating to the University economy, and to satisfy himself as to the soundness of the University's financial position and the integrity of its financial transactions. The Registrar is Secretary to the University Council.

The Council meets six times a year, and receives reports on the functioning of the University and of its subsidiary companies. These include the critical assessment of agreed Key Performance Indicators. Matters specifically reserved for Council decision include the Mission and strategic direction of the University, and the approval of budgetary allocations and of major new developments. Whilst the Council is the ultimate authority within the University, it cannot be directly involved in decision making on all matters for which it is formally responsible: the range of business undertaken inevitably means that some delegation of powers to individuals and to committees is necessary.

The Audit Committee meets four times a year. Meetings are attended by the External Auditors, to discuss audit findings, and also by the Internal Auditors, to discuss detailed internal audit reports and recommendations for the improvement of the University's systems of financial control, together with management's response and implementation plans. The Committee also considers reports from HEFCE relating to the conduct of business and monitors adherence to the regulatory requirements. The Committee reviews the University's annual financial statements together with the accounting policies. Whilst senior executives are in attendance at meetings, they are not members of the Committee, which reserves the right to meet separately with the External and Internal Auditors for independent consultations.

The Nominations Committee is responsible for making recommendations for the filling of vacancies in the lay membership of Council, following internal and external advertisement and reference to the alumni of the University. The Committee also appoints the lay members of the Audit Committee and Senior Salaries Committee.

The Senior Salaries Committee determines the salaries of University Executive Group members and maintains an overview of the salary costs of senior professorial and administrative staff. Lay members of the Committee determine the Vice-Chancellor's salary.

All these committees are formally constituted with terms of reference and comprise lay and academic members, one of whom is in the chair. All members of the Council and of the committees, together with the executive officers, are subject to Standing Orders, which *inter alia* require the maintenance of a Register of Interests. Members may not be present at any discussion in which they have a direct or indirect financial interest.

Statement of Internal Control

The Council is responsible for maintaining a sound system of

Corporate Governance (continued)

internal control which supports the achievement of policies, aims and objectives, whilst safeguarding the public and other funds and assets for which it is responsible.

The key elements of the system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- clear definition of the responsibilities and delegated authority of heads of academic and administrative groups;
- a medium and short-term planning process, supplemented by detailed annual income and expenditure and capital budgets;
- regular reviews of performance and at least termly reviews of financial performance and updates of forecasts of out-turns;
- clearly defined and formalised requirements for control of expenditure, appointment of staff, investment and borrowing decisions;
- comprehensive Financial Regulations, amended most recently in March 2014, approved by the Audit Committee and Council;
- a professional internal audit service, whose responsibilities cover the entire internal control systems of the institution.

The system of internal control is supplemented by an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks, and to manage them efficiently, effectively and economically. Council has approved a process of identifying major risks and encouraging risk management awareness throughout the University with formal risk management strategies, policies and reporting systems, which are regularly monitored by Audit Committee and Council. This includes a focus on primary strategic aims and Key Performance Indicators. Risk management and internal control are considered on a regular basis during the year and there is an adequate risk and control assessment system. Risk management has also been incorporated fully into the corporate planning and decision-making processes of the University. Council reviews the University's strategic risk register at every other meeting, and reviews the University Key Performance Indicators annually in July.

Council's review of the effectiveness of the system of internal control is informed by the work of the Internal Auditors and the executive managers within the institution who have responsibility for the development and maintenance of the internal control framework, and by comments made by the External Auditors in their management letter and other reports.

Role of Council in the Preparation of the Financial Statements

The Council is responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the University and which enable it to ensure that the financial statements are prepared in accordance with the 'Statement of Recommended Practice: Accounting for Further and Higher Education' and other relevant accounting standards. In addition, within the terms and conditions of the Memorandum of Assurance and Accountability agreed between HEFCE and the Council of the University, Council, through the Vice-Chancellor, is required to ensure the preparation of financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.

Council has, through its committees and officers, ensured that in the preparation of the financial statements:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Council is satisfied that the University has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis has been used in the preparation of the financial statements.

The Council has taken reasonable steps to:

- ensure that funds from HEFCE are used only for the purposes for which they have been given and in accordance with the Memorandum of Assurance and Accountability and any other conditions which the Funding Council may have prescribed;
- ensure that there are appropriate financial and management controls in place to safeguard funds from all sources;
- safeguard the assets of the University and prevent and detect fraud;
- secure the economical, efficient and effective management of the University's resources and expenditure.

Members of Council have had regard to the Charity Commission's guidance on public benefit.

Corporate Governance (continued)

The Audit Committee, on behalf of Council, has reviewed the effectiveness of the systems of internal control. Any such system can, however, only provide reasonable, but not absolute, assurance against financial misstatement or loss.

Members of the Council

There are five classes of Council membership.

Class 1: Officers
Class 2: Lay members appointed by the Council
Class 3: Members of University staff appointed by the Senate
Class 4: Members of University non-teaching staff
Class 5: Representatives of the Union of Students

Membership for the period 1 August 2014 – 26 November 2015

Name	Type of Membership	Original appointment in this class commenced	Appointment end or actual leaving date if before 26 Nov 2015	Attendance Aug 2014 – Jul 2015	Membership of other Committees of Council (including joint committees)
Dr G Rider	Class 1 Chair	August 2012	July 2018	6/6	Standing Committee of Council Nominations Committee Senior Salaries Committee
Dr M P Read CBE	Class 1 Vice-Chair	August 2008	July 2015	3/6	Standing Committee of Council Nominations Committee Senior Salaries Committee
Dr R C Rivaz Hon DSc	Class 1 Vice-Chair	August 2014	July 2017	4/6	Standing Committee of Council Nominations Committee Senior Salaries Committee
Mr M S Killingley	Class 1 Treasurer	August 2009	July 2015	6/6	Standing Committee of Council Nominations Committee Senior Salaries Committee
Professor D Nutbeam	Class 1 Vice-Chancellor	October 2009	30 September 2015	6/6	Standing Committee of Council Nominations Committee Senior Salaries Committee
Professor Sir Christopher Snowden	Class 1 Vice-Chancellor	October 2015		0/0	Standing Committee of Council Nominations Committee Senior Salaries Committee
Professor A A Wheeler	Class 1 Deputy Vice-Chancellor	August 2007		6/6	Standing Committee of Council Nominations Committee Senior Salaries Committee

Corporate Governance (continued)

Mr M C Burrow	Class 2	May 2010	May 2016	2/6	Audit Committee
Rear Admiral P D Greenish CBE	Class 2	March 2011	July 2017	5/6	Health and Safety Audit and Assurance Committee
Ms S Kumar	Class 2	March 2012	July 2017	5/6	
Mr T P O'Brien CBE	Class 2	April 2009	July 2017	6/6	
Dr D J Price CBE	Class 2 (until 31 July 2015) Class 1 Treasurer (from 1 August 2015)	October 2010	July 2016	5/6	Audit Committee Nominations Committee Senior Salaries Committee
Mr J A Trewby CB	Class 2	October 2009	July 2018	5/6	
Mr W Shannon	Class 2	July 2015	July 2018	1/1	
Mr G Berruyer	Class 2	October 2015	July 2018	0/0	
Professor Dame Jessica Corner	Class 3	August 2014	July 2017	6/6	
Professor D McGhee	Class 3	August 2012	July 2015	5/6	
Professor J A Vickers	Class 3	March 2012	July 2018	5/6	Nominations Committee
Dr B Lwaleed	Class 3	August 2015	July 2018	0/0	
Mr A Reyes-Hughes	Class 4	August 2014	July 2017	6/6	
Mr D Mendoza Wolfson	Class 5	July 2014	June 2015	5/5	
Mr B Franklin	Class 5	July 2015	June 2016	0/1	

M MAZARS

INDEPENDENT AUDITOR'S REPORT TO THE COUNCIL OF THE UNIVERSITY OF SOUTHAMPTON

We have audited the group and parent institution financial statements (the "financial statements") of the University of Southampton for the year ended 31 July 2015 which comprise the Consolidated Income and Expenditure Account, the Consolidated and Parent Institution Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Group Total Recognised Gains and Losses, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Council and auditor

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

This report, including the opinions, has been prepared for and only for the Council as a body in accordance with the Accounts Direction of the Charters and Statutes of the institution and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 parent institution's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with the knowledge acquired by us in the course of performing the audit. 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 group's and institution's affairs as at 31 July 2015 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 institution for specific purposes have been properly applied to those purposes and, if relevant, managed in accordance with relevant legislation;
- income has been applied in accordance with the institution'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 Corporate Governance Statement is inconsistent with our knowledge of the parent institution and group.

Mazars LLP

Mazars LLP
Chartered Accountants and Statutory Auditor
90 Victoria Street
Bristol
BS1 6DP

26 November 2015

Consolidated Income and Expenditure Account for the year ended 31 July 2015

	Notes	2015 £000	2014 £000
Income			
Funding Council grants	2	**78,968**	84,965
Academic fees and support grants	3	**213,382**	191,355
Research grants and contracts	4	**124,188**	110,971
Other operating income	5	**108,578**	94,140
Endowment income and interest receivable	6	**1,785**	2,860
Total income		**526,901**	484,291
Expenditure			
Staff costs	7	**281,778**	265,462
Depreciation	10	**28,859**	24,483
Other operating expenses	8	**181,201**	173,145
Interest payable	9	**8,581**	5,697
Total expenditure	10	**500,419**	468,787
Surplus after depreciation of assets and before tax		**26,482**	15,504
Taxation	4	(2,470)	-
Surplus after depreciation of assets and tax		**24,012**	15,504
Surplus for the year transferred to accumulated income in endowment funds	20	(37)	(110)
Surplus for the year		**23,975**	15,394

All income and expenditure is in respect of continuing operations.

The notes on pages 28 to 63 form part of these financial statements

Balance Sheets as at 31 July 2015

		Consolidated		University	
	Notes	2015	2014	2015	2014
		£000	£000	£000	£000
Fixed assets					
Tangible assets	11	**564,366**	505,921	**531,914**	474,203
Investments	12	**1,385**	1,385	**15,938**	14,238
		565,751	507,306	**547,852**	488,441
Endowment asset investments	13	**12,470**	12,101	**12,470**	12,101
Debtors: amounts falling due after more than one year	14	**443**	473	**561**	583
Current assets	15	**177,258**	159,757	**175,340**	159,205
Creditors: amounts falling due within one year	16	**(152,942)**	(144,263)	**(150,186)**	(141,598)
Net current assets		**24,316**	15,494	**25,154**	17,607
Total assets less current liabilities		**602,980**	535,374	**586,037**	518,732
Creditors: amounts falling due after more than one year	17	**(127,382)**	(91,168)	**(119,343)**	(82,401)
Provisions for liabilities and charges	18	**(373)**	(246)	-	-
Net assets excluding pension liability		**475,225**	443,960	**466,694**	436,331
Pension liability	26	**(66,097)**	(62,678)	**(66,097)**	(62,678)
Total net assets		**409,128**	381,282	**400,597**	373,653
Represented by :					
Deferred capital grants	19	**180,060**	177,366	**180,035**	177,366
Endowments					
Permanent	20	**10,548**	10,260	**10,548**	10,260
Expendable	20	**1,922**	1,841	**1,922**	1,841
		12,470	12,101	**12,470**	12,101
Reserves					
Revaluation reserve	21	**7,881**	7,502	-	-
Pension reserve	26	**(66,097)**	(62,678)	**(66,097)**	(62,678)
Income and Expenditure account	22	**274,814**	246,991	**274,189**	246,864
		216,598	191,815	**208,092**	184,186
Total funds		**409,128**	381,282	**400,597**	373,653

The financial statements on pages 24 to 63 were approved by the Council on 26 November 2015, and signed on its behalf by:

Professor Sir Christopher Snowden
Vice-Chancellor

David Price
Treasurer

Sarah Pook
Director of Finance

The notes on pages 28 to 63 form part of these financial statements

Consolidated Cash Flow Statement for the year ended 31 July 2015

	Notes	2015 £000	2014 £000
Net cash inflow from operating activities	27	36,214	32,106
Returns on investments and servicing of finance	28	(4,965)	(1,291)
Capital investment and financial investment	29	(72,211)	(26,976)
Cash (outflow)/inflow before use of liquid resources and financing		(40,962)	3,839
Management of liquid resources	31	564	10,013
Net financing	30	38,742	(7,085)
(Decrease)/increase in cash	31	(1,656)	6,767

Reconciliation of Net Cash Flow to Movement in Net Debt

	Notes	2015 £000	2014 £000
(Decrease)/increase in cash in period	31	(1,656)	6,767
Decrease in liquid resources	31	(566)	(10,016)
New loans and debt movement	30	(49,000)	-
Exchange rate gain	30	897	756
Repayment of debt	30	10,258	7,085
Change in net debt		(40,067)	4,592
Net cash at 1 August 2014	31	15,660	11,068
Net cash at 31 July 2015	31	(24,407)	15,660

The notes on pages 28 to 63 form part of these financial statements

Statement of Total Recognised Gains and Losses (STRGL) for the year ended 31 July 2015

	Notes	2015 £000	2014 £000
Surplus after depreciation of assets and tax		**24,012**	15,504
Net movement on deferred capital grants	19	**2,694**	10,583
Unrealised appreciation on endowment asset investments	20	**289**	351
Realised gains on endowment asset investments	20	**(112)**	(303)
Endowments received in year	20	**117**	70
Unrealised gain on revaluation of University of Southampton Science Park	21	**379**	2,836
Actuarial gain/(loss) on defined benefit pension schemes		**467**	(12,275)
Total recognised gains relating to the year		**27,846**	16,766

Total funds as per balance sheet:		
At 1 August 2014	**381,282**	364,516
Total recognised gains	**27,846**	16,766
At 31 July 2015	**409,128**	381,282

The notes on pages 28 to 63 form part of these financial statements

Notes to the Financial Statements for the year ended 31 July 2015

1. Statement of principal accounting policies

a. Accounting convention
The financial statements have been prepared under the historical cost convention, as modified by the revaluation of endowment asset investments and investment properties in accordance with both the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 (SORP) and applicable accounting standards.

b. Basis of consolidation
The consolidated financial statements consolidate the financial statements of the University and all its subsidiary undertakings.

Where the financial statements of subsidiary companies are denominated in foreign currency, income and expenditure are converted to sterling for consolidation on the basis of the average exchange rate for the accounting period and the balance sheet is converted as per the rate at the balance sheet date. Any resulting exchange rate differences are recognised in the income and expenditure account.

The consolidated financial statements do not include those of the University of Southampton Students' Union as it is a separate entity over which the University does not exercise control or significant influence over policy decisions.

A 20% minority interest exists in Southampton Asset Management Ltd, a subsidiary company. The value of this minority interest is insignificant and it has therefore not been disclosed within the financial statements.

c. Recognition of income
Government basic and other recurrent grants are included in the year to which they relate. Specific grants are brought into income to the extent of expenditure in the year.

Fee income is credited to the income and expenditure account over the period in which students are studying. Where the amount of the tuition fee is waived or reduced, income receivable is shown net of the discount. Bursary payments are accounted for gross as expenditure and not deducted from income. Income from short courses is recognised in line with the expenditure incurred during the year, with any surplus recognised on completion.

Income from specific donations, research grants and contracts is included to the extent of the expenditure incurred during the year, together with any related contributions towards indirect costs.

Income from restricted endowments is credited to the income and expenditure account on a receivable basis. Any excess or shortfall of income compared to expenditure is then transferred to or from the balance sheet before the surplus or deficit for the year is struck.

Income from short-term investments, deposits and general endowment asset investments is accrued up to the balance sheet date.

Major external contracts and rental income are accounted for under the accruals basis. Income from other external contracts, consultancies and services rendered is credited to the income and expenditure account to the extent of amounts invoiced during the year.

The University acts as agent on behalf of the Higher Education Funding Council for England with regard to the disbursement of Access funds. Receipts and payments are therefore not included in the income and expenditure account.

National College for Teaching and Leadership bursaries are administered on behalf of the Funding Council and are therefore not included in the income and expenditure account.

d. Pension schemes
Pensions are provided by means of funded defined benefit schemes and annual contributions are based on actuarial advice. The operating costs of providing retirement benefits to employees are recognised in accounting periods in which the benefits are earned by employees, and the related finance costs and other changes in value of the assets and liabilities are recognised in the period in which they arise.

In addition, the University has introduced the NEST scheme to comply with the Pensions Act 2008, which gives all University workers access to a qualifying pension scheme.

e. Foreign currencies
Transactions denominated in foreign currencies are recorded in the income and expenditure account at the actual rate of exchange on conversion to sterling. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date.

Notes to the Financial Statements for the year ended 31 July 2015

f. 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 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.

Rentals paid under operating leases are charged to the income and expenditure account on a straight line basis over the lease term.

g. Land and buildings

Capitalised expenditure on land and buildings is included in the balance sheet at historical cost.

Buildings under construction within the University are accounted for at cost, based on the value of architects' certificates and other direct costs incurred to 31 July. They are not depreciated until they are brought into use.

Depreciation is charged on the following bases:

(i) Buildings acquired after 1 August 1989 - on a straight line basis over 50 years, with the exception of certain special purpose buildings with shorter useful lives.

(ii) Buildings acquired before 1 August 1989 - on a straight line basis over 30 years commencing in August 1989.

Land is not depreciated.

An impairment review of a fixed asset is carried out if events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

University of Southampton Science Park, an investment property, is accounted for at market value. It is revalued annually and any surplus or deficit arising is taken to a revaluation reserve in general funds. No provision is made for depreciation of this property in accordance with SSAP19.

In accordance with SSAP4 and the SORP, grants received from governmental sources and restricted capital funds are held as deferred capital grants and released to the income and expenditure account over the estimated life of the asset.

h. Equipment

Equipment purchased by the University and costing less than £25,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised. The capitalisation thresholds for subsidiary undertakings are set at appropriate levels that do not exceed £25,000.

Equipment capitalised by the University is generally stated at cost and depreciated over three years. Large scale items of equipment and computer infrastructure are depreciated over a period equal to their expected useful economic life. Capitalised furniture and equipment held by subsidiary undertakings is depreciated over periods of between 3 and 10 years.

Depreciation is charged to the income and expenditure account on a straight line basis.

i. Deferred capital grants

Where tangible fixed assets are acquired with the aid of specific grants they are capitalised and depreciated. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

j. Heritage assets

Artefacts held and conserved principally for their contribution to knowledge and culture, obtained since 1 August 2010, costing over £25,000, are capitalised and held at the lower of cost or net realisable value. Where assets are fully or substantially donated, they are capitalised and held at the lower of valuation at the time of acquisition or net realisable value.

Heritage assets are not depreciated as their long economic lives mean that any depreciation would be immaterial but they are regularly reviewed for impairment.

Income received to support the purchase of heritage assets is recognised in the year the assets are acquired.

The University holds a number of heritage assets obtained before 1 August 2010 that are not capitalised as the historical cost or valuation at the time of acquisition cannot be determined in a cost beneficial manner.

Notes to the Financial Statements for the year ended 31 July 2015

k. Gifts in kind

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

l. Investments

Endowment asset investments are included in the balance sheet at market value. Other investments are included at the lower of cost and net realisable value.

m. Stocks

The stocks are centrally held items for cleaning, maintenance and resale, and cochlear implants awaiting issue to patients. They are stated at the lower of cost and net realisable value.

n. 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 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 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.

o. Maintenance

In line with FRS 12 the University charges long term maintenance costs to the income and expenditure account as they are incurred.

p. Provisions

Provisions are recognised when the University has a present 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.

q. Comparatives

Where accounting practice has changed, the prior year comparatives have been revised accordingly.

Where new Financial Reporting Standards have been implemented or notes have been enhanced to provide additional information, comparative figures have been amended accordingly.

r. Taxation

The Institution is an exempt charity within the meaning of schedule 3 of the Charities Act 2011 (formerly schedule 2 of the Charities Act 1993) and is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the Institution is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 287 CTA 2009 and sections 471 and 478-488 CTA 2010 (formerly s505 of ICTA 1988) 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.

The Institution receives no similar exemption in respect of Value Added Tax. Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.

The Institution decided to submit a claim to HMRC under the Research and Development Expenditure Credit Scheme (RDEC); this was following a discussion in the sector on eligibility and the Chancellor of the Exchequer's announcement of the removal of entitlement after 1 August 2015, which established the fact of entitlement prior to this date.

Notes to the Financial Statements for the year ended 31 July 2015

2. Funding Council grants

	2015	2014
	£000	£000
Recurrent grants:		
Higher Education Funding Council for England (HEFCE)	**62,856**	72,146
National College for Teaching and Leadership	**(42)**	159
Specific grants:		
HEFCE	**10,177**	7,012
Deferred capital grants released in year (note 19)	**5,977**	5,648
	78,968	84,965

3. Academic fees and support grants

	2015	2014
	£000	£000
Full-time Home/EU students	**117,788**	99,749
Full-time international students	**71,526**	68,337
Part-time Home/EU students	**2,192**	1,948
Part-time international students	**826**	528
Research training support grants	**15,656**	14,528
Special and short course fees	**5,394**	6,265
	213,382	191,355

Included in the above is £17,359,000 (2014: £18,539,000) of NHS Teaching Contract income in respect of full and part-time fees.
Other income from health authorities is disclosed under note 5.
Fee income is stated net of waivers and discounts.

Notes to the Financial Statements for the year ended 31 July 2015

4. Research grants and contracts

	2015 £000	2014 £000
Income		
Research councils	**51,362**	50,053
UK based charities	**12,547**	14,434
UK Central Government/local authorities/health authorities and hospitals	**16,115**	13,240
UK public corporations/industry and commerce	**8,186**	8,296
EU Government	**16,325**	16,231
EU other sources	**2,134**	3,034
Other overseas sources	**5,224**	4,517
Other sources	**967**	1,166
HMRC – Research and development expenditure credit (RDEC) claims	**11,328**	-
	124,188	110,971
Expenditure - direct costs		
Salaries and wages	**49,363**	46,452
Equipment	**3,940**	3,689
Depreciation	**4,710**	3,996
Other costs	**24,281**	25,661
	82,294	79,798
Contribution to indirect costs - research grants	30,566	31,173
Contribution from RDEC claims (**before taxation**)	11,328	-
	41,894	31,173

Included within income above are deferred capital grants released in the year of £4,710,000 (2014: £4,024,000) (see note 19).
The RDEC claim relates to qualifying expenditure incurred in the period 1 April 2013 to 31 July 2015.
It is subject to corporation tax of £2,470,000.

5. Other operating income

	2015 £000	2014 £000
Residences, catering and conferences	**33,826**	28,873
Consultancies, trading and services rendered	**38,447**	35,965
Health authorities	**10,007**	9,429
Other donations and subventions	**3,692**	2,594
Deferred capital grants released in year (note 19)	**619**	457
Other income	**21,987**	16,822
	108,578	94,140

Notes to the Financial Statements for the year ended 31 July 2015

6. Endowment income and interest receivable

	2015 £000	2014 £000
Income from permanent endowment asset investments (note 20)	**149**	248
Income from expendable endowment asset investments (note 20)	**16**	330
Income from short term deposits and investments	**1,620**	2,282
	1,785	2,860

7. Staff

	2015 £000	2014 £000
Staff costs:		
Salaries and wages	**227,721**	215,373
Social Security costs	**18,001**	16,930
Other pension costs (note 26)		
Employer contributions	**33,135**	31,575
Accounting adjustments relating to defined benefit pension schemes	**2,563**	1,232
Severance and early retirement	**358**	352
	281,778	265,462

	2015 Number	2014 Number
Average staff numbers expressed as full-time equivalents by major category inclusive of part-time appointments:		
Education, research and enterprise	**2,773**	2,725
Management, specialist and administrative	**1,973**	1,885
Technical and experimental	**371**	365
Community and operational	**472**	439
	5,589	5,414

Notes to the Financial Statements for the year ended 31 July 2015

7. Staff (continued)

	2015 £000	2014 £000
Emoluments of the Vice-Chancellor	**252**	248
Performance-related bonus	**39**	31
Taxable benefits	**1**	1
	292	280
Pension contributions	**40**	40
Total remuneration of the Vice-Chancellor	**332**	320

The Vice-Chancellor donated £1,000 (2014: £1,000) to the University during the year as a member of the Hartley Circle.

Higher Paid Staff:
Remuneration of higher paid staff, excluding employer's pension contributions and any compensation for loss of office but including NHS distinction awards where appropriate:

	2015 Number		2014 Number	
	Total	**Clinical**	Total	Clinical
£100,000 - £109,999	**35**	**11**	28	7
£110,000 - £119,999	**26**	**11**	29	17
£120,000 - £129,999	**20**	**9**	16	7
£130,000 - £139,999	**9**	**5**	6	3
£140,000 - £149,999	**10**	**5**	15	9
£150,000 - £159,999	**11**	**6**	10	8
£160,000 - £169,999	**13**	**9**	5	4
£170,000 - £179,999	**3**	**2**	4	4
£180,000 - £189,999	**3**	**1**	2	1
£190,000 - £199,999	-	-	1	-
£200,000 - £209,999	**2**	**2**	-	-
£210,000 - £219,999	**2**	**2**	3	3
£220,000 - £229,999	**1**	**1**	-	-
£230,000 - £239,999	-	-	-	-
£240,000 - £249,999	-	-	-	-
£250,000 - £259,999	-	-	-	-
£260,000 - £269,999	-	-	-	-
£270,000 - £279,999	-	-	-	-
£280,000 - £289,999	-	-	1	-
£290,000 - £299,999	**1**	-	-	-

Notes to the Financial Statements for the year ended 31 July 2015

7. Staff (continued)

Compensation for loss of office:
Aggregate payments for compensation for loss of office for three (2014: none) senior members of staff earning more than £100,000 were £137,534 (2014: £0).

Salaries and wages, emoluments of the Vice-Chancellor and higher paid staff numbers are stated before salary sacrifice deductions.

8. Other operating expenses

	2015	2014
	£000	£000
Non capitalised equipment	**20,756**	20,093
(Gain)/loss on disposal of equipment	**(50)**	54
(Gain)/loss on disposal of land and buildings	**(53)**	188
Impairment of property value	**10**	-
Impairment of equipment	-	67
Consumables and laboratory expenditure	**17,315**	16,624
Office expenses and professional fees	**26,450**	25,897
Travel costs	**15,099**	14,119
Repairs, refurbishment and scheduled maintenance	**18,117**	20,370
Heat, light, water and power	**9,816**	8,517
Books and periodicals	**4,941**	4,721
Bursaries, fellowships, scholarships and prizes	**32,924**	29,001
External agencies and staff secondments	**10,544**	9,363
Rents, rates and hire of facilities	**6,853**	6,332
Catering supplies	**2,251**	2,203
Conference fees	**2,894**	2,709
Grant to Students' Union	**2,514**	2,468
Diminution of current asset investments valuation below historic cost	**2**	3
External auditors' remuneration	**71**	72
Auditors' remuneration in respect of other services	**87**	75
Other expenses	**10,660**	10,269
	181,201	173,145

Payments to members of the Council

Lay members and non University staff officers of the Council were reimbursed for expenses totalling £7,125 (2014: £2,795) during the year.
No payments were made to members of the Council for serving as Council members.

Notes to the Financial Statements for the year ended 31 July 2015

9. Interest payable

	2015 £000	2014 £000
Loans not wholly repayable within five years	**3,646**	3,730
Loans wholly repayable within five years	**501**	736
Finance leases	**3,111**	-
Net finance cost of defined benefit pension schemes	**1,323**	1,231
	8,581	5,697

10. Analysis of 2015 expenditure by activity

	Staff costs £000	Depreciation £000	Other operating expenses £000	Interest payable £000	2015 Total £000	2014 Total £000
Academic departments	150,567	1,652	31,363	-	**183,582**	176,777
Academic services	17,748	4,894	16,265	-	**38,907**	35,915
Research grants and contracts (note 4)	49,363	4,710	28,221	-	**82,294**	79,798
Residences, catering and conferences	7,278	2,258	10,981	2,805	**23,322**	23,633
Premises	9,894	14,433	20,230	-	**44,557**	43,582
Administration and central services	19,933	80	11,772	-	**31,785**	29,847
General educational expenditure	6,137	-	36,921	-	**43,058**	38,411
Consultancies, trading and services rendered	17,914	832	22,393	312	**41,451**	35,886
Other activities	2,944	-	3,055	5,464	**11,463**	4,938
	281,778	28,859	181,201	8,581	**500,419**	468,787

The depreciation charge has been funded by:

Deferred capital grants released (note 19)	11,306
General income	17,553
	28,859

Notes to the Financial Statements for the year ended 31 July 2015

11. Tangible assets

Consolidated

	Land and buildings						
	Completed freehold £000	Completed leasehold £000	Assets in course of construction £000	Investment properties £000	Furniture fittings and equipment £000	Heritage Assets £000	Total £000
Cost or valuation							
At 1 August 2014	462,353	84,900	35,936	30,907	115,404	6,000	735,500
Additions at cost	327	48,821	34,064	267	3,456	-	86,935
Transfers at cost	5,998	1,581	(16,030)	-	8,451	-	-
Revaluation	-	-	-	379	-	-	379
Disposals at cost	(1,947)	-	(10)	-	(2,274)	-	(4,231)
At 31 July 2015	466,731	135,302	53,960	31,553	125,037	6,000	818,583
Depreciation							
At 1 August 2014	(104,669)	(34,631)	-	(143)	(90,136)	-	(229,579)
Charge for year	(11,647)	(5,353)	-	(12)	(11,847)	-	(28,859)
Eliminated on disposal	1,947	-	-	-	2,274	-	4,221
At 31 July 2015	(114,369)	(39,984)	-	(155)	(99,709)	-	(254,217)
Net book value							
At 31 July 2015	352,362	95,318	53,960	31,398	25,328	6,000	564,366
At 1 August 2014	357,684	50,269	35,936	30,764	25,268	6,000	505,921

Notes to the Financial Statements for the year ended 31 July 2015

11. Tangible assets (continued)

University

	Land and buildings					
	Completed freehold £000	Completed leasehold £000	Assets in course of construction £000	Equipment £000	Heritage Assets £000	Total £000
Cost or valuation						
At 1 August 2014	462,353	84,900	35,726	113,731	6,000	702,710
Additions at cost	327	48,822	33,862	3,282	-	86,293
Transfers at cost	5,998	1,581	(16,030)	8,451	-	-
Disposals at cost	(1,947)	-	(10)	(2,274)	-	(4,231)
At 31 July 2015	466,731	135,303	53,548	123,190	6,000	784,772
Depreciation						
At 1 August 2014	(104,669)	(34,631)	-	(89,207)	-	(228,507)
Charge for year	(11,647)	(5,353)	-	(11,572)	-	(28,572)
Eliminated on disposal	1,947	-	-	2,274	-	4,221
At 31 July 2015	(114,369)	(39,984)	-	(98,505)	-	(252,858)
Net book value						
At 31 July 2015	352,362	95,319	53,548	24,685	6,000	531,914
At 1 August 2014	357,684	50,269	35,726	24,524	6,000	474,203

At 31 July 2015, completed freehold land and buildings included £6,386,000 (2014: £6,231,000) in respect of land, which is not depreciated.

The figures for completed leasehold land include an asset held under a finance lease which has been capitalised. This is held at a cost of £49,000,000, with accumulated depreciation of £817,000 (2014: £0) and a net book value of £48,183,000 (2014: £0).

Included in the balances for leasehold land and buildings is expenditure of £27,781,000 funded by HEFCE and its predecessors, in respect of clinical land and buildings in National Health Service ownership, and £13,546,000 for the National Oceanography Centre, Southampton, funded by HEFCE in respect of buildings constructed by the Natural Environment Research Council.

The investment property, University of Southampton Science Park, has been valued as at 31 July 2015 by Vail Williams LLP. In accordance with SSAP 19, revaluations are conducted annually by an external valuer in accordance with the Practice Statements in the RICS Appraisal and Valuation manual. The property has been valued on the basis of net present value of guaranteed future rental income from existing leases. The market value of the science park increased by £379,000 during the year. The historical cost of these assets at 31 July 2015, net of assistance grants, amounted to £22,112,000 (2014: £21,845,000).

In addition to the above expenditure on tangible assets a further £87,337,000 has been committed by the University and its subsidiary undertakings (note 24).

Notes to the Financial Statements for the year ended 31 July 2015

11. Tangible assets (continued)

Heritage assets

The University holds and conserves a significant number of rare books and manuscripts within the Special Collections Division of the Hartley Library. This includes over 6 million items in approximately 2,500 collections that have been obtained by the University and its predecessors since the 1860s. The University also maintains a significant number of paintings, drawings, sculptures, silverware and life science specimens. Items and collections obtained before 1 August 2010 have not been capitalised as the cost or valuation at the time of acquisition cannot be economically determined.

In August 2011, the University completed the acquisition of the Broadlands Archives, a significant collection of manuscripts dating from the sixteenth century to the present. Comprising more than 4,500 boxes of documents, the Broadlands Archives include correspondence of the Victorian Foreign Secretary and Prime Minister Lord Palmerston and approximately 250,000 papers and 50,000 photographs of Earl Mountbatten of Burma, including the foundation archives for the states of India and Pakistan. The collection also includes the diaries of the 19th-century social reformer and philanthropist, the 7th Earl of Shaftesbury and material regarding the Temple and Ashley estates in Hampshire.

An open market valuation of the Broadlands Archives was obtained in September 2012 from Bernard Quaritch Ltd, specialists in the valuation and sale of archives and manuscript collections. The valuer considered the separate collections that comprise the Broadlands Archives and took account of restrictions under the terms of associated grants and contracts in reaching an overall valuation of £6 million. The Archives have been capitalised at this value and there has been no movement in the balance during the current or prior financial year.

Further information regarding the Broadlands Archives and the other collections held within the Hartley Library, including access details, can be found on the Special Collections website at http://www.southampton.ac.uk/archives.

Notes to the Financial Statements for the year ended 31 July 2015

12. Fixed asset investments

	Consolidated	University
	£000	£000
Cost		
At 1 August 2014	1,789	14,738
Additions	-	1,700
Disposals	-	-
At 31 July 2015	1,789	16,438
Impairment		
At 1 August 2014	(404)	(500)
Additions	-	-
Disposals	-	-
At 31 July 2015	(404)	(500)
Net Book Value		
At 31 July 2015	1,385	15,938
At 1 August 2014	1,385	14,238
Investments comprise:		
Investment in subsidiary undertakings at valuation/cost	-	14,886
Other investments	1,385	1,052
	1,385	15,938

As at the balance sheet date, the University had invested £1,000,000 in the Wyvern Seed Fund Limited Partnership (Wyvern). The University is a limited liability partner in Wyvern, which offers venture capital to spin-out companies originating at the Universities of Bristol and Southampton.

Notes to the Financial Statements for the year ended 31 July 2015

12. Fixed asset investments (continued)

Additional information on shareholdings where the University or its subsidiaries exercise control or significant influence or where shares are listed and the University maintains a holding above 10% :

	Percentage holding	Nature of activity
Held by the University		
ECS Partners Limited (ECSP Limited)	100.00	Consultancy
IT Innovation Limited	100.00	Dormant
IT Innovation Centre Limited	100.00	Dormant
Photonic Innovations Limited	50.00	Investment company
Southampton Asset Management Limited (SAM Limited)	80.00	Investment company
Southampton Innovations Limited (SI Limited)	100.00	Investment company
Southampton International Singapore Limited	100.00 *	Research
USMC Sdn Bhd (Malaysia)	100.00	Education
University of Southampton Holdings Limited (USH Limited)	100.00	Dormant
The University of Southampton Science Park Limited (SSP Limited)	100.00	Science park management
Investments held by USH Limited		
The University of Southampton Consulting Limited	100.00	Dormant
Investments held by SI Limited		
Photonic Innovations Limited (PI Limited)	50.00	Investment company

* Company limited by guarantee, maximum liability Singapore Dollars S$1,000.

Notes to the Financial Statements for the year ended 31 July 2015

13. Endowment asset investments

	Consolidated and University	
	2015	2014
	£000	£000
Balance at 1 August	**12,101**	11,802
Disposals of stocks, equities and managed funds	**(10,613)**	(174)
Increase in market value of investments	**289**	351
Increase in endowment fund cash balances	**10,693**	122
Balance at 31 July	**12,470**	12,101
Represented by:		
Equities	**86**	118
Unit trusts and managed funds	-	10,292
Total stocks, equities and managed funds at market value*	**86**	10,410
Short term deposits	**12,384**	1,691
Total	**12,470**	12,101
***Total stocks, equities and managed funds at cost**	**3**	8,111

As at the balance sheet date, the main portfolio of endowment asset investments were in transition between fund managers and were being held as short term deposits.

14. Long term debtors and prepayments

	Consolidated		University	
	2015	2014	**2015**	2014
	£000	£000	**£000**	£000
Prepayments	**443**	473	**370**	392
Amounts owed by subsidiary undertakings	-	-	**191**	191
	443	473	**561**	583

Notes to the Financial Statements for the year ended 31 July 2015

15. Current assets

	Consolidated		University	
	2015	2014	**2015**	2014
	£000	£000	**£000**	£000
Stock	**726**	707	**726**	707
Debtors and prepayments:				
Grants from HEFCE	**1,359**	57	**1,359**	57
Student debtors	**857**	1,101	**857**	1,101
Research grants and contracts	**36,367**	23,578	**36,367**	23,578
Amounts due from group undertakings	-	-	**3,590**	3,093
Prepayments to group undertakings	-	-	**105**	87
Other prepayments	**11,483**	9,388	**10,996**	9,111
Trade and other debtors	**15,846**	12,084	**14,100**	10,164
	65,912	46,208	**67,374**	47,191
Short term deposits and investments	**54,052**	54,618	**54,052**	54,618
Cash at bank and in hand (redeemable within 24 hours)	**56,568**	58,224	**53,188**	56,689
	177,258	159,757	**175,340**	159,205

Short term deposits and investments are represented by:	**2015**	2014
	£000	£000
Quoted shares and securities *	**52**	58
Cash on deposit (not redeemable within 24 hours)	**54,000**	54,560
	54,052	54,618
* Market value of quoted shares and securities (held at lower of cost and net realisable value above)	**243**	251

The debtors figure for research grants and contracts includes an amount of £11,328,000 which relates to the University's RDEC claim to HMRC.

Notes to the Financial Statements for the year ended 31 July 2015

16. Creditors: amounts falling due within one year

	Consolidated		University	
	2015	2014	2015	2014
	£000	£000	£000	£000
Bank loans	4,476	6,788	3,766	6,119
Other loans - HEFCE	1,125	1,125	1,125	1,125
Obligations under finance leases	3,906	-	3,906	-
Advance income on research	43,368	46,079	43,368	46,079
Social Security and other taxation	10,931	9,837	10,931	9,837
Amounts owed to group undertakings	-	-	109	66
Trade and other creditors	26,174	19,539	25,105	18,563
Accruals and deferred income	62,962	60,895	61,876	59,809
	152,942	144,263	150,186	141,598

17. Creditors: amounts falling due after more than one year

	Consolidated		University	
	2015	2014	2015	2014
	£000	£000	£000	£000
Bank loans	77,704	85,081	71,267	77,933
Other loans - HEFCE	3,063	4,188	3,063	4,188
Obligations under finance leases	44,753	-	44,753	-
Accruals and deferred income	1,862	1,899	260	280
	127,382	91,168	119,343	82,401

Loans are repayable as follows:

	Consolidated		University	
	2015	2014	2015	2014
	£000	£000	£000	£000
Bank loans:				
Between one and two years	4,123	5,208	3,369	4,498
Between two and five years	9,296	12,509	6,746	10,106
Over five years	64,285	67,364	61,152	63,329
	77,704	85,081	71,267	77,933

Notes to the Financial Statements for the year ended 31 July 2015

17. Creditors: amounts falling due after more than one year (continued)

	Consolidated		University	
	2015	2014	**2015**	2014
	£000	£000	**£000**	£000
Other loans - HEFCE:				
Between one and two years	**1,063**	1,188	**1,063**	1,188
Between two and five years	**2,000**	3,000	**2,000**	3,000
Over five years	-	-	-	-
	3,063	4,188	**3,063**	4,188
Finance leases:				
Between one and two years	**3,906**	-	**3,906**	-
Between two and five years	**11,718**	-	**11,718**	-
Over five years	**29,129**	-	**29,129**	-
	44,753	-	**44,753**	-

Additional information on bank loans repayable after more than one year:

Lender	**Date loan obtained**	**Final repayment date**	**Interest rate**	**Balance outstanding 2015 £000**	Balance outstanding 2014 £000
University:					
HSBC	1993	2018	variable	-	2,042
National Westminster Bank	1996	2016	fixed	**508**	1,461
National Australia Bank	1997	2018	fixed	**332**	480
National Australia Bank	1997	2018	fixed	**458**	696
National Australia Bank	1997	2019	fixed	**1,884**	2,512
National Westminster Bank	1999	2019	fixed	**1,550**	2,005
Barclays Bank	1999	2020	fixed	**1,169**	1,444
Barclays Bank	2006	2026	variable	**5,579**	7,022
Barclays Bank	2006	2036	fixed	**9,787**	10,271
Barclays Bank	2007	2047	fixed	**50,000**	50,000
				71,267	77,933
Subsidiaries:					
Santander	2007	2023	fixed	**6,437**	7,148
				77,704	85,081

The interest rates on the bank loan facilities are at fixed and variable rates. The fixed interest rates range from 1.59% to 8.43%, and the variable rates are at margins of between 0.19% and 0.5% over UK Base Rate or Euribor. The bank and other loans are secured against specific assets and/or the general covenant of the University.

The University does not guarantee the borrowings of any subsidiary undertaking.

Notes to the Financial Statements for the year ended 31 July 2015

18. Provisions for liabilities and charges

	Consolidated Maintenance Fund £000
At 1 August 2014	246
Utilised during year	(215)
Transfer from Income and Expenditure account	342
At 31 July 2015	373

The maintenance fund (into which payments are made from landlord and tenants) provides funding for future maintenance of buildings, roadways and other common areas at Southampton Science Park, and includes payments from tenants who have since left the Science Park. The fund is held by University of Southampton Science Park Limited.

Notes to the Financial Statements for the year ended 31 July 2015

19. Deferred capital grants

	Consolidated		
	Funding Council £000	Other grants £000	Total £000
At 1 August 2014			
Buildings	147,105	20,058	167,163
Equipment	722	9,481	10,203
Total	147,827	29,539	177,366
Additions			
Buildings	6,283	279	6,562
Equipment	519	6,919	7,438
Total	6,802	7,198	14,000
Released to Income and Expenditure account			
Buildings	(5,712)	(1,150)	(6,862)
Equipment	(265)	(4,179)	(4,444)
Total	(5,977)	(5,329)	(11,306)
At 31 July 2015			
Buildings	147,676	19,187	166,863
Equipment	976	12,221	13,197
Total	148,652	31,408	180,060
Released to Income and Expenditure account			
Funding body grants (note 2)			(5,977)
Research grants and contracts (note 4)			(4,710)
Other income (note 5)			(619)
Total			(11,306)

Notes to the Financial Statements for the year ended 31 July 2015

20. Endowments

	Consolidated and University					
	Restricted Permanent £000	**Unrestricted Permanent £000**	**Total Permanent £000**	**Restricted Expendable £000**	**2015 Total £000**	2014 Total £000
At 1 August						
Capital	6,752	2,389	9,141	1,772	**10,913**	10,727
Accumulated income	829	290	1,119	69	**1,188**	1,075
	7,581	2,679	10,260	1,841	**12,101**	11,802
Additions	98	-	98	19	**117**	70
Disposals	-	(96)	(96)	(16)	**(112)**	(303)
Appropriations from Income and Expenditure reserves	-	38	38	-	**38**	71
Investment income	111	38	149	16	**165**	578
Expenditure	(97)	(38)	(135)	7	**(128)**	(468)
	14	-	14	23	**37**	110
Increase in market value of investments	192	42	234	55	**289**	351
At 31 July	7,885	2,663	10,548	1,922	**12,470**	12,101
At 31 July						
Capital	7,059	2,340	9,399	1,815	**11,214**	10,913
Accumulated income	826	323	1,149	107	**1,256**	1,188
	7,885	2,663	10,548	1,922	**12,470**	12,101

21. Revaluation reserve

	Consolidated	
	2015 £000	2014 £000
At 1 August	**7,502**	4,666
Increase in year of University of Southampton Science Park valuation	**379**	2,836
At 31 July	**7,881**	7,502

Notes to the Financial Statements for the year ended 31 July 2015

22. Reconciliation of Income and Expenditure reserves

	Consolidated £000	University £000
Balance at 1 August 2014	246,991	246,864
Surplus for the year	23,975	23,477
Add back pension deficit	3,886	3,886
Transfer to endowments (note 20)	(38)	(38)
Balance at 31 July 2015	274,814	274,189

The above reserves have arisen from accumulated annual surpluses. A total of £256,234,000 (2014: £237,151,000) from within these sums has been applied to finance capital developments within the University.

23. Related party transactions

Due to the nature of the University's operations and the composition of the University Council, being drawn from commerce, industry and the public sector, it is inevitable that transactions will take place with organisations in which a member of Council has an interest. All such transactions are conducted at arm's length and in accordance with the University's Financial Regulations and Standing Orders on contracts.

A Register of Interests is maintained for members of the University Council and associated committees. Members may not be present at any discussion in which they have a direct or indirect financial interest.

Written declarations have been obtained from all members of Council, senior officers of the University and directors of fully owned subsidiary companies, either listing transactions during the year ended 31 July 2015 between the University and third parties in which they or close family members held a position of influence, or stating that there were no relevant transactions during the period.

The declarations have been reviewed by the Director of Finance. There were four related party transactions during the year ended 31 July 2015 significant enough to warrant disclosure in the Financial Statements.

Mr John Trewby, a lay member of Council, is also chair of the University Hospital Southampton NHS Foundation Trust Board; and Dr David Price, the Treasurer, is also a non-executive member of the University Hospital Southampton NHS Foundation Trust Board. The University has a strong partnership with the Trust; most of the Faculty of Medicine's accommodation is on the Trust's Southampton General Hospital site, and the link with clinical services in the NHS is critical for the delivery of the Faculty's education, research and enterprise strategies.

Mr David Mendoza-Wolfson and Mr Benjamin Franklin were members of Council (Class 5 membership) as representatives of the Union of Students. Mr Franklin (Mr Mendoza-Wolfson for the period July 2014 to June 2015) is President of the University of Southampton Students' Union, which is a separate entity over which the University does not exercise control or significant influence over policy decisions. The Union receives a block grant from the University, which is calculated annually according to a methodology agreed between the University and the Union. All other transactions between the two parties are conducted on a commercial basis.

Notes to the Financial Statements for the year ended 31 July 2015

23. Related party transactions (continued)

In addition, Professor Dame Jessica Corner, Dean of the Faculty of Health Sciences and a member of Council from August 2014, is also Chief Clinician at Macmillan Cancer Support. The University is in receipt of a number of research grants from Macmillan Cancer Support, funding research into people affected by cancer. Income to the University was a total of £385,000 in 2014/15.

In accordance with the exemptions contained within Financial Reporting Standard 8, no disclosure has been made for transactions between the University and fully owned group undertakings. Transactions between the University and spin-out companies in which minority shareholdings are held are not generally disclosed as the University does not control or exercise any significant influence over the financial and operating policies of the companies. However, in 2014/15 Southampton Asset Management Ltd (a subsidiary in which the University has a 80% holding) made a gift aid payment of £896,000 to the University of Southampton following the sale of one of its investments.

24. Capital and other commitments

Provision has not been made for the following capital commitments at 31 July 2015:

	Consolidated		University	
	2015	2014	**2015**	2014
	£000	£000	**£000**	£000
Commitments contracted for	**38,520**	12,378	**38,314**	12,378
Authorised but not contracted for	**48,817**	78,831	**48,817**	78,831
	87,337	91,209	**87,131**	91,209

The University's capital programme for the period 2011 to 2015 is nearing completion. The above figures include £80 million which has been approved for key projects identified in the next phase of the capital programme (2015 to 2018).

25. Lease obligations

At 31 July 2015 the University was committed to making the following payments under non-cancellable operating leases in the next financial year:

	2015			2014		
	2 - 5 years	**Over 5 years**	**Total**	2 - 5 years	Over 5 years	Total
	£000	**£000**	**£000**	£000	£000	£000
Land and Buildings	**89**	**2,577**	**2,666**	50	889	939
Equipment	**1,744**	-	**1,744**	1,744	-	1,744
	1,833	**2,577**	**4,410**	1,794	889	2,683

Notes to the Financial Statements for the year ended 31 July 2015

26. University pension schemes

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the University of Southampton Pension and Assurance Scheme (PASNAS). These schemes are defined-benefit schemes.

The University also contributes to the National Health Service Pension Scheme (NHPS), the Teachers' Pension Scheme (TPS), the Medical Research Council Pension Scheme (MRCPS), Hampshire County Council (HCC), National Employment Savings Trust (NEST) and schemes relating to subsidiary companies.

Employer pension contributions for USS and PASNAS within this note are shown on the basis of the scheme contribution rate before any additional contributions under a salary sacrifice scheme.

The pension scheme costs incurred in 2014/15 and 2013/14 are summarised as follows:

	2014/15			2013/14		
	Employer contributions £000	**FRS 17 accounting adjustment £000**	**Total Cost £000**	Employer contributions £000	FRS 17 accounting adjustment £000	Total Cost £000
USS	**25,342**	-	**25,342**	24,290	-	24,290
PASNAS*	**6,268**	**2,573**	**8,841**	5,914	1,232	7,146
NHPS	**1,094**	-	**1,094**	1,001	-	1,001
Other pension schemes	**431**	**(10)**	**421**	370	-	370
Total pension cost (note 7)	**33,135**	**2,563**	**35,698**	31,575	1,232	32,807

* The figure for PASNAS employer contributions excludes an amount of £124,000 (2014: £110,000) which is made on behalf of a third party at no cost to the University.

Employer contributions in 2015/16 are expected to be:

	Rate %	£000
USS (until March 2016)	16.00	27,249
USS (from April 2016)	18.00	
PASNAS	17.25	6,554
TPS	14.10	81
NHPS	14.30	1,095
MRCPS	14.90	139
HCC	15.60	62
NEST	3.00	58

HCC contributions include a fixed fee of £30,000 which is payable over and above the salary based rate of 15.6%.

Notes to the Financial Statements for the year ended 31 July 2015

26. University pension schemes (continued)

The University has fully adopted the disclosure rules of FRS 17 'Retirement Benefits'. The notes that follow show the detailed valuations required by the standard. However, pension fund liabilities can be valued in a number of other ways, and the University will continue to support the schemes based on the principles of on-going operations, as advised by the scheme trustees and actuaries.

The actuaries' recommendations for contributions to USS and PASNAS are based on triennial valuations of the schemes' liabilities. In the intervening years, the actuaries review the progress of the schemes. Pension costs, which have been calculated using the projected unit method, are accounted for on the basis of charging the cost of providing pensions over the period during which the University benefits from the employees' services. Unless it is considered prudent to recognise deficiencies over a shorter period, variations from regular cost are spread over the expected average working lifetime of members of the schemes, after making suitable allowances for future withdrawals. The latest valuations of the schemes assets and liabilities for which results are available are:

	USS	PASNAS	HCC
Date of valuation	31 March 2014	31 July 2012	31 March 2013
Market valuation of assets	£41,600 million	£120 million	£4,341 million
Past service liabilities	£46,900 million	£156 million	£5,428 million
Deficit of assets	(£5,300) million	(£36) million	(£1,087) million

The USS and HCC valuations reflect the total assets and liabilities of the schemes, not just the element attributable to the University.

USS

The assets of USS are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. USS is a multi-employer defined benefit pension scheme which is contracted out of the State Second Pension. It is not possible to identify each institutional members' share of the assets and liabilities, and therefore this scheme has been accounted for as a defined contribution scheme. As a result the costs charged to the income and expenditure account represent the contributions payable to the scheme for the year.

The latest triennial actuarial valuation was at 31 March 2014, which was carried out using the projected unit method and is currently being audited by the scheme auditor. Based on this 2014 valuation it is expected that employer contributions will increase to 18% from 1 April 2016. At the valuation date, the Scheme's assets were sufficient to cover 89% of the benefits which had accrued to members after allowing for expected future increases in earnings.

As at 31 March 2015, USS had over 147,000 active members and the University had 4,237 active members participating in the scheme.

The total pension cost for the year was £25,342,000 (2014: £24,290,000) which includes £2,148,000 (2014: £2,046,000) of contributions outstanding at the Balance Sheet date, payable in August 2015.

Notes to the Financial Statements for the year ended 31 July 2015

26. University pension schemes (continued)

NHPS/TPS/MRCPS

The NHPS, TPS and MRCPS schemes are externally funded and contracted out of the State Second Pension. Each institutions' share of the underlying assets and liabilities of these schemes cannot be identified and therefore contributions to these schemes are accounted for as if they were defined contribution schemes. As a result the costs charged to the income and expenditure account represent the contributions payable to the schemes for the year.

The number of members of these schemes employed by the University as at 31 July 2015 was TPS 11; NHPS 125 and MRCPS 16.

The total pension costs due for the University and contributions outstanding at the Balance Sheet date were:

	Pension cost		Outstanding at 31 July	
	2015	2014	**2015**	2014
	£000	£000	**£000**	£000
NHPS	**1,094**	1,001	**90**	81
TPS	**75**	77	**7**	6
MRCPS	**158**	166	**12**	14

NEST

From April 2013, the University introduced the NEST scheme to comply with the Pensions Act 2008. This gives all University workers access to a qualifying pension scheme.

The total pension cost for the year was £49,171 (2014: £36,012) which includes £4,757 (2014: £3,343) of contributions outstanding at the Balance Sheet date, payable in August 2015.

The number of members of this scheme as at 31 July 2015 was 130.

Federated Superannuation Scheme for Universities (FSSU)

The University maintains records for former members of FSSU, which is a closed scheme, based on fixed pensions. These pensions are supplemented by the University on an ex gratia basis from general income approximately in line with increases of other pensions which have an annual inflation element built in. During the year a total of £6,088 (2014: £5,957) was paid to former members of FSSU or widows of members in respect of these unfunded liabilities.

Notes to the Financial Statements for the year ended 31 July 2015

26. University pension schemes (continued)

PASNAS

The University contributes to a self-administered pension and assurance scheme for non-academic staff (PASNAS). The scheme is a defined benefit scheme, funded by contributions made in accordance with the recommendations of the scheme's actuaries.

As at 31 July 2015 there was a total of 2,275 active members of PASNAS.

The last full valuation on 31 July 2012 indicated that the scheme's assets represented 77% of the technical provisions.

The principal actuarial assumptions used at the Balance Sheet dates are:

	31 July 2015	31 July 2014
Increase in salaries	3.55% pa	3.55% pa until 2015 then 4.05% pa
Increase in pensions – pre 01/10/10 (CPI)	2.60% pa	2.55% pa
Increase in pensions – post 01/10/10 (CPI max 2.5%)	2.10% pa	2.10% pa
Discount rate	3.90% pa	4.30% pa
Inflation (RPI)	3.60% pa	3.55% pa
Inflation (CPI)	2.60% pa	2.55% pa
Mortality	110% of SAPS with CMI 2011 projections and a long term rate of improvement of 1.25% pa	110% of SAPS with CMI 2011 projections and a long term rate of improvement of 1.25% pa

The fair value and expected rate of return of assets held on behalf of PASNAS comprise:

	Value 31 July 2015 £000	Long term rate of return expected at July 2014	Value 31 July 2014 £000	Long term rate of return expected at July 2013	Value 31 July 2013 £000
Gilts	**23,726**	3.5%	19,262	3.8%	17,789
Bonds	**15,253**	4.3%	14,817	4.8%	13,684
Equities	**86,430**	6.2%	72,605	6.5%	69,786
Target return funds	**33,895**	4.6%	31,116	4.5%	27,367
Property	**8,474**	6.2%	7,409	6.5%	5,473
Cash deposits	**1,695**	3.6%	2,963	3.7%	2,737
Total	**169,473**		148,172		136,836

The Scheme's actuaries did not derive a long term rate of expected return at July 2015 as these figures no longer need to be provided.

Notes to the Financial Statements for the year ended 31 July 2015

26. University pension schemes (continued)

	2015 £000	2014 £000
Analysis of the amount shown in the balance sheet		
Fair value of scheme assets	**169,473**	148,172
Present value of liabilities	**(233,560)**	(208,960)
Net liability on balance sheet	**(64,087)**	(60,788)
Analysis of the amount charged to staff costs within operating surplus		
Current service cost	**(8,965)**	(7,256)
Total operating charge	**(8,965)**	(7,256)
Analysis of the amount charged to interest payable within operating surplus		
Expected return on scheme assets	**7,775**	7,584
Interest on scheme liabilities	**(9,098)**	(8,795)
Net finance cost	**(1,323)**	(1,211)
Analysis of amount recognised in the STRGL		
Experience gain on assets	**10,818**	1,645
Experience gain/(loss) on liabilities	**2,006**	(95)
Changes in assumptions underlying the present value of the scheme liabilities	**(12,227)**	(14,165)
Actuarial gain/(loss) recognised in the STRGL	**597**	(12,615)
Movement in deficit during the year		
Deficit in scheme at beginning of the year	**(60,788)**	(45,730)
Movement in the year:		
Current service cost	**(8,965)**	(7,256)
Contributions	**6,392**	6,024
Net finance cost	**(1,323)**	(1,211)
Actuarial gain/(loss) in the STRGL	**597**	(12,615)
Deficit in scheme at end of year	**(64,087)**	(60,788)
Analysis of movement in fair value of fund assets		
Assets at beginning of year	**148,172**	136,836
Employer contributions	**6,392**	6,024
Employee contributions	**2,420**	2,273
Benefits paid	**(6,104)**	(6,190)
Expected return on scheme assets	**7,775**	7,584
Actuarial experience gain on assets	**10,818**	1,645
Assets at end of year	**169,473**	148,172

Notes to the Financial Statements for the year ended 31 July 2015

26. University pension schemes (continued)

	2015	2014
	£000	£000
Analysis of movement in present value of liabilities		
Liabilities at beginning of year	(208,960)	(182,566)
Current service cost	(8,965)	(7,256)
Interest on scheme liabilities	(9,098)	(8,795)
Employee contributions	(2,420)	(2,273)
Benefits paid	6,104	6,190
Actuarial experience gain/(loss) on liabilities	2,006	(95)
Changes in assumptions underlying the present value of the scheme liabilities	(12,227)	(14,165)
Liabilities at end of year	(233,560)	(208,960)

	2015	2014	2013	2012	2011
History of experience gains and losses					
Experience gains/(losses) on assets (£000)	10,818	1,645	11,089	(5,482)	5,000
Percentage of scheme assets	6.4%	1.1%	8.1%	4.6%	4.3%
Experience gains/(losses) on liabilities (£000)	2,006	(95)	1,066	2,428	1,365
Percentage of scheme liabilities	0.8%	0.0%	0.6%	1.3%	0.8%
Total amount recognised in STRGL (£000)	597	(12,615)	25,636	(18,498)	11,552
Percentage of scheme liabilities	0.2%	6.0%	14.0%	10.0%	7.1%

Notes to the Financial Statements for the year ended 31 July 2015

26. University pension schemes (continued)

HCC

HCC has been able to apportion a percentage of its funds assets and liabilities relating to the University and therefore the scheme has been treated as a defined benefit scheme in the accounts.

The main financial assumptions used at the Balance Sheet dates are:

	31 July 2015	31 July 2014
Increase in salaries	3.6% pa	3.7% pa
Increase in pensions	2.1% pa	2.2% pa
Discount rate	3.6% pa	4.1% pa
RPI inflation	3.2% pa	3.2% pa
CPI inflation	2.1% pa	2.2% pa

The current mortality assumptions include sufficient allowance for future improvements in mortality rates and are further adjusted to reflect the actual mortality experience of the Fund. The assumed life expectations in years on retirement at age 65 are:

	Retiring today	Retiring in 20 years
Male	24.5	26.6
Female	26.3	28.6

The number of members of this scheme employed by the University as at 31 July 2015 was 7.

The fair value and expected rate of return of assets, calculated in proportion to the entire fund comprise:

	Value 31 July 2015 £000	Long term rate of return expected at July 2014	Value 31 July 2014 £000	Long term rate of return expected at July 2013	Value 31 July 2013 £000
Equities	**2,519**	7.5%	2,408	7.8%	2,290
Government bonds	**1,130**	3.2%	956	3.3%	974
Property	**359**	6.8%	308	7.3%	299
Corporate bonds	**74**	3.7%	52	4.0%	48
Cash	**145**	1.1%	152	0.9%	120
Other	**153**	7.5%	124	7.8%	259
Total	**4,380**		4,000		3,990

The Scheme's actuaries did not derive a long term rate of expected return at July 2015 as these figures no longer need to be provided.

Notes to the Financial Statements for the year ended 31 July 2015

26. University pension schemes (continued)

	2015	2014
	£000	£000
Analysis of the amount shown in the balance sheet		
Fair value of scheme assets	**4,380**	4,000
Present value of liabilities	**(6,390)**	(5,890)
Net liability on balance sheet	**(2,010)**	(1,890)
Analysis of the amount charged to staff costs within operating surplus		
Current service cost	**(60)**	(60)
Total operating charge	**(60)**	(60)
Analysis of the amount charged to interest payable within operating surplus		
Expected return on scheme assets	**240**	250
Interest on scheme liabilities	**(240)**	(270)
Net finance cost	**-**	(20)
Analysis of amount recognised in the STRGL		
Experience gain/(loss) on assets	**200**	(40)
Experience gain on liabilities	**40**	300
Changes in assumptions underlying the present value of the scheme liabilities	**(370)**	80
Actuarial (loss)/gain recognised in the STRGL	**(130)**	340
Movement in deficit during the year		
Deficit in scheme at beginning of the year	**(1,890)**	(2,210)
Movement in the year:		
Current service cost	**(60)**	(60)
Employer contributions	**70**	60
Net finance cost	**-**	(20)
Actuarial (loss)/gain in STRGL	**(130)**	340
Deficit in scheme at end of year	**(2,010)**	(1,890)

Notes to the Financial Statements for the year ended 31 July 2015

26. University pension schemes (continued)

	2015 £000	2014 £000
Analysis of movement in fair value of fund assets		
Assets at beginning of year	**4,000**	3,990
Employer contributions	**70**	60
Employee contributions	**20**	20
Benefits paid	**(150)**	(280)
Expected return on scheme assets	**240**	250
Actuarial experience gain/(loss) on assets	**200**	(40)
Assets at end of year	**4,380**	4,000
Analysis of movement in present value of liabilities		
Liabilities at beginning of year	**(5,890)**	(6,200)
Current service cost	**(60)**	(60)
Interest on scheme liabilities	**(240)**	(270)
Employee contributions	**(20)**	(20)
Benefits paid	**150**	280
Actuarial experience gain on liabilities	**40**	300
Changes in assumptions underlying the present value of the scheme liabilities	**(370)**	80
Liabilities at end of year	**(6,390)**	(5,890)

	2015	2014	2013	2012	2011
History of experience gains and losses					
Experience gains/(losses) on assets (£000)	**200**	(40)	380	(90)	810
Percentage of scheme assets	**4.6%**	0.0%	9.5%	2.5%	22.5%
Experience gains/(losses) on liabilities (£000)	**40**	300	(10)	(30)	(380)
Percentage of scheme liabilities	**0.6%**	5.1%	0.2%	0.5%	7.0%
Total amount recognised in STRGL (£000)	**(130)**	340	150	(470)	280
Percentage of scheme liabilities	**2.0%**	5.8%	2.4%	7.9%	5.2%

Notes to the Financial Statements for the year ended 31 July 2015

27. Reconciliation of consolidated operating surplus to net cash inflow from operating activities

	2015 £000	2014 £000
Surplus after depreciation of assets and tax	**24,012**	15,504
Depreciation	**28,859**	24,483
(Gain)/loss on disposal of tangible fixed assets	**(40)**	334
(Gain)/loss on disposal of fixed asset investments	**(1,140)**	49
Write down of fixed asset investments	-	94
Deferred capital grants released to income (note 19)	**(11,306)**	(10,129)
Non-cash donations	**(492)**	-
Current service cost of defined benefit pension schemes (note 26)	**2,563**	1,232
Exchange rate gain on loans	**(897)**	(756)
Investment income	**(1,785)**	(2,860)
Interest payable	**8,581**	5,697
Diminution of current asset investments valuation below historic cost	**2**	3
Increase in stock	**(19)**	(81)
Increase in debtors	**(19,511)**	(2,418)
Increase in creditors and accruals	**7,260**	1,452
Increase/(decrease) in provisions	**127**	(498)
Net cash inflow from operating activities	**36,214**	32,106

The increase in debtors includes an amount of £11,328,000 which relates to the University's RDEC claim to HMRC.

28. Returns on investments and servicing of finance

	2015 £000	2014 £000
Income from endowments	**165**	578
Income from short term deposits and investments	**2,181**	2,623
Interest paid	**(7,311)**	(4,492)
	(4,965)	(1,291)

Notes to the Financial Statements for the year ended 31 July 2015

29. Capital investment and financial investment

	2015 £000	2014 £000
Tangible assets acquired	(86,554)	(47,872)
Endowment asset investment (acquisitions)/disposals	(80)	52
Total fixed and endowment asset investments acquired	(86,634)	(47,820)
Receipts from sales of fixed asset investments	1,140	47
Receipts from sales of tangible assets	50	175
Deferred capital grants received	13,228	20,855
Endowment acquisitions/(disposals)	5	(233)
	(72,211)	(26,976)

30. Analysis of changes in consolidated financing during the year

	2015 £000	2015 £000	2014 £000	2014 £000
Balance at 1 August		97,182		105,023
New loans and increased debt	49,000		-	
Exchange rate gain on loans	(897)		(756)	
Capital repayments	(10,258)		(7,085)	
		37,845		(7,841)
Balance at 31 July		135,027		97,182

In 2014/15 the University entered into a finance lease for £49,000,000 relating to the Mayflower halls of residence.

Notes to the Financial Statements for the year ended 31 July 2015

31. Analysis of changes in net (debt)/cash

	At 1 August 2014 £000	Cash flows £000	Other non cash changes £000	At 31 July 2015 £000
Cash at bank and in hand	58,224	(1,656)	-	56,568
Short term deposits and investments	54,618	(564)	(2)	54,052
Debt due within one year	(7,913)	6,010	(7,604)	(9,507)
Debt due after one year	(89,269)	(44,752)	8,501	(125,520)
	15,660	(40,962)	895	(24,407)

32. Access funds

	Consolidated and University	
	2015 £000	2014 £000
Balance at 1 August	**106**	3
Net HEFCE grant	-	274
	106	277
Disbursed to students	**(106)**	(171)
Balance at 31 July	-	106

The receipts and disbursements above are excluded from the income and expenditure account as the funds are administered by the University on an agency basis on behalf of HEFCE. This scheme finished at the end of the 2014/15 year.

33. National College for Teaching and Leadership (NCTL) bursaries

	Consolidated and University				
	At 1 August 2014 £000	Income received £000	Disbursements £000	Returned to NCTL £000	At 31 July 2015 £000
Initial Teacher Training bursaries	**254**	1,978	(1,926)	(7)	**299**
	254	1,978	(1,926)	(7)	**299**

The receipts and disbursements above are excluded from the income and expenditure account as the funds are administered by the University on an agency basis on behalf of the NCTL.

Notes to the Financial Statements for the year ended 31 July 2015

34. Linked charities

	Consolidated and University					
	At 1 August 2014 £000	Transfers £000	Income £000	Expenditure £000	Change in market value £000	At 31 July 2015 £000
Miss Betty Evelyn Veal Will Trust	**63**	-	1	-	(8)	**56**
The Southampton University Development Trust	**1,606**	5	37	(42)	47	**1,653**
The Spitfire Mitchell Memorial Fund	**214**	-	1	-	-	**215**
	1,883	5	39	(42)	39	**1,924**

The Miss Betty Evelyn Veal Will Trust provides financial support for postgraduate students with physical disabilities studying at the University.

The Spitfire Mitchell Memorial Fund provides scholarships at the University with an emphasis on aeronautics and engineering.

The Southampton University Development Trust was formed in 1986 to raise funds for various University projects. Since November 2009 all donations have been received directly by the University but the Trust continues to process existing standing order arrangements and legacy gifts that are specifically directed to the Trust. The Trust is an independent entity which is not included within the consolidated University balance sheet or income and expenditure account.

Financial Statistics

Financial Statistics

Financial Indicators	2015	2014	Restated 2013	2012	2011
Key financial metrics					
Surplus after depreciation of assets and tax as % of total income	**4.6%**	3.2%	1.3%	3.2%	3.6%
Net liquidity/ (total expenditure - depreciation) (days)	**86**	93	101	140	137
External borrowing as % of total income	**25.6%**	20.1%	23.5%	25.5%	27.2%
Discretionary reserves (excl. pension liability) as % of total income	**52.5%**	51.4%	51.7%	50.4%	47.5%
Net cash inflow from operating activities as % of total income	**6.9%**	6.6%	7.8%	10.9%	10.7%
Staff costs as % of total income	**53.5%**	54.8%	56.1%	53.8%	54.4%
Long term liabilities as % of income and expenditure reserves	**46.4%**	36.9%	43.6%	48.1%	55.6%
Net (cash)/debt as % of total income	**4.6%**	(3.2)%	(2.5)%	(9.6)%	(6.6)%
Current assets / Current liabilities	**1.16:1**	1.11:1	1.13:1	1.51:1	1.71:1
Source of income					
Funding Council grants	**15.0%**	17.6%	21.8%	25.1%	28.4%
Home/EU fees and support grants	**26.8%**	25.3%	22.4%	19.8%	18.9%
International fees	**13.7%**	14.2%	11.8%	11.2%	10.1%
Research grants and contracts	**23.6%**	22.8%	22.9%	21.6%	21.8%
Other operating income	**20.6%**	19.5%	20.0%	21.3%	19.8%
Endowment income and interest receivable	**0.3%**	0.6%	1.1%	1.0%	1.0%
	100.0%	100.0%	100.0%	100.0%	100.0%

Financial Statistics

Income from sponsored research for the year ended 31 July 2015

From Research Councils	£000
Arts and Humanities Research Council	561
Biotechnology and Biological Sciences Research Council	3,498
British Academy	214
Economic and Social Research Council	4,026
Engineering and Physical Sciences Research Council	28,889
Medical Research Council	5,846
Natural Environment Research Council	5,610
Royal Society	1,273
Science and Technology Facilities Council	1,445
Total Research Councils	**51,362**

From UK-based Charitable Bodies	£000
AAIR Charity	142
Alzheimer's Research UK	217
Alzheimer's Society	56
Arthritis Research UK	224
Asthma UK	54
Breast Cancer Now	232
Breast Cancer Research Trust	31
British Heart Foundation	103
British Liver Trust	66
British Lung Foundation	68
British Society for Rheumatology	49
Bupa Foundation	168
Cancer Research UK	4,121
Children with Cancer UK	35
Crohn's in Childhood Research Association	35
Diabetes UK	102
Dunhill Medical Trust	51
Fight for Sight	74
Gerald Kerkut Charitable Trust	38
Health Foundation	104
Kay Kendall Leukaemia Fund	117
Leukaemia and Lymphoma Research	1,230
Leverhulme Trust	893
Lloyd's Register Foundation	206
Macmillan Cancer Support	385
Marie Curie Cancer Care	36
Marine Biological Association of the UK	186
MQ: Transforming Mental Health	20
Multiple Sclerosis Society	21
Nuffield Foundation	40
Parthenon Trust	32

Financial Statistics

Income from sponsored research for the year ended 31 July 2015 (Continued)

Pathological Society of Great Britain & Ireland	37
Prostate Cancer UK	394
Psoriasis Association	25
Rosetrees Trust	24
Royal Academy of Engineering	510
Royal College of Anaesthetists	47
Royal College of Surgeons of Edinburgh	40
Royal College of Surgeons of England	49
Royal Commission for the Exhibition of 1851	33
Sparks	58
Wellcome Trust	1,363
Wessex Medical Research	378
Wolfson Foundation	29
World Cancer Research Fund	46
Worldwide Cancer Research	60
Others less than £20,000	318
Total UK-based Charitable Bodies	**12,547**

From Other Sources	**£000**
ABB Switzerland Ltd	49
Abbott Laboratories	153
Adama Makhteshim Ltd	36
Airbus Operations GmbH	28
Airbus Operations Ltd	84
Airbus Operations S.A.S.	193
Alcan International Ltd	85
Anderson Acoustics Ltd	20
Andrew W. Mellon Foundation	73
Aquinox Pharmaceuticals Inc. (Canada)	56
ARM Ltd	113
AstraZeneca (UK) Ltd	30
Auckland UniServices Ltd	33
Audi AG	20
BAE Systems (Marine) Ltd	720
BAE Systems (Operations) Ltd	323
BAE Systems Integrated Systems Technologies Ltd	49
Beach Energy Ltd	23
Bill & Melinda Gates Foundation	512
BioInvent International AB	92
Biothera	37
BP America Production Company	21
Bristol-Myers Squibb Pharmaceuticals Ltd	41
British Council	58
Calouste Gulbenkian Foundation	110

Financial Statistics

Income from sponsored research for the year ended 31 July 2015 (Continued)

Cambridge University Hospitals NHS Foundation Trust	43
Celldex Therapeutics Inc.	72
Central and North West London NHS Foundation Trust	32
CERN - The European Organization for Nuclear Research	57
Chiesi Farmaceutici S.p.A	46
Compin Group	30
Copper Development Association	71
Covesion Ltd	38
Department for Environment, Food and Rural Affairs	104
Department for International Development	176
Department for Transport	145
Department of Energy and Climate Change	42
Department of Health	1,273
Deregallera Ltd	22
Deutsche Forschungsgemeinschaft	52
Dublin Institute for Advanced Studies	62
Enims Ltd	25
E.V. Analytics Ltd	79
EADS UK Ltd	50
EchoVista Systems Ltd	43
EDF Energy Holdings Ltd	43
EEF Expeditions Ltd	142
Eisai Ltd	56
Energy Technologies Institute	116
English Heritage	90
English Institute of Sport Ltd	312
Environment Agency	84
European Commission	15,746
European Organisation for Research and Treatment of Cancer	61
European Regional Development Fund	260
European Space Agency	137
F. Hoffmann-La Roche Ltd	97
Fairtransport B.V.	35
Flowminder Foundation (Sweden)	28
Food and Agriculture Organization of the United Nations	50
Food Standards Agency	94
Ford Motor Company Ltd	22
Forestry Commission	66
GE Global Research	30
Genentech Inc.	25
GlaxoSmithKline Biologicals S.A.	374
GlaxoSmithKline Plc	231
Hairy Cell Leukaemia Research Foundation	32
Hampshire Hospitals NHS Foundation Trust	23
Higher Education Academy	131

Financial Statistics

Income from sponsored research for the year ended 31 July 2015 (Continued)

Hitachi Europe Ltd	73
Home Office	50
Honeywell International Inc.	93
Huawei Technologies Duesseldorf GmbH	136
IBM UK Ltd	71
Informa UK Ltd	58
InterMune UK & I Ltd	38
International Development Research Centre	318
International Institute for Environment and Development	55
International Paint Ltd	23
Invibio Ltd	47
InviCRO LLC (USA)	48
Jaguar Land Rover Ltd	38
Janssen-Cilag Ltd	262
John Templeton Foundation	199
Keele University	22
King Abdulaziz University	24
Korea Railroad Research Institute	49
Leids Universitair Medisch Centrum (Netherlands)	26
Local Authorities Consortium	55
Lockheed Martin	33
London Metropolitan University	22
Lonza Biologics Plc	34
Loughborough University	40
Luxfer Gas Cylinders Ltd	20
Marin Academy	39
Mayor's Office for Policing and Crime (MOPAC)	20
MedImmune LLC	39
Mesothelioma Applied Research Foundation, Inc.	20
Microsoft Corporation	98
Ministry of Higher Education (Malaysia)	41
Momenta	124
Mott MacDonald	20
National Grid Electricity Transmission Plc	601
National Institutes of Health (USA)	459
National Physical Laboratory	25
Nestec Ltd (Switzerland)	938
Netherlands Organisation for Scientific Research (NWO)	33
Network Rail	108
Newtricious BV	50
NHS England	37
NHS National Institute for Health and Care Excellence	33
NHS National Institute for Health Research	7,218
NHS South Central Strategic Health Authority	172

Financial Statistics

Income from sponsored research for the year ended 31 July 2015 (Continued)

Northern Arizona University	25
Novartis Institutes for BioMedical Research	54
Nutricia Ltd	32
Office for National Statistics	162
Ohio Aerospace Institute	27
Ordnance Survey	82
Partnership for Clean Competition	67
Pfizer Inc.	121
Pfizer Ltd	99
Pharma Quality Europe S.R.L.	41
Portsmouth Hospitals NHS Trust	38
Qatar National Research Fund	122
QinetiQ Ltd	22
Qioptiq Photonics Ltd	21
Railway Safety and Standards Board Ltd	147
Region Haute-Normandie	73
Rockley Photonics Ltd	129
Rolls-Royce Plc	716
Royal Brompton & Harefield NHS Foundation Trust	81
Royal Centre for Defence Medicine	121
Sailing Yacht Research Foundation (USA)	23
Samsung Electronics Co., Ltd	81
Schlumberger Ltd (USA)	72
School of Advanced Study	26
Selex ES Ltd	67
SGRI Europe GmbH	41
Shell International Trading & Shipping Company Ltd	28
Shire Development LLC	23
Shire Pharmaceuticals Ltd	163
Silec Cable S.A.S.	30
Sirena Marine Denizcilik Sanayi ve Ticaret A.S.	27
Solent NHS Trust	160
Southampton City Council	75
Southampton Solent University	74
Southern Health NHS Foundation Trust	74
Space ConneXions Ltd	140
SPI Lasers UK Ltd	115
St George's, University of London	23
Star Financial Systems Ltd	38
Stirling Dynamics Ltd	25
Sultanate of Oman	45
Syngenta Ltd	59
Synpromics Ltd	37
Technology Strategy Board	2,644

Financial Statistics

Income from sponsored research for the year ended 31 July 2015 (Continued)

Merck Group (Germany)	83
Total Foundation	75
Touchlight Genetics Ltd	145
TRL Ltd	48
TWI Ltd	33
UCB Celltech	103
UK Space Agency	36
UK Sport	32
UK-India Education and Research Initiative	23
UM Cancer Research Institute	31
Unilever	147
United Nations Office at Geneva	65
University Campus Suffolk	25
University College London	59
University Hospital Southampton NHS Foundation Trust	1,166
University of Bath	22
University of Birmingham	29
University of Glasgow	21
University of Oxford	38
University of Toronto	32
University of Trento (Italy)	141
VirtualPiE Ltd	260
Vitacress Ltd	60
Wickham Laboratories Ltd	22
Wolfson Microelectronics Plc	32
York St John University	21
Others less than £20,000	4,317
HMRC - Research and development expenditure credit (RDEC) claim	11,328
Total Other Sources	**60,279**
Total Income from Sponsored Research	**124,188**

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This information can be made available, on request, in alternative formats, such as electronic, large print, Braille or audio tape and, in some cases, other languages.

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UNIVERSITY OF Southampton

Financial Statements and Statistics

2015–2016

Contents

Treasurer
David J Price, CBE

Director of Finance
Sarah C Pook, BSc, CPFA

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Lloyds Banking Group Plc
City Office Branch
Bailey Drive
Gillingham Business Park
Gillingham
Kent
ME8 0LS

External Auditors
Mazars LLP
90 Victoria Street
Bristol
BS1 6DP

Internal Auditors
PricewaterhouseCoopers LLP
Savannah House
3 Ocean Way
Ocean Village
Southampton
SO14 3TJ

Implementation of FRS 102

The University was required to implement the new Financial Reporting Standard (FRS 102) and also to comply with the new Statement of Recommended Practice (SORP) 'Accounting for Further and Higher Education' which was published in 2015. These are the University's first financial statements prepared in accordance with FRS 102 and the new SORP and the comparative 2015 results have been restated accordingly. Full details of the impact of the changes arising on the implementation of the new standard are set out in Note 30 in the Financial Statements.

The most significant changes arise from the requirement of the new accounting standard to recognise the financial commitment relating to the Universities Superannuation Scheme (USS) deficit recovery scheme and the decision made by the University to take the one-off option to revalue its land at deemed cost.

The implementation of FRS 102 resulted in the surplus for the prior year to 31 July 2015 being reduced from £24.0 million to a deficit of £1.1 million. The requirement to accrue for our commitment to the USS deficit recovery plan resulted in the recognition of a liability of £29.2 million as at July 2015. Staff costs rose by £28.5 million and interest costs rose by £0.7 million reflecting the effect of the increased liability and reducing the surplus as previously reported under UK GAAP. This liability is also shown as an increased pension provision on the Balance Sheet.

The University took advantage of a one-off option to revalue its land at deemed cost as at the FRS 102 transition date of 1 August 2014. This added £84.9 million to the value of the University's fixed assets and provides a consistent and realistic valuation of land on an existing use basis.

Summary

The income generated by the University for the year to 31 July 2016 increased by £23.7 million to a record level of £556 million, an improvement of 4.5% compared with 2014/15. This growth was mainly due to higher undergraduate student numbers from the UK and European markets. The University achieved a surplus of £28.0 million (5.0% of income) in the year to 31 July 2016 before actuarial losses from pension schemes leaving total comprehensive income of £4.1 million.

We have seen the continued growth of the University through research strength and income as well as the continued growth in our student body. In the QS World Ranking we were placed 81st in 2015/16 and 15 of our disciplines were ranked in the Top 10 in UK league tables.

The University of Southampton consolidated its position amongst the UK's top 20 universities overall in both the Complete University Guide and Guardian University Guide for 2017. Southampton placed joint 14th in the Guardian Guide, which is focused on undergraduate study. Amongst Russell Group institutions listed, Southampton ranked in joint 10th with 14 subject areas featuring in their respective top tens. This was the 11th consecutive year in which Southampton featured in the top 10 for Computer Science & Information Systems, Mechanical Engineering and Modern Languages & Linguistics.

Results of this year's National Student Survey (NSS) published in August 2016 show a consolidation in overall satisfaction levels by students at the University of Southampton. Some 86% of those who completed their undergraduate study in 2016 expressed overall satisfaction in the quality of their course. Within the Russell Group of universities, Southampton is placed in the top 10 based on the results of seven questions across assessment and feedback, organisation and management, and personal development where the University ranks sixth overall in the Group.

In October 2015, our student Enactus team became World Champions. Enactus is a global movement of student social entrepreneurs, working to change the lives of people in the poorest countries of the world for the better, as well as the lives of people in their own communities. The University's team has had huge success in developing social enterprises in Africa. Having beaten 34 teams to become UK champions, they went on to win the world cup in South Africa, the first UK team ever to accomplish this feat.

In November 2015, our business incubator SETsquared was rated the top university business incubator in the world; and in June 2016 it won the Times Higher Education award for the Knowledge Exchange and Transfer Initiative of the Year. The award was for our 'Innovation and Commercialisation of University Research Programme' which is run from the University of Southampton.

In June, Southampton was named one of Europe's Most Innovative Universities by Thomson Reuters, the world's largest international multimedia news agency. We were ranked 77th – one of 17 UK universities – in Reuters' first-ever ranking of Europe's top 100 innovative universities. The list identifies the higher educational institutions that are doing the most to advance science, invent new technologies, and help drive the global economy.

Strategic Report (continued)

This year we opened our new City Gateway hall of residence providing an additional 360 beds and continued to invest in the University estate, rebuilding our Chamberlain hall which is ready to welcome students in September 2016. Work has started on a new teaching and learning building on the Highfield Campus and also on the first dedicated cancer immunology centre in the UK based on the University Hospital Southampton NHS Foundation Trust site.

Financial Review 2015/16

Income
The University produced a surplus of £28.0 million (£24.0 million in 2014/15 restated to a £1.1 million deficit), which represents 5.0% of income (4.6% in 2014/15 prior to restatement). University income increased by £23.7 million (4.5%) to £556 million, mainly due to an increase in tuition fees and education contracts of £30.5 million.

Total income from tuition fees and education contracts has increased by £30.5 million (14.2%) from £214.3 million in 2014/15 to £244.7 million in 2015/16. The increase is mainly due to higher undergraduate student numbers.

Research grant and contracts income has decreased by 10.5% to £112.5 million. Excluding the income from the research and development expenditure tax credits (RDEC) where eligibility for universities to claim was removed in July 2015, the underlying decrease is reduced to £2.6 million (2.3%). Grants from the UK Research Councils saw a modest decrease of £3.5 million to £50.7 million. The contribution to indirect costs arising from research grants (excluding the RDEC claim) remained stable at £30.6 million, despite the small fall in income.

Other operating income increased by 14.4% to £119.3 million (2014/15 £104.3 million). This can be attributed to the opening of our new City Gateway hall of residence and improved occupancy across the halls of residence generally; income from consultancy, trading and other enterprise activities which increased by £2.9 million; and a grant of £4.5 million which was received in the year from the Local Enterprise Partnership towards the cancer immunology centre development.

Investment income reduced from £1.8 million to £1.1 million, with income from short-term deposits and investments reducing from £1.6 million to £1.0 million, and income from endowments remaining at £0.2 million. The average interest rate achieved on cash balances and short-term deposits in 2015/16 of 0.68% is less than the 1.23% achieved in 2014/15. This reflects both the continued reduction of rates available in the market and the redemption at maturity of our remaining longer term deposits which were benefitting from more favourable interest rates.

During the year, we appointed Kames Capital to manage the endowment investment following a selection process. Kames Capital were appointed as it was felt that they provided a comprehensive screening process that complemented the University's ethical considerations whilst still maintaining growth and returns comparable with other funds in the sector.

Expenditure
University expenditure decreased by £4.6 million (0.9%) from £530 million to £526 million.

Staff expenditure decreased by 4.9% from £311 million to £295 million. Excluding the costs associated with the USS provision, there was an underlying increase in costs of £9.5 million. The increase arises from:

- The 2015 national pay award was 1% and around 40% of staff are entitled to annual pay scale increments of 3% in addition to this.
- The number of average full-time equivalent staff employed by the University during the year increased by 3.4%. The increase in staff numbers was across all types of staff and was in part, due to a significant increase in student numbers.
- The costs of employment also rose with the impact of the abolition of the State Earnings Related Pension Scheme (SERPS) from April 2016 increasing employer National Insurance contributions.
- Increased employer contributions to the USS pension scheme from 16% to 18% of salary also from April 2016.

The USS provision of £3.0 million (£25.7 million in 2014/15) included within staff costs is shown within other activities in the analysis of expenditure by activity within note 12.

Other operating expenditure increased by £5.8 million (3.2%) to £187.4 million (2014/15 £181.6 million). The University took the opportunity to purchase a building adjacent to the Winchester School of Art Campus to provide the opportunity for expanding and enhancing the Winchester Campus. The value of the building was impaired in year by £2.5 million as the building will need to be redeveloped. One building on Highfield Campus was impaired by £0.5 million on demolition making way for a new Teaching and Learning building on the South Gower site. Rents increased by £1.1 million as the University took occupation of the new City Gateway hall of residence under a 30-year operating lease.

The depreciation charge has increased by £1.3 million (4.7%) to £30.2 million. This reflects the University's continued investment in equipment for enhancing our network infrastructure, refreshing our lecture theatres and improving our common teaching space and research equipment.

Interest payable and other finance costs have increased by £3.4 million (36.1%) to £12.8 million. This includes the exchange rate loss on the capital amount outstanding on the Euro loan of £1.2 million. This loan assists in the protection of our position on the Euro where our currency holdings generated a £1.8 million exchange gain during the year.

Our Campus in Johor, Malaysia (USMC) continues to expand, and this year we held the first graduation of USMC students who successfully continued to degree programmes in Southampton, a major milestone in the development of the Campus. We are now offering a foundation programme in Engineering and are developing new degree courses for the continued expansion of our activity in Malaysia. From a financial perspective USMC delivered an improved performance in 2015/16, but the impact of the weakening of the pound saw the deficit remain steady at £2.0 million.

Balance Sheet

The University continues to invest heavily in its estate committing £67.3 million acquiring or constructing capital assets within the year. Investment in our halls of residence continued, rebuilding our Chamberlain hall which is ready to welcome students in September 2016. Work has started on a new Teaching and Learning building on the Highfield Campus and also on the first dedicated cancer immunology centre in the UK based on the University Hospital Southampton NHS Foundation Trust site.

We have invested £8.0 million in equipment including a major refurbishment of student lecture theatres and teaching rooms over the Easter and Summer breaks. We have also invested in our IT network architecture and experimental research equipment.

The University has maintained a strong liquidity position. Our cash and cash equivalents rose by £24.0 million whilst our cash investments fell by £22.3 million as longer term investments have given little benefit in the current interest rate environment. The total of cash in hand and cash investments (excluding share holdings) is £113.4 million which is more than sufficient to meet our treasury policy requirements of holding more than two months payroll costs (approximately £49 million) in funds that are available within a month. Our cash inflow from operating activities increased to £62.0 million (£43.4 million in 2014/15).

Our investment in tangible assets has been funded without the need for additional long-term loans. Our long-term financing arrangements have decreased as capital repayments have been made. The long-term finance lease commitment relating to Mayflower halls has decreased from £48.4 million to £48.1 million and the long-term element of our bank loans have decreased from £77.7 million to £74.6 million. The financing arrangements are held with a number of commercial banks with final repayments due from 2018 to 2047. Further information on this, the rates payable and security arrangements are outlined in note 20 to the financial statements.

The pension liability of the University of Southampton Pension and Assurance Scheme (PASNAS) fund has increased by £28.8 million to a deficit of £94.9 million. The scheme triennial valuation as at 31 July 2015 has been completed and a deficit recovery plan for the valuation outcomes has been agreed. A significant factor in the increased scheme deficit is the reduction in the discount rate. In the immediate aftermath of the EU referendum result, yields on UK bonds of all varieties fell significantly, and this has impacted the rate used in the valuation for this year end. At the end of July 2016, the yields on bonds of all types were around 1% lower than those as at 31 July 2015.

The triennial valuation of the Universities Superannuation Scheme (USS), undertaken in 2014, resulted in a significant increase in the deficit on the scheme from £2.9 billion (92% funded) at 31 March 2011 to over £12 billion at 31 March 2014 prior to benefit restructure. To ensure employer and employee contributions remained affordable, there was a major consultation on changes to the benefits structure. In July 2015, the scheme actuaries were able to submit a deficit recovery plan to the Pensions Regulator for a deficit of £5.3 billion (89% funded). Employer contributions rose from 16% to 18% from April 2016 and the final salary scheme closed on 31 March 2016, with benefits increased in line with CPI and members moved to a career average scheme with a threshold salary of £55,000 per annum above which contributions are made into the defined contribution section of the scheme. In line with the move to FRS 102, the University's share of this deficit recovery plan added £28.5 million to staff costs in 2014/15 and this liability is also shown as an increased pension provision within provisions on the balance sheet and is credited to the income statement over the recovery period ending in 2031.

Despite substantial increases in pension liabilities, our total net assets remain strong at £466.9 million.

Strategic Report (continued)

Historically low interest rates continue to impact on the performance of our investments. All longer term deposits placed prior to 2012, have now reached maturity and have been replaced by deposits with lower rates. The rates available on longer term deposits are similar to those on short-term funds, as such there has been little benefit in placing funds long-term and we have continued to invest for shorter durations. Deposit counterparties have been closely monitored throughout the year. Given the market conditions, the University considers that an average return rate of 0.68% is an acceptable outcome for the year.

Following the closure of the Lazards Charity Unit Trust Fund in 2015, a selection process was undertaken to appoint a new fund manager to replace Lazards. This process was completed and Kames Capital appointed in early 2016. Funds have now been invested in the Kames Ethical Cautious Managed fund which applies comprehensive ethical screening parameters appropriate to the University's ethical investment principles.

The University of Southampton Science Park continues to trade strongly, contributing a surplus to the consolidated accounts of £1.7 million. The net asset value on the balance sheet of the company is £23 million (2014/15 £21 million). As well as making a valuable contribution to our operating surplus, the Science Park supports the long-term strategy of the University by providing opportunities for our research to spin out into enterprise activities, for student work experience during studies and for student employment when they graduate. The Science Park also makes a significant contribution to the economic growth and social development in our city and region. During the year, the University agreed a £6.5 million, 15- year loan to fund a new building on Benham Campus which will open in September 2016, continuing the investment and expansion of the Science Park.

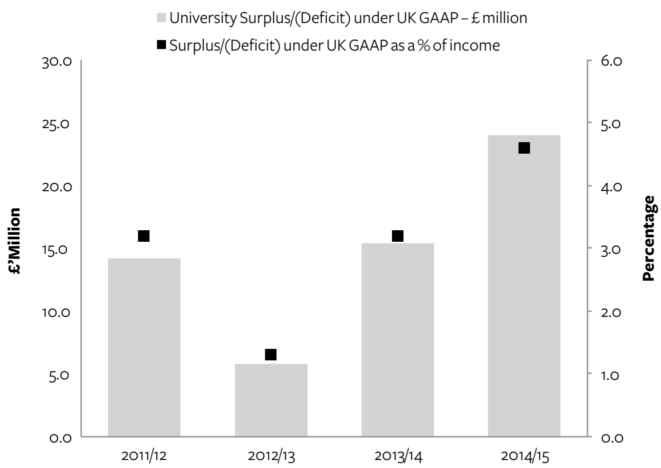
Financial Data

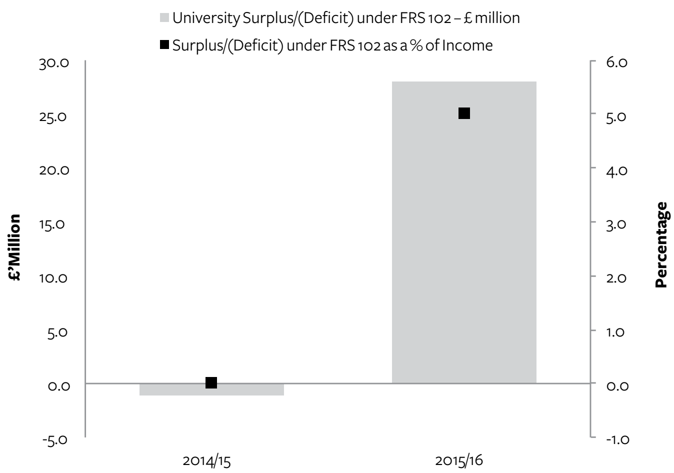
The University monitors its financial performance throughout the year to ensure that it is in line with agreed budgets and the overall strategy.

Financial Measure on a consolidated basis	2015/16 Target	2015/16 Achievement	
Surplus on Ordinary Activity after Tax as a % of income	2.2%	5.0%	Outperformed
Staff Costs as a % of Income	Less than 55.1%	53.2%	Outperformed
Liquid assets expressed as number of months of payroll costs	More than 2.0	5.1	Outperformed

University Surpluses on Ordinary Activity after Tax 2011/12 – 2015/16

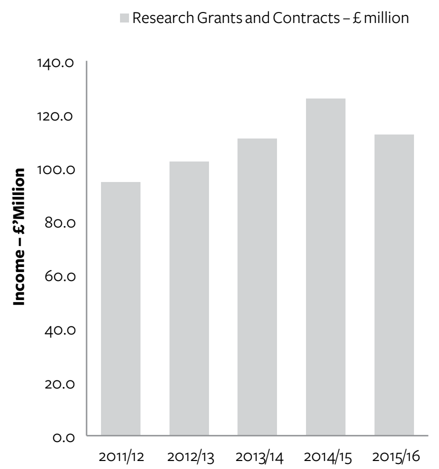
The surplus on ordinary activity after tax in 2015/16 represented 5.0% (2014/15 0%) of income and exceeded the University's target of 2.2%. This substantial increase reflects the University's focus on sound financial performance in support of its strategy and is certainly the best performance in recent years. Surpluses for the period 2011/12 to 2013/14 are stated under UK GAAP, not FRS 102 and are therefore not directly comparable. The underlying performance in 2014/15 previously reported under UK GAAP was £24.0 million surplus.

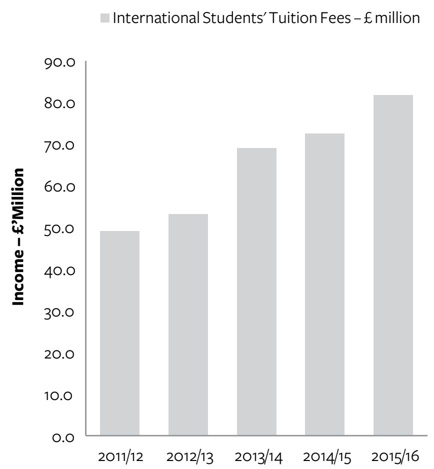




Research Grants and Contracts and International Students' Tuition Fees 2011/12 – 2015/16

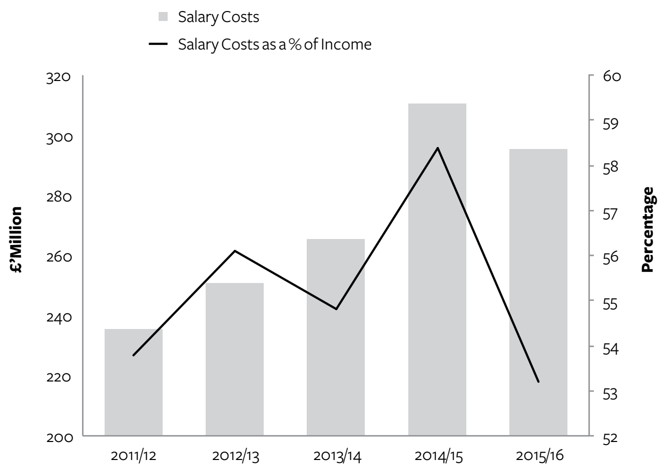
Research grant and contract earnings and international students' tuition fees are two key sources of income to the University. Research grant and contracts income was £112.5 million in 2015/16 compared with £125.8 million in 2014/15. However, in the previous year the University benefitted from income of £11.3 million from the research and development expenditure tax credits; excluding this income, the underlying decrease is reduced to £2.6 million (2.3%). International students' tuition fee income saw a significant increase of £9.3 million to £81.6 million (12.8% growth on 2014/15) mainly due to an increase of 359 (7.7%) full-time equivalent international students.





Salary Costs as Proportion of Income 2011/12 – 2015/16

Salary costs as a proportion of income was 53.2% in 2015/16 against a target of 55.1% due to the increase in income to a record level of £556 million. A substantial increase in salary costs were observed in 2014/15 due to the inclusion of the USS provision (£28.5 million) under FRS 102. Underlying salary costs have increased, however, to meet the requirements of increased student numbers in 2015/16 (£228.0 million in 2014/15 to £233.9 million in 2015/16). Focus on controlling staff costs will be a major part of the University strategy for the future.



Strategic Report (continued)

"Simply Better" – The University Strategy

In October 2015, we welcomed Professor Sir Christopher Snowden as President and Vice-Chancellor of the University. Sir Christopher published his strategy, entitled 'Simply Better', in May 2016.

Our mission: to change the world for the better

The University of Southampton is an exceptional place whose people achieve remarkable things. We are a world-leading, research-intensive university, with a strong educational offering, renowned for our innovation and enterprise. This is a great platform from which to sharpen our focus with our new strategy.

It's a very simple strategy. It's about our aspirations. It's about building our reputation. It's about being simply better than our competitors at what we do.

Our strategy

We will strengthen our reputation, increasing our national and international rankings to secure a position in the top 10 in the UK and top 100 internationally.

Our ranking increases our reputation and our reputation increases our ranking.

A reputation for delivering excellence and an exemplary student experience will lead to greater demand from the best student applicants, sustained support from research funders and strong support from our alumni.

Our core principles

Central to the success of our strategy and underpinning all of our activities are four principles:

Collegiality: one team working, planning and delivering together, toward our shared vision.
Quality: always striving to achieve the highest quality in everything we do.
Internationalisation: delivering across global markets and building strong partnerships with other leading organisations.
Sustainability: ensuring our actions lead to financial, social and environmental sustainability.

We will develop graduates who are confident global citizens, equipped to make a positive contribution to the world. Our knowledge and technologies, developed through our research and applied through our enterprise, will have real economic and social benefit for the world. People will choose Southampton because of its reputation for quality and to play a part in changing the world. Our staff will say it is a great place to work, where they are encouraged to be creative and are part of a team that achieves more together.

We will be a university consistently ranked in the top 10 nationally and top 100 internationally. Our student satisfaction will be among the highest in the country, reflected in the National Student Survey. Our graduate prospects will be among the best. Our entry tariff will reflect our reputation as a leading university, with completion rates and good degrees reflecting our commitment to fully developing the potential of our students. Our world-leading research will underpin an excellent Research Excellence Framework position. We will achieve all of this while improving our sustainability and generating a surplus that allows us to invest in our University.

Major Financial Risks

University Council and Audit Committee review the University risk register at regular intervals. Both consider that it is consistent with their knowledge of the University's activities and addresses the key aspects of the University's Strategic Plan.

A comprehensive financial risk assessment was considered by Council in setting the 2016/17 University budget. The major risk areas are summarised below:

Area	Risk	Mitigating action
Student income	Actual student income for 2016/17 may fall below the business plan target, therefore reducing forecast income streams. Planned student numbers may not be achievable alongside increasing student quality. There is a risk that student recruitment from the EU will reduce.	The University has considered the financial implications of increasing quality as part of the planning process. Revised budgets are set once student numbers are known. The University will take action to reduce costs to meet the impact of reduced income levels.
Research grants and contracts income	The University may fail to achieve the expected levels of external research funding. The impact of the UK leaving the EU will impact on sources of grant funding in the future.	Ensure appropriate costings on grant proposals to capture maximum recovery, including appropriate levels of overheads. Engagement in public communication and government lobbying activities in support of maintaining total funding levels.
Staff costs	Staff costs are continuing to grow; there is a risk that the University is unable to reduce its staff cost base in a timely manner in order to mitigate the impact on the surplus through potential falls in student income or reductions in funding. University pension schemes may become unaffordable or unsustainable.	Addressing this risk will form part of the deliverables from the 10 year action plan taking place over the next year. USS scheme increases have been factored into the forward plan. As employer, the University will engage with pension providers to keep employers contributions at sustainable levels.
Surplus	The business plan surplus is significantly below the level required to fund an ambitious 10 year plan.	Addressing this risk will form part of the deliverables from the 10 year action plan taking place over the next year.
Surplus	The surplus may be negatively impacted by government inflation constraints on funding streams.	Addressing this risk will form part of the deliverables from the 10 year action plan taking place over the next year. Making sure that we are in the best place we can be for Teaching Excellence Framework to allow us to charge inflation on Home/EU undergraduate fees.

Strategic Report (continued)

Capital Developments

We continue to invest significantly in our estate and halls of residence. In 2015/16, we rebuilt our Chamberlain hall housing 356 students from September 2016. This continues our significant investment in our halls of residence with City Gateway hall that opened in August 2015 adding around 360 beds and Mayflower halls that added 1,100 beds in August 2014.

In 2014, we launched our Cancer Science Immunology campaign to fund the first dedicated cancer immunology centre in the UK. Connected to leading institutions worldwide, this cutting-edge research hub will enable our interdisciplinary teams to expand clinical trials, explore new areas and develop lifesaving drugs. This is the biggest fundraising campaign the University has ever undertaken. We have already received donations totalling almost £19 million from our supporters. The building works have started with a planned completion date of September 2017.

Future Plans

The Vice-Chancellor, Sir Christopher Snowden, has set out his vision for the University and is developing an ambitious 10-year plan. The development of the Teaching Excellence Framework will put additional focus on the student experience alongside our continued focus on our Research Excellence. In developing the 10-year plan, we will be looking at further improving our sustainability ensuring we can generate the funds we need to continue to invest in our ambition to change the world for the better through our teaching, research and enterprise.

To support this plan, substantial investment will be required and detailed planning of a number of new projects is now underway. These plans include the progression and completion of existing construction projects including a new Teaching and Learning building on the Highfield Campus, the completion of the Boldrewood Campus with the National Infrastructure Laboratory, a world-class structures laboratory, as part of the UK Collaboratorium for Research in Infrastructure and Cities (UKCRIC), a multi university collaboratorium providing leadership and support for a step change in the nation's approach to infrastructure investment and the Cancer Immunology Centre being built on the University Hospital Southampton NHS Foundation Trust site.

Conclusion

The University has had another successful year. The income generated by the University increased by 4.5% and reached a new record level of £556 million. Student income grew by 14.2%, driven by strong growth in our intakes of UK, EU and International students. Our income from residences, catering and conferences also grew substantially reflecting improved occupancy across our student accommodation and the opening of a new hall of residence at City Gateway. With tight control on its expenditure, the University outperformed on its three key financial measures and achieved a surplus of £28 million, representing 5% of total income.

During the year, the University invested over £67 million in new buildings and equipment. Further investment to maintain and upgrade our existing properties to complete the new centre for cancer immunology, to create the new teaching and learning facilities on South Gower and the continued investment in student accommodation, will be required for the coming years. A new Vice-Chancellor, a new and exciting strategy that provides a strong focus on improving quality, a growing financial surplus and a strong cash position provide an excellent foundation for the future and a University that is "simply better".

David Price
University Treasurer

Introduction

The University of Southampton is a Chartered Corporation, established by Royal Charter on 29 April 1952 to be a teaching and examining body and to further the prosecution of research. Details of our Charter are available online at www.calendar.soton.ac.uk/sectionIII/charter.html

A founding member of the Russell Group of research intensive universities, Southampton has a reputation for excellence in research and education, which is reflected in our consistently high UK and international league table rankings.

In the QS World Ranking we were placed 81st in 2015/16 and 15 of our disciplines were ranked in the top 10 in UK league tables.

We invest significantly in the development of our students, working with global partners to provide a relevant, flexible education. In 2015/16, over 24,800 full-time and part-time students benefited from our world-class educational programmes.

Southampton's leading-edge research continues to change the world for the better, having a positive impact on individuals, communities and the economy.

In November 2015, our business incubator SETsquared was rated the top university business incubator in the world; and in June 2016 it won the Times Higher Education award for the Knowledge Exchange and Transfer Initiative of the Year. The award was for the Innovation and Commercialisation of University Research Programme run from the University of Southampton.

In June, Southampton was named one of Europe's Most Innovative Universities by Thomson Reuters, the world's largest international multimedia news agency. We were ranked 77th – one of 17 UK universities – in Reuters' first-ever ranking of Europe's top 100 innovative universities. The list identifies the higher educational institutions that are doing the most to advance science, invent new technologies, and help drive the global economy.

Southampton is a truly global university and we are proud of the vibrant international community of staff and students. Our overseas Campus in Malaysia is thriving, and we have opened joint research laboratories in Singapore and China, in marine and offshore engineering research, in photonics, and in web science. This year we held the first graduation of students who joined us from our University of Southampton Malaysia Campus.

In June we learned that the University has been awarded a prestigious Regius Professorship in Ocean Sciences by Her Majesty The Queen, as part of her 90th birthday celebrations, one of only 12 such Chairs awarded. The title Regius Professor is a rare and prestigious award that recognises exceptionally high-quality research and teaching at an institution. This is Southampton's second Regius Professorship.

Charitable status

The University has charitable status as one of the exempt charities listed in Schedule 3 to the Charities Act 2011. We are responsible to the Higher Education Funding Council for England (HEFCE), our principal regulator, and we report annually on the ways in which the University has delivered charitable purposes for the public benefit.

Our governing body, the University Council, has due regard to the Charity Commission's guidance on public benefit requirements in setting and reviewing our objectives and activities. Members of the University Council are also the charitable trustees of the University.

Beneficiaries of the University's charitable objectives include our undergraduate and postgraduate students, our research collaborators, employers, policymakers, industry and the wider public. They derive considerable benefit from the contributions of the University's teaching, research and enterprise, as well as our significant economic and social impact locally, regionally and nationally.

Student education, admissions and widening participation

The University offers a distinctive education in a modern learning environment underpinned by world-class research. More than most universities of our type, we offer choice and flexibility in study options and support our students as they prepare for employment and life after university. Our programmes are designed to challenge our students to develop the critical thinking and independent learning they will need in their future careers.

We offer a suite of MOOCs (massive open online courses). These free programmes of study, accessible by mobile, tablet and desktop, allow large numbers of learners to engage with higher education. First introduced in November 2013, we have developed twelve MOOCs and in June we welcomed our 200,000th learner.

Public Benefit (continued)

We have a strong track record in supporting access and achievement by students from under-represented groups. We were one of the first universities to introduce a Widening Access to Medicine programme (BM6); one of the first to receive the Buttle Trust Quality Mark in recognition of our support for care leavers; and a founding institution in the Pathways to Law programme.

We are committed to widening participation and ensuring that all students with the potential to succeed, regardless of their background, are encouraged to apply to study with us. Through using additional information gained through contextual data, our admissions teams are able to recognise a student's achievements and identify their potential to succeed in the context of their background and experience.

We work closely with schools, colleges, community groups and other third sector organisations to encourage prospective students to consider higher education. Young people and mature learners are able to make more informed choices about higher education through programmes developed by our Student Recruitment and Outreach team. Working with over 13,700 young people and adults in primary schools, secondary schools, sixth form colleges and community settings across the region, we deliver a wide range of workshops and activities to support learners.

Through our Learn with US outreach programme we take a long-term and targeted approach to raising the aspirations of the young people we engage with. This programme is linked to our Access to Southampton scheme, providing special consideration and financial support to students from designated under-represented groups. This includes students from areas where there is low participation in higher education, or who are the first generation of immediate family to apply to higher education, or who live, or have grown up in public care.

Our groundbreaking Learn with US transition programme provides unique support for sixth-form students to develop their research skills, including support for the Extended Project Qualification (EPQ). Its research-active members of staff also provide schools and colleges with taster lectures, seminars and project days to tap into students' curiosity and scholarship. We were the first Russell Group university to make an alternative offer based on students attaining an A or A* in the EPQ and now make the offer for the majority of our courses.

The impact of our commitment to widening access and student success has been evidenced in our performance indicators for UK students. We have performed consistently well in recruiting state school students, with 84.8% in 2014/15. In the last six years, we have significantly increased our proportion of first-year undergraduate black and minority ethnic students from 10.2% in 2008/09 to 19.1% in 2014/15. In 2014/15, 23.1% of our students came from low socio-economic groups and 7.2% from low participation neighbourhoods.

To support students from low income households we provide bursaries and fee waivers of up to £3,000 per annum. The overall total for student financial support has risen in 2015/16 to £9.7 million.

Outreach and public engagement

The University continued to expand its outreach and public engagement activities in 2015/16.

- In September 2015, INTO University, in partnership with the University of Southampton, opened its first centre in Southampton. Based in the Redbridge area of the city, the INTO University team provides support in a community setting for local families and young people, including mentoring and after school study support.
- Working in partnership with the University, the Brilliant Club recruits and places doctoral and postdoctoral researchers in non-selective state schools as tutors to share their expertise. Through the Scholars Programme, researchers have delivered university-style tutorials to small groups of pupils, from Year 6 through to Year 12. The university-style learning experience provides the participants with the knowledge and skills that will help secure them places at highly selective universities.
- Our annual Bringing Research to Life roadshow continues to tour regionally and nationally between March and September, showcasing an expanded selection of Southampton research. It reaches over 20,000 visitors annually, with invaluable support from an enthusiastic team of volunteer research-communicators and undergraduate student ambassadors.
- The annual Science & Engineering Festival took place in March 2016 with an expanded programme and an increased audience of around 6,000.
- Our LifeLab project, overseen by academics in Medicine and Education, helped 2,071 school children from Southampton and the surrounding areas learn about science and health, through visits to our hospital-based classroom and laboratory facility in 2015/16.

- Over the past three and a half years the RCUK funded Talk to US! project has hosted 36 university visits from 22 schools, working with 36 teachers and over 540 pupils. Through the six 'subprojects' Talk to US! has connected schools with researchers from Biological Sciences, Chemistry, Engineering, Oceanography, Medicine and Education.
- A new collaboration between Education and Electronics and Computing Science has enabled our Mathematics and Science Learning Centre to become a Computing at School regional centre.

Social impact

The University contributes significantly to health and wellbeing through its research and education. We train doctors, nurses and midwives, together with other allied health professionals, health visitors and school nurses – many of whom work in this region. Our student volunteers and our schools' outreach programmes benefit the wider community and bring University groups into contact with people who might not otherwise have a connection with us.

We have a close working relationship with hospitals in the region. Our medical staff work with colleagues at University Hospital Southampton NHS Foundation Trust in translational research, offering patients novel and effective treatment options in many specialist areas.

In the past year we have raised a significant amount of funding to build the first dedicated cancer immunology centre in the UK. With a target of £25 million, we have now raised almost £19 million and the new centre is already under construction at the Southampton General Hospital site. The facilities it provides will enable our researchers to build on the world-leading cancer immunology research conducted here over the past 40 years (www.southampton.ac.uk/youreit/get-involved).

Our students continue to make significant contributions to public benefit. A team of Southampton students were in Delhi in September 2015 to take part in the first International Social Innovation Challenge looking at the theme of empowering women through safer communities. Working with fellow students from OP Jindal Global University in Delhi and Lahore University of Management Sciences in Pakistan, their aim was to develop collaborative social ventures designed to improve the lives and livelihoods of women in urban India.

In October 2015, our student Enactus team became World Champions. Enactus is a global movement of student social entrepreneurs, working to change the lives of people in the poorest countries of the world for the better, as well as the lives of people in their own communities. The University's team has had huge success in developing social enterprises in Africa. Having beaten 34 teams to become UK champions, they went on to win the world cup in South Africa, the first UK team ever to accomplish this feat.

Research impact

We have a global reputation for the quality, depth and breadth of our research at Southampton.

In terms of research, the Government's six-yearly assessment of research quality, published in December 2014, saw us placed eighth in the UK for research intensity. The University is ranked first on the basis of the volume and quality of its research in general engineering and electrical and electronic engineering, metallurgy and materials; and in the top five nationally for research in ocean and earth science, nursing and allied health professions, history, modern languages and social policy. Music is ranked the best in the country on the basis of the quality of its research.

Our academics are tackling some of the most pressing challenges facing society today and deliver a range of direct public benefits from their work. We have an open access policy for research which aims to maximise the visibility, usage and impact of our research through global access.

Over 40% of our annual research is conducted in collaboration with commercial partners. As one of the top three UK universities in terms of working with SMEs, industrial partnerships are strategically very important to us and are a proven route for wider benefit and impact of our research activities.

Our Public Policy@Southampton initiative increases the reach and impact of University of Southampton research by bringing together the expertise of world-leading researchers with the expertise and experience of key policymakers and practitioners to address issues of social, cultural, economic and political importance. http://publicpolicy.southampton.ac.uk

Public Benefit (continued)

Research highlights from 2015/16

Academics in Southampton Business School worked with the Financial Conduct Authority (FCA) to produce a literature review on the models that assess the creditworthiness of consumers and the affordability of the loans they take, in particular for credit cards. This was used to inform the FCA review into the credit card market, published in July 2016. The FCA review set out a package of measures, which include a series of industry led proposals, to help consumers take better control of their spending.

The University is part of a new €6.2 million project to produce the first comprehensive map of river barriers across Europe and help to reconnect its rivers. The project is a major European collaboration with 20 partners from 11 countries and is funded by Horizon 2020.

Southampton researchers are part of an international team that has found a potentially viable way of removing excess carbon dioxide from the atmosphere by injecting it into volcanic bedrock.

Scientists at the University of Southampton are to develop and test a new wearable technology to help people who have had a stroke recover use of their arm and hand. Led by Professor Jane Burridge, the team will create a wireless sleeve, which will provide automatic, intelligent information about muscle movement and strength while patients practise everyday tasks at home. The two-year project has been funded with a grant of just under £1 million from the National Institute for Health Research (NIHR) and is in collaboration with Imperial College London, two medical technology consultancies, and NHS Trusts in Bristol and Portsmouth.

Southampton archaeologists have been exploring the landscape around a group of giant military badges that were cut into a chalk hillside in Wiltshire by soldiers waiting to be drafted to the trenches in the First World War. The team has surveyed a large area around The Fovant Badges – army regimental emblems carved into Fovant Down near Salisbury. Their research is part of a wider Heritage Lottery Fund project to create a new design on the hillside commemorating the centenary of the badges and the war.

Health professionals should treat people who show signs of sepsis with the same urgency given to those who complain of chest pain that might be a heart attack, a Southampton doctor has warned. Professor Saul Faust, of the University of Southampton and University Hospital Southampton NHS Foundation Trust, chaired the group that developed the new guideline for the National Institute for Health and Care Excellence (NICE). The national evidence-based guideline is the first of its kind and says health professionals need to think about the possibility of sepsis in all patients who may have an infection.

A University of Southampton-led study has found that blocking a receptor in the brain responsible for regulating immune cells could protect against the memory and behaviour changes seen in the progression of Alzheimer's disease.

New research from the University of Southampton shows that copper can destroy MRSA spread by touching and fingertip contamination of surfaces. This builds on previous Southampton research on copper's antimicrobial efficacy.

Doctors and scientists at the University of Southampton have used advanced 3D X-ray imaging technology to give new insight into the way an aggressive form of lung disease develops in the body. Originally designed for the analysis of substantial engineering parts, such as jet turbine blades, the powerful scanning equipment has been used to image idiopathic pulmonary fibrosis (IPF) lung tissue samples for the first time.

Ethnicity, socioeconomic status and place of residence in the UK, all influence the risk of breaking a bone, a new Southampton study has shown. Researchers found there were marked differences in fracture rates according to where individuals lived.

Through multidisciplinary research projects, Southampton academics from a range of disciplines are tackling issues related to food security, including availability, access, utilisation and stability. A partnership, facilitated by the University's Institute for Life Sciences (IfLS), has had a successful bid approved for nearly £600,000 of government funding to help improve global food security.

In Biological Sciences, scientists have been working to find new wild watercress varieties. One of these, registered as 'Boldrewood', is currently being trialled. This dwarf type has a sweeter taste, but still maintains the concentration of a plant 'stress' chemical that when chewed, releases phenylethyl isothiocyanate, which is known to halt the progress of cancer tumour growth.

Dr Jim Wright's work on access to safe drinking water, a fundamental requirement for good health, was recognised by UNICEF as being one of 12 of their best research projects in 2015.

University of Southampton computer scientists have designed a new pricing system based on online auction platforms, to make charging electric vehicles more effective. In the UK the anticipated pressure that charging these vehicles will cause to the National Grid's energy supply is a vital challenge. The Southampton researchers have devised a system where electric vehicle owners use computerised agents to bid for the energy to charge their vehicles, and to organise time slots when a vehicle is available for charging.

Scientists from the University of Southampton in partnership with the Japan Advanced Institute of Science and Technology (JAIST) have developed a graphene-based sensor and switch that can detect harmful air pollution in the home with very low power consumption.

University academics played a leading role in the development of a pioneering project to debate Britain's constitutional future. In collaboration with civil society organisations they brought together citizens and politicians for two pilot Citizens' Assemblies. The aim was to discuss topics including local devolution, decentralisation and new 'City Regions'.

Southampton mathematicians were part of an international team of scientists to announce two instances of the detection of gravitational waves – ripples in the fabric of space-time. Gravitational waves carry unique information about the origins of our Universe and studying them is expected to provide important insights into the evolution of stars, supernovae, gamma-ray bursts and neutron stars, as well as black holes.

Principles

Southampton is a world-class university built on the quality and diversity of our community and our mission is to change the world for the better. We value excellence and creativity, supporting independence of thought and the freedom to challenge existing knowledge and beliefs through critical research and scholarship.

Our four aspirations are collegiality, quality, national and international reputation, and sustainability.

The University's continued drive to improve fairness and equality for women has gained us a silver institution award and two silver and seven bronze departmental awards, as part of the UK-wide Athena SWAN initiative.

Southampton is committed to developing early-career researchers who will continue to innovate and challenge established thinking in the future. To this end, we are a signatory to the Concordat to Support the Career Development of Researchers via UUK and are committed to implementing the seven principles. The quality of our plans for supporting the personal, professional and career development of our researchers was recognised by the European Commission with the HR Excellence in Research award in 2012.

We are committed to ensuring that there is no modern slavery or human trafficking in our supply chains or in any part of our business. In light of the obligation to report on measures to ensure that all parts of our business and supply chain are slavery free we are reviewing our workplace policies and procedures to assess their effectiveness in identifying and tackling modern slavery issues.

Our workplace policies and procedures will demonstrate our commitment to acting ethically and with integrity in all our business relationships and to implementing and enforcing effective systems and controls to ensure slavery and human trafficking is not taking place anywhere in our supply chains.

Public and community engagement and culture

With over 6,700 members of staff, the University is one of the largest employers in Southampton and offers a wide variety of employment opportunities. Many of our students contribute to the city through their volunteering activities, and many remain in the region after graduation, providing a skilled workforce and contributing professionally.

Our excellent sports facilities and arts venues are open to members of the local community and schools, and uniquely within UK higher education, we support three world-class arts venues that are "national portfolio organisations" funded by Arts Council England. These are the John Hansard Gallery, Turner Sims Southampton concert hall and the Nuffield Theatre.

We work closely with our Students' Union, local agencies and our neighbours to promote the positive benefits of the University's presence in the community and to ensure that we mitigate any potentially negative impacts that might arise.

Members of the public are invited to use the University library for reference, without charge; and we offer borrowing rights to a number of community groups. Our Hartley Library houses a large and valuable collection of archives, including the Wellington Papers and the Broadlands Archives – a large collection of original

Public Benefit (continued)

documents relating to the lives and work of, among others, the Seventh Earl of Shaftesbury, Viscount Palmerston and Earl Mountbatten of Burma.

Creating a sustainable organisation

Sustainability is one of the four principles that are central to the University's new strategy.

We proactively lead activities on our campuses to reduce the environmental impact of our work, and we encourage our students and staff to work together to deliver improvements that lower our energy usage, minimise waste, and manage travel between our sites.

Over the last year we have brought teams together to deliver a range of events, including the 10th annual Waste Wars competition and the nationally delivered Blackout event. The integration of sustainability into our taught curriculum ensures that we provide our students with an opportunity to engage in important issues, equipping them with the skills to contribute to a low carbon, sustainable society.

Our environmental management system is certified to the ISO 14001 standard. ISO 14001 is an internationally recognised standard for environmental management. External auditors reviewed our systems and processes in July 2016, to verify that we are continuing to meet the requirements of the standard. They remarked on the considerable effort that we continue to put in to maintaining our system.

We recognise that as a world-leading, research-intensive university there is a tension between carrying out our activities and the desire to minimise our environmental impacts. Our carbon emissions over the last year remained stable compared to the previous year, and our emissions per staff and student full-time equivalent (FTE) on our campuses is 18% below our 2005/06 baseline.

We continue to look for, and invest in, opportunities for improvements. An extensive review by the Energy Management team and mechanical engineers in 2015 identified 41 buildings where heating and/or mechanical equipment could be run on 'holiday mode' during the University's Christmas shutdown. This action – together with the milder winter – resulted in a carbon emissions saving of approximately 234 tonnes.

The University's Travel Plan covers the period 2015–2020 and sets out a series of measures to encourage staff, students and university visitors to adopt more sustainable travel habits. The University's bus service – unilink – was created in 2001 to transport University staff and students between teaching sites and halls of residence, while also providing a service that is open for visitors and members of the local community. Over the last year, unilink carried approximately 5.5 million passengers. We continue to work closely with local authority partners to develop and improve the local cycle network.

Southampton is part of a consortium of seven universities that worked together to tender for a new recycling contract in 2015. Professionals from each institution collaborated on a new five-year contract with SUEZ which will continue to divert our waste from landfill. Our recycling rate for the year stands at 56%. Materials that cannot be recycled are sent to an 'energy from waste' facility so that electricity and heat can be recovered.

In April 2016, more than 100 participants gathered in Southampton for the UK's first international student sustainability research symposium, which showcased how undergraduate and postgraduate research at the University is changing the world for the better.

In June, the University collaborated with the city council to run the now annual Southampton BioBlitz. This event sees local people join wildlife groups and university scientists in a race against the clock to find as many species of plants and animals as possible in 24 hours. The data collected will be added to a vast database at the Hampshire Biological Information Centre, to compare Southampton's biodiversity with other places in the county.

Over the next year, staff will be working to replace the University's existing metering and reporting service with an internally developed system, and to introduce a new dashboard that provides a user-friendly, graphical display of energy consumption and alerts for abnormal consumption. We will also be transitioning the University's environmental management system to the new ISO 14001:2015 standard, while continuing to engage students and staff in helping to meet our ambitious targets.

The following corporate governance statement provides information about the University's governance, management and legal structure during the year ended 31 July 2016 and up to the date of signing of these Financial Statements.

Legal status of the University

The University of Southampton is a chartered corporation established by Royal Charter in 1952. Its aims, powers and framework of governance are set out in the Charter and supporting Statutes and Ordinances.

The University is an exempt charity under the terms of the Charities Act 2011, with the Higher Education Funding Council for England (HEFCE) acting as the Principal Regulator.

Governance

The University's constitution is set out in the Charter, Statutes and Ordinances. These are the overarching governance documents that outline the University's aims, structure, responsibilities and powers. These require the University to have two separate governing bodies, Council and Senate, each with clearly defined functions and responsibilities to oversee and manage the University's activities, as follows:

Council – is the governing body of the University, and is charged by the Charter with responsibility for "...the management and administration of the whole revenue and property of the University and the conduct of all the affairs of the University..." (Article 10 of the Charter). In carrying out its functions, the Council is bound by the terms of the Memorandum of assurance and accountability between HEFCE and the University.

Council has a membership consisting of *ex officio* members, lay members, representatives of both academic staff and other staff, and the President of the Students' Union (see below for Council membership). The Chair and Vice-Chair of Council are appointed from among the lay membership which forms a majority on the Council.

Council normally meets six times a year (seven times in 2015/16), and receives reports on the functioning of the University and of its subsidiary companies. These include the critical assessment of agreed Key Performance Indicators. Matters specifically reserved for Council decision include the Mission and strategic direction of the University, and the approval of budgetary allocations and major new developments.

Senate – is the University's main academic authority, and its responsibilities include (subject to Council approval where necessary) the direction and regulation of education and examinations, the award of degrees, and the promotion of research.

Whilst Council is the ultimate authority within the University, it cannot be directly involved in decision making on all matters for which it is formally responsible: the range of business undertaken inevitably means that some delegation of powers to individuals and to committees is necessary.

Audit Committee is responsible for reviewing the University's arrangements for matters of governance, internal control, risk management, data assurance, and for reviewing and commenting on the annual financial statements and accounting policies. It meets four times a year with the University's senior officers and the external and internal auditors. The Committee will discuss detailed audit reports and recommendations for the improvement of the University's systems of control, together with management's response and implementation plans. The Committee also considers reports from HEFCE relating to the conduct of business and monitors adherence to the regulatory requirements. Whilst senior executives are in attendance at meetings, they are not members of the Committee, which reserves the right to meet separately with external and internal auditors for independent consultations.

Nominations Committee is responsible for making recommendations for the filling of vacancies in the lay membership of Council, following internal and external advertisement and reference to the alumni of the University. The Committee also appoints the lay members of the Audit Committee and Senior Salaries Committee.

Senior Salaries Committee determines the salaries of University Executive Board members and maintains an overview of the salary costs of senior professorial and administrative staff. Lay members of the Committee determine the President and Vice-Chancellor's salary.

Finance Committee considers and makes recommendations to Council regarding the University's financial plans and interests and takes into consideration both local constraints and aspirations together with the context of the wider environment of Higher Education funding, public policy and the demand for Higher Education services.

Corporate Governance (continued)

All these committees are formally constituted with terms of reference and comprise lay and academic members, one of whom is in the chair. All members of Council and of its committees, together with the executive officers, are subject to Standing Orders, which *inter alia* require the maintenance of a Register of Interests. Members may not be present at any discussion in which they have a direct or indirect financial interest.

Council has a number of other committees including committees in the areas of health and safety, and ethics.

The University has complied with the key recommendations of the Committee of University Chairs' 'The Higher Education Code of Governance'. The Statement of Primary Responsibilities adopted by the University's governing body can be viewed at:www.southampton.ac.uk/aboutus/councilmembers/

President and Vice-Chancellor

The President and Vice-Chancellor is the principal academic and administrative officer of the University and has overall responsibility to Council for the executive management of the University. Under the terms of the formal Memorandum of assurance and accountability between the University and HEFCE the President and Vice-Chancellor is the designated 'accountable officer', and in that capacity is required to advise Council on the discharge of all its responsibilities under the Memorandum and the Audit Code of Practice.

Statement of Internal Control

Council is responsible for maintaining a sound system of internal control that supports the achievement of the University's policies, aims and objectives, whilst safeguarding public and other funds and assets for which it is responsible. The system of internal control is designed to understand and manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore provide only a reasonable, but not absolute, assurance against financial misstatement or loss.

The key elements of the system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities and delegated authority of heads of academic and administrative groups;
- a medium and short-term planning process, supplemented by detailed annual income, expenditure and capital budgets and cash flow forecasts;
- regular reviews of performance and at least termly reviews of financial performance and updates of forecast out-turns;
- clearly defined and formalised requirements for approval and control of expenditure, appointment of staff, investment and borrowing decisions;
- comprehensive Financial Regulations approved by the Audit Committee and Council;
- a professional internal audit service, whose responsibilities cover the entire internal control systems of the institution.

The system of internal control is supplemented by an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks, and to manage them efficiently, effectively and economically.

Council has approved a process of identifying major risks and encouraging risk management awareness throughout the University with formal risk management strategies, policies and reporting systems, which are regularly monitored by Audit Committee and Council. This includes a focus on primary strategic aims and Key Performance Indicators. Risk management and internal control are considered on a regular basis during the year and there is an adequate risk and control assessment system.

Risk management has also been incorporated fully into the corporate planning and decision-making processes of the University. Council reviews the University's strategic risk register at every other meeting, and reviews the University Key Performance Indicators annually in July.

Council's review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the institution (who have responsibility for the development and maintenance of the internal control framework), and by comments made by the external auditors in their management letter and other reports.

The Audit Committee, on behalf of Council, has reviewed the effectiveness of the systems of internal control. Any such system can, however, only provide reasonable, but not absolute, assurance against financial misstatement or loss.

Role of Council in the Preparation of the Financial Statements

Council is responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the University and which enable it to ensure that the financial statements are prepared in accordance with the 'Statement of Recommended Practice (SORP): Accounting for Further and Higher Education' and other relevant accounting and financial reporting standards. In addition, within the terms and conditions of the Memorandum of assurance and accountability agreed between HEFCE and the Council of the University, Council, through the President and Vice-Chancellor, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.

Council has, through its committees and officers, ensured that in the preparation of the financial statements:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting and financial reporting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Council is satisfied that the University has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis has been used in the preparation of the financial statements.

The Council has taken reasonable steps to:

- ensure that funds from HEFCE are used only for the purposes for which they have been given and in accordance with the Memorandum of assurance and accountability and any other conditions which the Funding Council may have prescribed;
- ensure that there are appropriate financial and management controls in place to safeguard funds from all sources;
- safeguard the assets of the University and prevent and detect fraud;
- secure the economical, efficient and effective management of the University's resources and expenditure.

Members of Council have had due regard to the guidance on public benefit published by the Charity Commission in exercising their powers or duties.

Members of the Council

There are five classes of Council membership.

Class 1: Officers
Class 2: Lay members appointed by the Council
Class 3: Academic members of staff
Class 4: Non-academic member of staff
Class 5: Representatives of the Students' Union

Membership for the period 1 August 2015 – 30 November 2016

Name	Type of Membership	Original appointment in this class commenced	Appointment end or actual leaving date if before 30 Nov 2016	Attendance Aug 2015 – Jul 2016	Membership of other Committees of Council (including joint committees)
Dr G Rider	Class 1 Chair	August 2012	July 2018	7/7	Standing Committee of Council Nominations Committee Senior Salaries Committee Finance Committee
Dr R C Rivaz Hon DSc	Class 1 Vice-Chair	August 2014	July 2017	7/7	Standing Committee of Council Nominations Committee Senior Salaries Committee

Corporate Governance (continued)

Name	Type of Membership	Original appointment in this class commenced	Appointment end or actual leaving date if before 30 Nov 2016	Attendance Aug 2015 – Jul 2016	Membership of other Committees of Council (including joint committees)
Dr D J Price CBE	Class 1 Treasurer	August 2015	July 2018	7/7	Standing Committee of Council Nominations Committee Senior Salaries Committee Finance Committee
Professor Sir Christopher Snowden	Class 1 President and Vice-Chancellor	October 2015		7/7	Standing Committee of Council Nominations Committee Senior Salaries Committee Finance Committee
Professor A A Wheeler	Class 1 Deputy Vice-Chancellor	August 2007	December 2015	3/3	Standing Committee of Council Nominations Committee Senior Salaries Committee
Ms F Barnes	Class 2	November 2016	July 2019	0/0	
Mr G Berruyer	Class 2	October 2015	July 2018	6/7	
Mr M C Burrow	Class 2	May 2010	July 2016	6/7	Audit Committee
Rear Admiral P D Greenish CBE	Class 2	March 2011	July 2017	7/7	Health and Safety Audit and Assurance Committee
Mr G Hobbs	Class 2	August 2016	July 2019	0/0	
Mr P Hollins	Class 2	April 2016	March 2019	2/2	
Ms S Kumar	Class 2	March 2012	July 2017	3/7	
Mr T P O'Brien CBE	Class 2	April 2009	July 2017	7/7	Senior Salaries Committee
Mr W Shannon	Class 2	July 2015	July 2018	4/7	Finance Committee
Mr J A Trewby CB	Class 2	October 2009	March 2016	4/5	
Professor Dame J Corner	Class 3	August 2014	December 2015	2/2	
Dr B Lwaleed	Class 3	August 2015	July 2018	7/7	
Professor M Niranjan	Class 3	March 2016	July 2017	3/3	
Professor P Reed	Class 3	March 2016	July 2018	3/3	
Professor J A Vickers	Class 3	March 2012	July 2018	7/7	Nominations Committee
Mr A Reyes-Hughes	Class 4	August 2014	July 2017	6/7	
Mr B Franklin	Class 5	July 2015	June 2016	4/6	
Mr A Hovden	Class 5	July 2016	June 2017	1/1	

Independent Auditor's Report to the Council of the University of Southampton

We have audited the group and parent institution financial statements (the "financial statements") of the University of Southampton for the year ended 31 July 2016 which comprise the Consolidated Statement of Comprehensive Income and Expenditure, the Consolidated Statement of Other Comprehensive Income and Expenditure, the Consolidated and Parent Institution Statement of Changes in Reserves, the Consolidated and Parent Institution Balance Sheets, the Consolidated Statement of Cash Flows, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including the Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102).

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

This report, including the opinions, has been prepared for and only for the Council as a body in accordance with the Accounts Direction of the Charters and Statutes of the institution and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 parent institution's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with the knowledge acquired by us in the course of performing the audit. 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 group's and institution's affairs as at 31 July 2016 and of the group's income and expenditure, 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 institution for specific purposes have been properly applied to those purposes and, if relevant, managed in accordance with relevant legislation;
- income has been applied in accordance with the institution's statutes;
- funds provided by HEFCE have been applied in accordance with the Financial Memorandum and any other terms and conditions attached to them; and
- the requirements of HEFCE's accounts direction have been met.

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 Corporate Governance Statement is inconsistent with our knowledge of the parent institution and group.

Mazars LLP

Mazars LLP
90 Victoria Street, Bristol BS1 6DP
30 November 2016

Consolidated Statement of Comprehensive Income and Expenditure for the year ended 31 July 2016

		Consolidated		University	
	Notes	2016	2015	2016	2015
		£000	£000	£000	£000
Income					
Tuition fees and education contracts	3	**244,746**	214,290	**243,892**	213,741
Funding body grants	4	**74,649**	80,734	**74,649**	80,734
Research grants and contracts	5	**112,504**	125,766	**111,202**	124,375
Other income	6	**119,258**	104,278	**117,475**	103,410
Investment income	7	**1,134**	1,777	**1,255**	1,777
Donations and endowments	8	**3,259**	5,045	**3,259**	5,035
Total income		**555,550**	531,890	**551,732**	529,072
Expenditure					
Staff costs	9	**295,403**	310,592	**293,793**	309,083
Other operating expenses	10	**187,401**	181,551	**185,897**	180,588
Depreciation	12	**30,161**	28,816	**29,829**	28,494
Interest and other finance costs	11	**12,804**	9,407	**12,603**	9,237
Total expenditure		**525,769**	530,366	**522,122**	527,402
Surplus before other gains/losses		**29,781**	1,524	**29,610**	1,670
(Loss)/gain on investments		**(148)**	(505)	**187**	292
(Loss)/gain on disposal of fixed assets		**(1,506)**	103	**(1,506)**	103
Surplus before tax		**28,127**	1,122	**28,291**	2,065
Taxation	13	**(79)**	(2,176)	**(146)**	(2,470)
Surplus/(deficit) for the year after tax		**28,048**	(1,054)	**28,145**	(405)

All income and expenditure is in respect of continuing operations.

Consolidated Statement of Other Comprehensive Income and Expenditure for the year ended 31 July 2016

	Notes	Consolidated 2016 £000	Consolidated 2015 £000	University 2016 £000	University 2015 £000
Surplus/(deficit) for the year after tax		**28,048**	(1,054)	**28,145**	(405)
Actuarial (loss)/gain in respect of pension schemes	27	**(23,949)**	1,877	**(23,949)**	1,877
Total comprehensive income for the year		**4,099**	823	**4,196**	1,472
Represented by :					
Endowment comprehensive income for the year		**27**	369	**27**	369
Restricted comprehensive income for the year		**(2,829)**	1,784	**(2,829)**	1,784
Unrestricted comprehensive income for the year		**6,901**	(1,330)	**6,998**	(681)
		4,099	823	**4,196**	1,472

Consolidated and University Statement of Changes in Reserves for the year ended 31 July 2016

Consolidated	**Income and Expenditure account**			**Total**
	Endowment	Restricted	Unrestricted	
	£000	£000	£000	**£000**
Balance at 1 August 2014	**12,101**	**13,198**	**436,654**	**461,953**
Surplus/(deficit) from the income and expenditure statement	80	7,093	(5,649)	1,524
Other comprehensive income	289	-	(990)	(701)
Release of restricted capital funds spent in the year	-	(5,309)	5,309	-
	369	1,784	(1,330)	823
Balance at 1 August 2015	**12,470**	**14,982**	**435,324**	**462,776**
Surplus/(deficit) from the income and expenditure statement	(158)	11,009	18,930	29,781
Other comprehensive income	185	-	(25,867)	(25,682)
Release of restricted capital funds spent in the year	-	(13,838)	13,838	-
Total comprehensive income for the year	27	(2,829)	6,901	4,099
Balance at 31 July 2016	**12,497**	**12,153**	**442,225**	**466,875**

University	**Income and Expenditure account**			**Total**
	Endowment	Restricted	Unrestricted	
	£000	£000	£000	**£000**
Balance at 1 August 2014	**12,101**	**13,198**	**428,007**	**453,306**
Surplus/(deficit) from the income and expenditure statement	80	7,093	(5,503)	1,670
Other comprehensive income	289	-	(487)	(198)
Release of restricted capital funds spent in the year	-	(5,309)	5,309	-
	369	1,784	(681)	1,472
Balance at 1 August 2015	**12,470**	**14,982**	**427,326**	**454,778**
Surplus/(deficit) from the income and expenditure statement	(158)	11,009	18,759	29,610
Other comprehensive income	185	-	(25,599)	(25,414)
Release of restricted capital funds spent in the year	-	(13,838)	13,838	-
Total comprehensive income for the year	27	(2,829)	6,998	4,196
Balance at 31 July 2016	**12,497**	**12,153**	**434,324**	**458,974**

Consolidated and University Balance Sheet as at 31 July 2016

	Notes	Consolidated **2016** £000	Consolidated 2015 £000	University **2016** £000	University 2015 £000
Non-current assets					
Tangible assets	14	**671,706**	636,751	**635,133**	605,979
Heritage assets	14	**6,000**	6,000	**6,000**	6,000
Intangible assets	15	**3,743**	5,339	**3,743**	5,339
Investments	16	**3,708**	4,123	**16,811**	15,938
		685,157	652,213	**661,687**	633,256
Current assets					
Stock		**774**	726	**774**	726
Trade and other receivables	17	**78,294**	74,909	**84,751**	76,490
Investments	18	**32,044**	54,329	**32,044**	54,329
Cash and cash equivalents		**92,937**	68,952	**90,017**	65,572
		204,049	198,916	**207,586**	197,117
Less: Creditors: amounts falling due within one year	19	**(136,383)**	(131,350)	**(133,558)**	(128,568)
Net current assets		**67,666**	67,566	**74,028**	68,549
Total assets less current liabilities		**752,823**	719,779	**735,715**	701,805
Creditors: amounts falling due after more than one year	20	**(127,148)**	(131,465)	**(119,278)**	(122,996)
Provisions	21	**(158,800)**	(125,538)	**(157,463)**	(124,031)
Total net assets		**466,875**	462,776	**458,974**	454,778
Represented by :					
Restricted Reserves					
Income and expenditure reserve - endowment reserve	22	**12,497**	12,470	**12,497**	12,470
Income and expenditure reserve - restricted reserve	23	**12,153**	14,982	**12,153**	14,982
Unrestricted Reserves					
Income and expenditure reserve - unrestricted		**442,225**	435,324	**434,324**	427,326
Total reserves		**466,875**	462,776	**458,974**	454,778

The financial statements on pages 22 to 77 were approved by the Council on 30 November 2016, and signed on its behalf by:

Professor Sir Christopher Snowden
President and Vice-Chancellor

David Price
Treasurer

Sarah Pook
Director of Finance

Consolidated Statement of Cash Flows for the year ended 31 July 2016

	Year ended 31 July 2016 £000	Year ended 31 July 2015 £000
Cash flow from operating activities		
Surplus/(deficit) for the year	**28,048**	(1,054)
Adjustment for non-cash items		
Depreciation/amortisation	**30,161**	28,816
Loss on investments	**148**	505
Impairment of investments	**179**	-
Increase in stock	**(48)**	(19)
Increase in debtors	**(7,236)**	(18,607)
Increase in creditors	**2,141**	7,908
Increase in pension provision	**9,483**	34,514
Decrease in other provisions	**(170)**	(167)
Receipt of donated equipment	**-**	(492)
Exchange rate loss/(gain) on loans	**1,193**	(897)
Gain on revaluation of investment property	**(554)**	(389)
Loss/(gain) on financial instruments	**153**	(142)
Adjustment for investing or financing activities		
Investment income	**(1,134)**	(1,777)
Endowment income	**(66)**	(20)
Capital grant income	**(12,621)**	(12,043)
Interest payable	**7,556**	7,258
Loss/(gain) on the disposal/write down of fixed assets	**4,736**	(40)
Net cash inflow from operating activities	**61,969**	43,354
Cash flows from investing activities		
Proceeds from disposal of fixed assets	**32**	50
Proceeds from disposal of fixed asset investments	**-**	1,140
Capital grant receipts	**16,337**	6,365
Disposal of current asset investments	**15**	10,613
Withdrawal of deposits	**33,800**	570
Investment income	**1,269**	2,338
Payments made to acquire fixed assets	**(64,582)**	(86,828)
Payments made to acquire fixed asset investments	**(100)**	-
New current asset investments	**(11,277)**	5
New deposits	**(66)**	(20)
	(24,572)	(65,767)

Consolidated Statement of Cash Flows for the year ended 31 July 2016 (continued)

	Year ended 31 July 2016 £000	Year ended 31 July 2015 £000
Cash flows from financing activities		
Interest paid	**(7,576)**	(7,312)
Endowment cash received	**66**	20
New unsecured loans	**20**	49,000
Repayments of amounts borrowed	**(5,669)**	(9,917)
Capital element of finance lease payments	**(253)**	(341)
	(13,412)	31,450
Increase in cash and cash equivalents in the year	**23,985**	9,037
Cash and cash equivalents at beginning of the year	**68,952**	59,915
Cash and cash equivalents at end of the year	**92,937**	68,952

Notes to the Financial Statements for the year ended 31 July 2016

1. Statement of principal accounting policies

a. General

The University of Southampton is a chartered corporation established by Royal Charter in 1952, and an exempt charity under the terms of the Charities Act 2011. Its principal place of business is University Road, Southampton, Hampshire, United Kingdom.

b. Basis of accounting

The financial statements have been prepared in accordance with both the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015 and the applicable accounting standard Financial Reporting Standard 102 (FRS 102). The financial statements comply with the requirements of FRS 102.

The financial statements are prepared under the historical cost convention, modified to include certain items at fair value.

The University is a public benefit entity and has applied the relevant public benefit entity requirements of FRS 102.

c. Basis of consolidation

The financial statements consolidate the financial statements of the University and of its subsidiary undertakings.

Where the financial statements of subsidiary companies are denominated in foreign currency, income and expenditure are converted to sterling for consolidation on the basis of the average exchange rate for the accounting period and the balance sheet is converted using the rate at the balance sheet date. Any resulting exchange rate differences are recognised in the Statement of Comprehensive Income.

The consolidated financial statements do not include the income and expenditure of the University of Southampton Students' Union as it is a separate entity over which the University does not exert control or significant influence over policy decisions.

A 20% minority interest exists in Southampton Asset Management Ltd, a subsidiary company. The value of this minority interest is insignificant and it has therefore not been disclosed within the financial statements.

d. Income recognition

Government grants

Both revenue and capital government grants are accounted for under the Performance Model. Income is recognised within the Statement of Comprehensive Income when the University is entitled to the income and performance related conditions specified in the agreement have been met. In the absence of any performance conditions income is recognised in full as soon as it becomes receivable.

Income received in advance of performance related conditions being met is recognised on the balance sheet as deferred income and released to the Statement of Comprehensive Income in line with such conditions being met. Where grants are received in arrears income is recognised in line with the performance conditions which have been met.

Tuition fees

Fee income is credited to the Statement of Comprehensive Income over the period in which students are studying. Where the amount of the tuition fee is waived or reduced, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Provision of goods or services

Income from the sale of goods or services is recognised in the Statement of Comprehensive Income when the goods or services are supplied or the terms of the contract have been satisfied. Where services are being rendered, but are not complete at the end of the period, income is recognised with reference to the stage of completion/degree of provision of the service, as determined on an appropriate basis for each contract.

Research income

Income is recognised within the Statement of Comprehensive Income when the performance related conditions agreed with the funder have been met. In the absence of performance conditions income is recognised in full as soon as the University is entitled to the income.

Non-government grants, donations and endowments

Non-government grants and donation income is accounted for under the Performance Model. This income can be split into 3 classes:

- Non-government grants and donated income with performance conditions

- Donations with restrictions
  A donation is considered to have a restriction when the gift agreement contains "a requirement that limits or directs the purposes for which a resource may be used that does not meet the definition of a performance-related condition." Income with restrictions, but no performance conditions, is recognised within the Statement of Comprehensive Income when the grant is receivable (legal/contractual commitment) and recorded within restricted reserves. As the funding is expended against the restriction it is transferred to unrestricted reserves by way of a reserves transfer.
- Donations without restrictions
  Income with neither restrictions nor performance conditions is recognised within the Statement of Comprehensive Income when the University is entitled to the income.

Endowments are a class of donation where the donor requires the original gift to be invested, with the return to be spent against the donor's charitable aims. The donor can specify that the capital can be spent (expendable endowment) or maintained in perpetuity (permanent endowment). In addition, the donor can specify how the gift and any associated income should be spent (a restricted endowment) or give the funds for any purpose of the University (unrestricted endowment).

An endowment gift is recognised in the Statement of Comprehensive Income when the University is entitled to the income. Investment income is recognised in the period in which it arises and as either restricted or unrestricted income according to the terms of each endowment. The gain or loss on endowment funds is recorded within the Statement of Comprehensive Income, with the value retained in the capital element of the fund to which it relates.

Capital grants
Grants, both government and non-government, received for the purpose of purchasing or constructing specific assets are recognised as income upon the asset being brought into use, or in line with the phased completion of large construction projects. Grants where the University has discretion over the assets being purchased or built are recognised in full as income when the University is entitled to the income.

Grant income is only recognised across the useful life of the asset to the extent that the grant specifically funds the operation/maintenance of the asset.

Interest
Interest is credited to the Statement of Comprehensive Income for the period in which the income is earned.

Agency income
Funds the University receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure of the University where the University is exposed to minimal risk.

e. Pension schemes
Pensions are provided by means of funded defined benefit schemes and annual contributions are based on actuarial advice. The operating costs of providing retirement benefits to employees are recognised in accounting periods in which the benefits are earned by employees, and the related finance costs and other changes in value of the assets and liabilities are recognised in the period in which they arise.

A liability is recorded for any contractual commitment to fund past deficits within multi-employer schemes. The associated expense is recognised in the Statement of Comprehensive Income.

In addition, to comply with the Pensions Act 2008, the University offers all University staff access to a qualifying pension scheme through NEST.

f. Employment benefits
Short-term employment benefits such as salaries and compensated absences are recognised as an expense in the period employees render service to the University. Any unused benefits which have accrued at each balance sheet date are recognised as a liability, with the expense being recognised as staff costs in the Statement of Comprehensive Income.

g. Leases
Finance leases
Leases in which the University assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases.

Leased assets acquired by way of a finance lease and the associated lease liability are stated at the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Notes to the Financial Statements for the year ended 31 July 2016

Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating leases
Costs in respect of operating leases are charged to the Statement of Comprehensive Income on a straight-line basis over the lease term. Any lease premiums or incentives are spread evenly over the minimum lease term.

h. Foreign currency
Transactions denominated in foreign currencies are recorded in the Statement of Comprehensive Income at the actual rate of exchange on conversion to sterling. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the balance sheet date.

Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income.

i. Fixed assets
Fixed assets are stated at cost and depreciated on a straight-line basis over a term based on the expected useful economic life of the asset.

Buildings under construction within the University are accounted for at cost, based on the value of architects' certificates and other direct costs incurred to 31 July. They are not depreciated until they are brought into use.

Land is not depreciated.

Equipment purchased by the University and costing less than £25,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised. The capitalisation thresholds for subsidiary undertakings are set at appropriate levels that do not exceed £25,000.

Equipment capitalised by the University is generally stated at cost and depreciated over three years. Large scale items of equipment and computer infrastructure are depreciated over a period equal to their expected useful economic life. Capitalised furniture and equipment held by subsidiary undertakings is depreciated over periods of between three and ten years.

For all buildings completed from 1 August 2015 onwards, where the major components of that building have significantly different useful lives, the initial cost of the asset shall be allocated to its major components and each component depreciated separately over its useful life.

An impairment review of a fixed asset is carried out if events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

j. Heritage assets
Artefacts held and conserved principally for their contribution to knowledge and culture, obtained since 1 August 2010, costing over £25,000, are capitalised and held at the lower of cost or net realisable value. Where assets are fully or substantially donated, they are capitalised and held at the lower of valuation at the time of acquisition or net realisable value.

Heritage assets are not depreciated as their long economic lives mean that any depreciation would be immaterial but they are regularly reviewed for impairment.

Income received to support the purchase of heritage assets is recognised when the University is entitled to the income.

The University holds a number of heritage assets obtained before 1 August 2010 that are not capitalised as the historical cost or valuation at the time of acquisition cannot be determined in a cost beneficial manner.

k. Intangible assets
Intangible assets capitalised by the University are generally stated at cost and amortised over three years on a straight-line basis. Assets with a value of £25,000 or more are amortised over a period equal to their expected useful economic life (up to a maximum period of 8 years).

An impairment review of an intangible asset is carried out if events or changes in circumstances indicate that the carrying value of the asset may not be recoverable.

l. Gifts in kind
Gifts in kind are included as fixed assets and depreciated in accordance with the policy set out above. The value of the donation is included in the Statement of Comprehensive Income in the period in which it is received, using a reasonable estimate of the gross value or the amount actually realised.

m. Investment Properties
Investment properties are measured initially at cost and subsequently at fair value with movements recognised in the Statement of Comprehensive Income. Investment properties are not depreciated but are revalued or reviewed annually according to market conditions as at 31 July each year.

n. Investments
All investments will initially be recognised at cost and subsequently measured at fair value at each reporting date, with movements recognised in the Statement of Comprehensive Income. For non-trading investments where fair value cannot be reliably measured, they will be measured at cost less impairment.

Investments in subsidiary undertakings are accounted for at cost less accumulated impairment losses.

All gains and losses on investment assets are recognised in the Statement of Comprehensive Income for that period.

o. Stock
The stocks are centrally held items for cleaning, maintenance and resale, and cochlear implants awaiting issue to patients. Stock is stated at the lower of cost and net realisable value.

p. Cash and cash equivalents
Cash includes cash in hand, cash at bank, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

Cash and cash equivalents contains sums relating to endowment reserves which the University is restricted as to how they disburse.

q. Financial instruments
Loans
Loans are measured at amortised cost using the effective interest rate method.

Derivatives
Derivatives are held on the balance sheet at fair value with any gains or losses being reported in the Statement of Comprehensive Income. The fair values are calculated by the bank from proprietary models based upon well recognised financial principles, data sources believed to be reliable and reasonable estimates about relevant future market conditions.

Short-term debtors and creditors
Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price.

r. Provisions, contingent liabilities and contingent assets
Provisions are recognised in the financial statements when:
(a) the University has a present obligation (legal or constructive) as a result of a past event;
(b) it is probable that an outflow of economic benefits will be required to settle the obligation; and
(c) a reliable estimate can be made of the amount of the obligation.

Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed in the notes.

s. Comparatives
Where accounting practice has changed, the prior year comparatives have been revised accordingly.

Where new Financial Reporting Standards have been implemented or notes have been enhanced to provide additional information, comparative figures have been amended accordingly.

t. Taxation
The University is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011 and as such is listed as a charity within the meaning of Paragraph 1 of Schedule 6 to the Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 472-488 of the Corporation Tax Act 2010 (CTA 2010) 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.

The University receives no similar exemption in respect of Value Added Tax. Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to fixed assets is included in their cost.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a

Notes to the Financial Statements for the year ended 31 July 2016

right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are more likely than not to be recovered.

u. Reserves
Reserves are allocated between restricted and unrestricted reserves. Restricted endowment reserves include balances which, through endowment to the University, are held as a permanently restricted fund as the University must hold the fund to perpetuity. Other restricted reserves include balances for which the donor has designated a specific purpose and therefore the University is restricted in the use of these funds.

v. Transition to FEHE SORP/FRS 102
The University has prepared its Financial Statements in accordance with FRS 102 and the new SORP for the first time for the year ended 31 July 2016. The University has consequently applied the first time adoption requirements.

An explanation of how the transition to the SORP has affected the reported financial position and financial performance of the consolidated results of the University is provided in note 30.

Application of first time adoption grants certain exemption from the full requirements of the SORP in the transition period. The following exemptions have been used in these financial statements:

- Fair value as deemed cost – investments have been measured at their fair value at the date of transition, with this value being used as the deemed cost going forward.
- Revaluation as deemed cost – land previously held at cost has been revalued at the date of transition, with this value being used as the deemed cost going forward.

2. Significant judgements and estimates

In the preparation of the 2016 consolidated financial statements, it is the responsibility of management to make informed judgements and estimates that affect the reported values for assets, liabilities, income and expenditure.

Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The following key assumptions concerning the future, and other key sources of estimation and uncertainty at the reporting date of 31 July 2016, are as follows:

Defined benefit scheme pension provision
The University contributes to two pension schemes – University of Southampton Pension and Assurance Scheme (PASNAS) and Hampshire County Council (HCC) – which are defined benefit schemes, and for which a provision is recorded within the Balance Sheet. The recognised liability is based on the valuation provided by professionally qualified independent actuaries which is based on a number of assumptions. These include the future cash flows of the Scheme, the discount rate used (which is based on average AA rated UK Corporate Bond rates that reflect the duration of our liability), the pensionable salary growth going forward and proposed price inflation (which is based on the Retail Price Index). Further details can be found in note 27.

The net interest expense is based on the interest rates of AA rated corporate bonds and the deficit position.

Management review the assumptions made to derive the provisions recorded within the Balance Sheet to ensure that they are reasonable.

USS pension provision
The University has a contractual commitment to the Universities Superannuation Scheme Ltd (USS) deficit recovery plan, and under FRS 102 the University's share of the past service deficit is recorded as a provision within the Balance Sheet. The University's obligation under the scheme has been calculated on a discounted present value basis.

The calculation of the provision has required management to make a judgement regarding the discount rate. This has been determined by reference to average market yields at the reporting date on high quality corporate bonds (bond rating AA) whose term covers the remaining duration of the recovery plan.

Further judgements about the rate of staff inflation and the future growth in staff numbers have been based on the assumptions used in the University's business plans which have been reviewed and approved by the University's governing body.

Revaluation model for investment property
The University of Southampton Science Park is an investment property which is valued each year by an independent valuation specialist. The property is stated at fair value with changes in the fair value being recognised in the Statement of Comprehensive Income.

The valuer uses a valuation technique based on the net present value of contracted future rental streams. This valuation method requires assumptions to be made regarding the estimated yield from the property and the level of long-term occupancy rates. Management acknowledges that changes to these assumptions can derive a different valuation, but accept that the assumptions used are reasonable based on past performance and existing lease commitments.

Fair value of investments
Where possible, investments are measured at fair value. This is by reference to the published market price of the investments held which are judged to provide a reasonable estimate of their value. Where there is no market rate available, investments are measured at cost.

3. Tuition fees and education contracts

	Consolidated		**University**	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Full-time Home/EU students	**137,971**	117,788	**137,971**	117,788
Full-time international students	**80,959**	71,526	**80,105**	70,977
Part-time Home/EU students	**2,642**	2,192	**2,642**	2,192
Part-time international students	**668**	826	**668**	826
Research training support grants	**16,841**	16,101	**16,841**	16,101
Special and short course fees	**5,665**	5,857	**5,665**	5,857
	244,746	214,290	**243,892**	213,741

Included in the above is £17,159,000 (2015: £17,359,000) of NHS Teaching Contract income in respect of full and part-time fees. Other income from health authorities is disclosed under note 6.

Fee income is stated net of waivers and discounts.

Notes to the Financial Statements for the year ended 31 July 2016

4. Funding body grants

	Consolidated and University	
	2016	2015
	£000	£000
Recurrent grants:		
Higher Education Funding Council for England (HEFCE)	**61,448**	62,856
National College for Teaching and Leadership	**83**	(42)
Specific grants:		
Higher Education Funding Council for England (HEFCE)	**4,997**	5,877
Capital grants	**8,121**	12,043
	74,649	80,734

5. Research grants and contracts

	Consolidated		University	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Income				
UK Research councils	**50,686**	54,138	**50,682**	54,107
UK based charities	**12,905**	11,886	**12,890**	11,876
UK Central Government/local authorities/health authorities and hospitals	**16,000**	16,135	**15,864**	15,936
UK public corporations/industry and commerce	**7,917**	8,077	**7,583**	7,768
EU Government	**14,424**	15,885	**14,418**	15,876
EU other sources	**1,968**	2,206	**1,885**	2,173
Other overseas sources	**7,216**	5,328	**6,916**	4,976
Other sources	**703**	783	**279**	335
Research and development expenditure credit (RDEC) claims from HMRC	**685**	11,328	**685**	11,328
	112,504	125,766	**111,202**	124,375

6. Other income

	Consolidated		University	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Residences, catering and conferences	**40,186**	33,826	**40,186**	33,826
Consultancies, trading and services rendered	**42,264**	39,396	**40,999**	38,090
Health authorities	**10,667**	9,951	**10,667**	9,951
Other capital grants	**4,500**	-	**4,500**	-
Other income	**21,641**	21,105	**21,123**	21,543
	119,258	104,278	**117,475**	103,410

7. Investment income

	Consolidated		University	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Investment income on endowments	**169**	165	**169**	165
Other investment income	**965**	1,612	**1,086**	1,612
	1,134	1,777	**1,255**	1,777

8. Donations and endowments

	Consolidated		University	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
New endowments	**66**	20	**66**	20
Disposed endowments	**(15)**	-	**(15)**	-
Donations with restrictions	**2,851**	3,794	**2,851**	3,794
Unrestricted donations	**357**	1,231	**357**	1,221
	3,259	5,045	**3,259**	5,035

Notes to the Financial Statements for the year ended 31 July 2016

9. Staff costs

	Consolidated		University	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Staff costs:				
Salaries and wages	**233,923**	227,948	**232,453**	226,563
Social Security costs	**19,748**	18,001	**19,704**	17,956
Pension costs	**37,598**	35,918	**37,502**	35,839
Movement on USS provision	**3,639**	28,367	**3,639**	28,367
Severance and early retirement	**495**	358	**495**	358
	295,403	310,592	**293,793**	309,083

	Consolidated		University	
	2016	2015	**2016**	2015
	Number	Number	**Number**	Number
Average staff numbers expressed as full-time equivalents by major category inclusive of part-time appointments:				
Education, research and enterprise	**2,832**	2,773	**2,817**	2,761
Management, specialist and administrative	**2,078**	1,973	**2,054**	1,952
Technical and experimental	**374**	371	**373**	370
Community and operational	**493**	472	**493**	472
	5,777	5,589	**5,737**	5,555

Emoluments of the Vice-Chancellor

Professor Don Nutbeam (end date 30th September 2015)

	2016	2015
	£000	£000
Emoluments	**295**	252
Performance-related bonus	**43**	39
Taxable benefits	**-**	1
	338	292
Employers pension contributions	**7**	40
Total remuneration	**345**	332

The emoluments in 2015/16 include compensation for loss of office of £252,000 which was paid to Professor Nutbeam. Professor Nutbeam donated £0 (2015: £1,000) to the University during the year as a member of the Hartley Circle.

9. Staff costs (continued)

Professor Sir Christopher Snowden (start date 1st October 2015)

	2016	2015
	£000	£000
Emoluments	**348**	-
Performance-related bonus	**-**	-
Taxable benefits	**1**	-
	349	-
Pension contributions (at 2.1% for the period April 2016 to July 2016)	**3**	-
Total remuneration	**352**	-

Higher Paid Staff

Remuneration of higher paid staff other than the head of institution, excluding employer's pension contributions, but including NHS distinction awards where appropriate:

	2016 Number		2015 Number	
	Total - All Staff	**Clinical**	Total - All Staff	Clinical
£100,000 - £109,999	**48**	**10**	35	11
£110,000 - £119,999	**25**	**11**	26	11
£120,000 - £129,999	**13**	**8**	20	9
£130,000 - £139,999	**9**	**4**	9	5
£140,000 - £149,999	**9**	**6**	10	5
£150,000 - £159,999	**13**	**8**	11	6
£160,000 - £169,999	**7**	**7**	13	9
£170,000 - £179,999	**6**	**5**	3	2
£180,000 - £189,999	**2**	**1**	3	1
£190,000 - £199,999	**1**	**1**	-	-
£200,000 - £209,999	**1**	**1**	2	2
£210,000 - £219,999	**3**	3	2	2
£220,000 - £229,999	**-**	-	1	1

9. Staff costs (continued)

Compensation for loss of office

Aggregate payments for compensation for loss of office for one (2015: three) senior member of staff earning more than £100,000 was £252,000 (2015: £137,534). In 2015/16, the payment related to the outgoing Vice-Chancellor, Professor Nutbeam.

Salaries and wages, emoluments of the Vice-Chancellor and higher paid staff numbers are stated before salary sacrifice deductions.

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the University. Staff costs includes compensation paid to key management personnel.

The 2014/15 costs comprise the salary and benefits for the 15.3 full-time equivalent members of the University Academic Executive. During 2015/16 the executive structure of the University was revised; therefore the costs for the key management personnel in 2015/16 comprise the salary and benefits for the 14.7 full-time equivalent members of the University Academic Executive for the first 6 months, and the salary and benefits of the 14.4 full-time equivalent members of the University Executive Board for the second 6 months to 31st July.

	2016	2015
	£000	£000
Key management personnel compensation	**3,273**	2,939

10. Other operating expenses

	Consolidated		University	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Non-capitalised equipment	**20,190**	20,482	**20,101**	20,335
Impairment of property value	**3,233**	10	**3,233**	10
Consumables and laboratory expenditure	**18,445**	17,315	**18,393**	17,079
Office expenses and professional fees	**29,126**	26,450	**28,207**	25,536
Travel costs	**14,081**	15,099	**13,912**	14,932
Repairs, refurbishment and scheduled maintenance	**15,611**	18,117	**14,501**	17,159
Heat, light, water and power	**7,905**	9,816	**7,867**	9,788
Books and periodicals	**5,506**	4,941	**5,506**	4,941
Bursaries, fellowships, scholarships and prizes	**34,092**	32,924	**34,082**	32,903
External agencies and staff secondments	**12,600**	10,544	**12,516**	10,494
Rents, rates and hire of facilities	**7,909**	6,853	**8,143**	6,952
Catering supplies	**2,461**	2,251	**2,353**	2,155
Conference fees	**3,014**	2,894	**3,018**	2,901
Grant to Students' Union	**2,752**	2,514	**2,752**	2,514
External auditors' remuneration	**80**	71	**45**	37
Auditors' remuneration in respect of other services	**107**	87	**96**	78
Other expenses	**10,289**	11,183	**11,172**	12,774
	187,401	181,551	**185,897**	180,588

Lay members and non University staff officers of the Council did not receive payment, apart from the reimbursement of expenses, for fulfilling their role as members of the governing body.

Total expenses paid to twelve (2015: eleven) members of Council was £12,000 (2015: £7,000), representing reimbursement of travel and other expenses incurred in attending Council and related meetings, and representing the University in the UK and overseas.

Notes to the Financial Statements for the year ended 31 July 2016

11. Interest and other finance costs

	Consolidated		University	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Loan interest	**3,870**	4,147	**3,581**	3,835
Finance lease interest	**3,686**	3,111	**3,686**	3,111
Exchange rate gain/(loss) on currency loans	**952**	(897)	**1,193**	(897)
Increase/(decrease) in fair value of financial instrument	**153**	(142)	**-**	-
Net charge on pension schemes	**4,143**	3,188	**4,143**	3,188
	12,804	9,407	**12,603**	9,237

12. Analysis of 2016 expenditure by activity

Consolidated

	Staff costs	Depreciation	Other operating expenses	Interest payable	**2016 Total**	2015 Total
	£000	£000	£000	£000	**£000**	£000
Academic departments	155,051	2,075	29,819	-	**186,945**	182,223
Academic services	18,436	4,359	15,620	-	**38,415**	38,514
Research grants and contracts	49,829	5,154	26,695	-	**81,678**	82,294
Residences, catering and conferences	8,142	3,479	15,498	2,805	**29,924**	26,112
Premises	10,108	13,862	27,105	-	**51,075**	50,033
Administration and central services	20,698	352	11,270	-	**32,320**	31,785
General educational expenditure	7,290	-	40,438	-	**47,728**	42,533
Consultancies, trading and services rendered	19,983	880	19,411	201	**40,475**	34,766
Other activities	5,866	-	1,545	9,798	**17,209**	42,106
	295,403	**30,161**	**187,401**	**12,804**	**525,769**	530,366

University

	Staff costs	Depreciation	Other operating expenses	Interest payable	**2016 Total**	2015 Total
	£000	£000	£000	£000	**£000**	£000
Academic departments	154,534	2,017	29,696	-	**186,247**	181,557
Academic services	18,376	4,203	15,433	-	**38,012**	38,087
Research grants and contracts	49,829	5,143	25,400	-	**80,372**	81,117
Residences, catering and conferences	8,142	3,479	15,498	2,805	**29,924**	26,112
Premises	10,105	13,826	27,329	-	**51,260**	50,065
Administration and central services	20,120	352	10,790	-	**31,262**	30,719
General educational expenditure	7,290	-	40,427	-	**47,717**	42,513
Consultancies, trading and services rendered	19,531	809	18,715	-	**39,055**	35,137
Other activities	5,866	-	2,609	9,798	**18,273**	42,095
	293,793	**29,829**	**185,897**	**12,603**	**522,122**	527,402

Notes to the Financial Statements for the year ended 31 July 2016

13. Taxation

	Consolidated		University	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Analysis of tax charge:				
UK Corporation Tax	**146**	2,470	**146**	2,470
Deferred tax	**(67)**	(294)	**-**	-
	79	2,176	**146**	2,470

	Consolidated		University	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Recognised in the Statement of Comprehensive Income:				
Current tax				
Current tax expense	**146**	2,470	**146**	2,470
Current tax expense	**146**	2,470	**146**	2,470
Deferred tax				
Origination and reversal of timing differences	**(67)**	(294)	**-**	-
Deferred tax expense	**(67)**	(294)	**-**	-
Total tax expense	**79**	2,176	**146**	2,470

14. Tangible assets

Consolidated

	Freehold land and buildings	Leasehold land and buildings	Assets in course of construction	Investment properties	Fixtures, fittings and equipment	Heritage assets	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation							
At 1 August 2015	551,009	137,063	53,959	28,149	107,180	6,000	883,360
Additions at cost	10,399	1,408	47,142	341	8,037	-	67,327
Transfers at cost	18,526	3,724	(36,364)	322	13,792	-	-
Surplus on revaluation	-	-	-	554	-	-	554
Disposals at cost	(1,377)	-	-	-	(987)	-	(2,364)
Write downs	(3,551)	-	-	-	-	-	(3,551)
At 31 July 2016	**575,006**	**142,195**	**64,737**	**29,366**	**128,022**	**6,000**	**945,326**
Depreciation							
At 1 August 2015	(113,631)	(40,019)	-	(155)	(86,804)	-	(240,609)
Charge for year	(9,794)	(5,617)	-	(12)	(13,477)	-	(28,900)
Eliminated on disposal	584	-	-	-	987	-	1,571
Eliminated on write down	318	-	-	-	-	-	318
At 31 July 2016	**(122,523)**	**(45,636)**	**-**	**(167)**	**(99,294)**	**-**	**(267,620)**
Net book value							
At 31 July 2016	**452,483**	**96,559**	**64,737**	**29,199**	**28,728**	**6,000**	**677,706**
At 1 August 2015	437,378	97,044	53,959	27,994	20,376	6,000	642,751

Notes to the Financial Statements for the year ended 31 July 2016

14. Tangible assets (continued)

University

	Freehold land and buildings £000	Leasehold land and buildings £000	Assets in course of construction £000	Fixtures, fittings and equipment £000	Heritage assets £000	Total £000
Cost or valuation						
At 1 August 2015	551,009	135,304	53,547	105,333	6,000	851,193
Additions at cost	10,397	1,391	42,071	7,889	-	61,748
Transfers at cost	18,526	3,724	(36,042)	13,792	-	-
Disposals at cost	(1,377)	-	-	(987)	-	(2,364)
Write downs	(3,551)	-	-	-	-	(3,551)
At 31 July 2016	**575,004**	**140,419**	**59,576**	**126,027**	**6,000**	**907,026**
Depreciation						
At 1 August 2015	(113,631)	(39,984)	-	(85,599)	-	(239,214)
Charge for year	(9,794)	(5,582)	-	(13,192)	-	(28,568)
Eliminated on disposal	584	-	-	987	-	1,571
Eliminated on write down	318	-	-	-	-	318
At 31 July 2016	**(122,523)**	**(45,566)**	**-**	**(97,804)**	**-**	**(265,893)**
Net book value						
At 31 July 2016	**452,481**	**94,853**	**59,576**	**28,223**	**6,000**	**641,133**
At 1 August 2015	437,378	95,320	53,547	19,734	6,000	611,979

At 31 July 2016, freehold land and buildings included £94,900,000 (2015: £94,900,000) in respect of land, which is not depreciated.

The figures for completed leasehold land include an asset held under a finance lease which has been capitalised. This is held at a cost of £49,000,000 with accumulated depreciation of £1,800,000 (2015: £800,000) and a net book value of £47,200,000 (2015: £48,200,000).

Included in the balances for leasehold land and buildings is expenditure of £27,800,000 funded by HEFCE and its predecessors, in respect of clinical land and buildings in National Health Service ownership, and £14,600,000 for the National Oceanography Centre, Southampton, funded by HEFCE in respect of buildings constructed by the Natural Environment Research Council.

The investment property, University of Southampton Science Park, has been valued as at 31 July 2016 by Vail Williams LLP. In accordance with FRS 102, revaluations are conducted annually by an external valuer in accordance with the Practice Statements in the RICS Appraisal and Valuation manual. The property has been valued on the basis of net present value of guaranteed future rental income from existing leases. The market value of the science park increased by £554,000 during the year. The historical cost of these assets at 31 July 2016, net of assistance grants, amounted to £22,793,000 (2015: £22,112,000).

14. Tangible assets (continued)

The disposals relate to assets which are no longer held by the University. The write downs relate to two buildings which are held pending redevelopment.

In addition to the above expenditure on tangible assets a further £78,900,000 has been committed by the University and its subsidiary undertakings (note 25).

Heritage Assets

The University holds and conserves a significant number of rare books and manuscripts within the Special Collections Division of the Hartley Library. This includes over 6 million items in approximately 2,500 collections that have been obtained by the University and its predecessors since the 1860s. The University also maintains a significant number of paintings, drawings, sculptures, silverware and life science specimens. Items and collections obtained before 1 August 2010 have not been capitalised as the cost or valuation at the time of acquisition cannot be economically determined.

In August 2011, the University completed the acquisition of the Broadlands Archives, a significant collection of manuscripts dating from the sixteenth century to the present. Comprising more than 4,500 boxes of documents, the Broadlands Archives include correspondence of the Victorian Foreign Secretary and Prime Minister Lord Palmerston and approximately 250,000 papers and 50,000 photographs of Earl Mountbatten of Burma, including the foundation archives for the states of India and Pakistan. The collection also includes the diaries of the 19th-century social reformer and philanthropist, the 7th Earl of Shaftesbury and material regarding the Temple and Ashley estates in Hampshire.

An open market valuation of the Broadlands Archives was obtained in September 2012 from Bernard Quaritch Ltd, specialists in the valuation and sale of archives and manuscript collections. The valuer considered the separate collections that comprise the Broadlands Archives and took account of restrictions under the terms of associated grants and contracts in reaching an overall valuation of £6 million. The Archives have been capitalised at this value.

Further information regarding the Broadlands Archives and the other collections held within the Hartley Library, including access details, can be found on the Special Collections website at www.southampton.ac.uk/archives.

15. Intangible assets

Consolidated and University

	Software	Software in progress	Total
	£000	£000	£000
Cost or valuation			
At 1 August 2015	17,857	387	18,244
Additions at cost	-	407	407
Transfers at cost	197	(197)	-
Disposals at cost	(2,627)	-	(2,627)
At 31 July 2016	**15,427**	**597**	**16,024**
Amortisation			
At 1 August 2015	(12,905)	-	(12,905)
Charge for year	(1,261)	-	(1,261)
Eliminated on disposal	1,885	-	1,885
At 31 July 2016	**(12,281)**	**-**	**(12,281)**
Net book value			
At 31 July 2016	**3,146**	**597**	**3,743**
At 1 August 2015	4,952	387	5,339

The disposal relates to an item of obsolete software which is no longer in use.

16. Non-current investments

Consolidated

	Subsidiary companies £000	Subsidiary investment in spinouts £000	Other fixed asset investments £000	Total £000
At 1 August 2015	-	2,738	1,385	4,123
Additions	-	-	100	100
Market value loss	-	(335)	-	(335)
Impairment	-	(180)	-	(180)
At 31 July 2016	**-**	**2,223**	**1,485**	**3,708**

University

	Subsidiary companies £000	Subsidiary investment in spinouts £000	Other fixed asset investments £000	Total £000
At 1 August 2015	14,886	-	1,052	15,938
Additions	810	-	100	910
Impairment	(37)	-	-	(37)
At 31 July 2016	**15,659**	**-**	**1,152**	**16,811**

As at the balance sheet date, the University had invested £1,000,000 in the Wyvern Seed Fund Limited Partnership (Wyvern). The University is a limited liability partner in Wyvern, which offers venture capital to spin-out companies originating at the Universities of Bristol and Southampton. This investment is held at cost.

Notes to the Financial Statements for the year ended 31 July 2016

16. Non-current investments (continued)

Additional information on shareholdings where the University or its subsidiaries exercise control or significant influence or where shares are listed and the University maintains a holding above 10% :

	Percentage holding		Nature of activity
Held by the University			
ECS Partners Limited (ECSP Limited)	100.00		Consultancy
IT Innovation Limited	100.00		Dormant
IT Innovation Centre Limited	100.00		Dormant
Photonic Innovations Limited	50.00		Investment company
Southampton Asset Management Limited (SAM Limited)	80.00		Investment company
Southampton Innovations Limited (SI Limited)	100.00		Investment company
Southampton International Singapore Limited	100.00	*	Research
USMC Sdn Bhd (Malaysia)	100.00		Education
University of Southampton Holdings Limited (USH Limited)	100.00		Dormant
The University of Southampton Science Park Limited (SSP Limited)	100.00		Science park management
Investments held by USH Limited			
The University of Southampton Consulting Limited	100.00		Dormant
Investments held by SI Limited			
Photonic Innovations Limited (PI Limited)	50.00		Investment company

* Company limited by guarantee, maximum liability Singapore Dollars S$1,000.

17. Trade and other receivables

	Consolidated		University	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Amounts falling due within one year:				
Grants from HEFCE	**5,812**	10,049	**5,812**	10,049
Student debtors	**1,492**	857	**1,492**	857
Research grants and contracts	**36,170**	36,366	**36,170**	36,367
Trade and other receivables	**22,353**	15,711	**20,981**	13,965
Amounts due from group undertakings	**-**	-	**2,398**	3,590
Prepayments to group undertakings	**-**	-	**104**	105
Other prepayments	**12,030**	11,483	**11,464**	10,996
	77,857	74,466	**78,421**	75,929
Amounts falling due after more than one year:				
Prepayments	**437**	443	**349**	370
Amounts owed by subsidiary undertakings	**-**	-	**5,981**	191
	78,294	74,909	**84,751**	76,490

18. Current investments

	Consolidated		University	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Cash on deposit	**20,500**	54,000	**20,500**	54,000
Investment in shares (at fair value)	**11,544**	329	**11,544**	329
	32,044	54,329	**32,044**	54,329

During 2015/16 the University appointed a new fund manager to manage its endowment portfolio and endowment asset investments which had been held as cash on short-term deposits were invested in unit trusts.

Notes to the Financial Statements for the year ended 31 July 2016

19. Creditors: amounts falling due within one year

	Consolidated		University	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Bank loans	**4,241**	4,476	**3,487**	3,766
Other loans - HEFCE	**1,063**	1,125	**1,063**	1,125
Obligations under finance leases	**278**	253	**272**	253
Advance income on research	**42,319**	42,074	**42,319**	42,073
Social Security and other taxation	**13,324**	10,931	**13,324**	10,931
Amounts owed to group undertakings	**-**	-	**361**	109
Trade and other creditors	**20,392**	26,174	**19,053**	19,920
Accruals and deferred income	**54,766**	46,317	**53,679**	50,391
	136,383	131,350	**133,558**	128,568

20. Creditors: amounts falling due after more than one year

	Consolidated		University	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Bank loans	**74,590**	77,705	**68,906**	71,267
Other loans - HEFCE	**2,000**	3,063	**2,000**	3,063
Obligations under finance leases	**48,145**	48,405	**48,133**	48,405
Accruals and deferred income	**1,829**	1,861	**239**	261
Derivatives	**584**	431	**-**	-
	127,148	131,465	**119,278**	122,996

20. Creditors: amounts falling due after more than one year (continued)

Loans are repayable as follows:

	Consolidated		University	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Bank loans:				
Between one and two years	**3,761**	4,123	**2,961**	3,369
Between two and five years	**8,105**	9,296	**5,399**	6,746
Over five years	**62,724**	64,286	**60,546**	61,152
	74,590	77,705	**68,906**	71,267
Other loans - HEFCE:				
Between one and two years	**1,000**	1,063	**1,000**	1,063
Between two and five years	**1,000**	2,000	**1,000**	2,000
	2,000	3,063	**2,000**	3,063
Obligations under finance leases:				
Between one and two years	**300**	272	**294**	272
Between two and five years	**1,030**	951	**1,024**	951
Over five years	**46,815**	47,182	**46,815**	47,182
	48,145	48,405	**48,133**	48,405

Notes to the Financial Statements for the year ended 31 July 2016

20. Creditors: amounts falling due after more than one year (continued)

Additional information on bank loans repayable after more than one year:

Lender	Date loan obtained	Final repayment date	Interest rate	**Balance outstanding 2016**	Balance outstanding 2015
				£000	£000
University:					
National Westminster Bank	1996	2016	fixed	**-**	508
National Australia Bank	1997	2018	fixed	**185**	332
National Australia Bank	1997	2018	fixed	**203**	458
National Australia Bank	1997	2019	fixed	**1,256**	1,884
National Westminster Bank	1999	2019	fixed	**1,066**	1,550
Barclays Bank	1999	2020	fixed	**894**	1,169
Barclays Bank	2006	2026	variable	**5,998**	5,579
Barclays Bank	2006	2036	fixed	**9,304**	9,787
Barclays Bank	2007	2047	fixed	**50,000**	50,000
				68,906	71,267
Subsidiaries:					
Santander	2007	2023	fixed	**5,684**	6,437
				74,590	77,704

The interest rates on the bank loan facilities are at fixed and variable rates. The fixed interest rates range from 1.59% to 8.43%, and the variable rate margin is 0.19% over Euribor.
The bank and other loans are secured against specific assets and/or the general covenant of the University.

21. Provisions

Consolidated

	Obligation to fund deficit on USS Pension	Defined benefit obligations (note 27)	Maintenance Fund	Deferred tax	Total Provisions
	£000	£000	£000	£000	£000
At 1 August 2015	57,934	66,097	373	1,134	125,538
Utilised in year	(2,131)	-	(882)	-	(3,013)
Additions in year	6,809	28,754	780	(68)	36,275
At 31 July 2016	**62,612**	**94,851**	**271**	**1,066**	**158,800**

University

	Obligation to fund deficit on USS Pension	Defined benefit obligations (note 27)	Total Provisions
	£000	£000	£000
At 1 August 2015	57,934	66,097	124,031
Utilised in year	(2,131)	-	(2,131)
Additions in year	6,809	28,754	35,563
At 31 July 2016	**62,612**	**94,851**	**157,463**

USS Pension Deficit

The obligation to fund the past deficit on the Universities Superannuation Scheme (USS) arises from the contractual obligation with the pension scheme. The University has a commitment to make contributions towards funding the deficit in the Scheme. This is reflected by a balance sheet provision equal to the present value of the deficit contributions being made under the obligation.

Management have assessed the number of future employees within the USS scheme and salary payments over the period of the contracted obligation in assessing the value of this provision.

Defined Benefit Obligations

This relates to two defined benefit pension schemes, PASNAS and HCC, to which the University pays contributions on behalf of some of its staff. This provision records the deficit that exists on these two schemes as at 31 July 2016.

Maintenance Fund

The maintenance fund (into which payments are made from landlord and tenants) provides funding for future maintenance of buildings, roadways and other common areas at Southampton Science Park, and includes payments from tenants who have since left the Science Park. The fund is held by University of Southampton Science Park Limited.

Deferred Tax

The provision for deferred tax relates to tax liabilities arising from the revaluation of the University of Southampton Science Park, the revaluation of a financial instrument, and the revaluation of investments held by subsidiary companies at fair value.

Notes to the Financial Statements for the year ended 31 July 2016

22. Endowment reserves

Consolidated

	Restricted Permanent £000	Unrestricted Permanent £000	Restricted Expendable £000	**2016 Total £000**	2015 Total £000
At 1 August					
Capital	7,059	2,340	1,815	**11,214**	10,913
Accumulated income	826	323	107	**1,256**	1,188
	7,885	2,663	1,922	**12,470**	12,101
New endowments	2	-	64	**66**	117
Disposals of endowments	(15)	-	-	**(15)**	(112)
Adjustments to endowment classification	50	-	(50)	**-**	-
Appropriations from Income and Expenditure reserves	-	-	-	**-**	38
Investment income	111	40	18	**169**	165
Expenditure	(8)	(363)	(7)	**(378)**	(128)
	103	(323)	11	**(209)**	37
Increase in market value of investments	115	38	32	**185**	289
At 31 July	**8,140**	**2,378**	**1,979**	**12,497**	12,470
Represented by:					
Capital	7,256	2,378	1,886	**11,520**	11,214
Accumulated income	884	-	93	**977**	1,256
	8,140	**2,378**	**1,979**	**12,497**	12,470
Analysis by type of purpose:					
Chair/Lectureships	3,306	-	-	**3,306**	3,189
Scholarships and bursaries	1,745	-	661	**2,406**	2,208
Research support	-	-	1,066	**1,066**	1,044
Prize funds	538	-	31	**569**	563
Welfare/Hardship	615	-	38	**653**	603
General	1,936	2,378	183	**4,497**	4,863
	8,140	**2,378**	**1,979**	**12,497**	12,470
Analysis by asset:					
Current and non-current asset investments				**11,517**	86
Cash and cash equivalents				**980**	12,384
				12,497	12,470

23. Restricted Reserves

Reserves with restrictions are as follows:

	Unspent Capital Grants £000	Donations / Other Restricted Funds £000	**2016 Total £000**	2015 Total £000
Balances at 1 August	2,888	12,094	**14,982**	13,198
New grants	10,950	-	**10,950**	8,197
New donations/other restricted funds	-	5,454	**5,454**	6,935
Capital grants utilised	(13,838)	-	**(13,838)**	(5,309)
Expenditure	-	(5,395)	**(5,395)**	(8,039)
Total restricted comprehensive income for the year	(2,888)	59	**(2,829)**	1,784
Balances at 31 July	**-**	**12,153**	**12,153**	14,982

The University's ongoing investment in its estate was supported by a number of capital grants which were utilised fully in the year.

	2016 Total £000	2015 Total £000
Analysis of donations/other restricted funds by type of purpose:		
Research activities	**10,877**	10,864
Student support	**473**	428
Scholarships and bursaries	**139**	192
Outreach	**64**	122
Enterprise support	**132**	132
Other	**468**	356
Balances at 31 July	**12,153**	12,094

24. Related party transactions

Due to the nature of the University's operations and the composition of the University Council, being drawn from commerce, industry and the public sector, it is inevitable that transactions will take place with organisations in which a member of Council has an interest. All such transactions are conducted at arm's length and in accordance with the University's Financial Regulations and Standing Orders on contracts.

A Register of Interests is maintained for members of the University Council and associated committees. Members may not be present at any discussion in which they have a direct or indirect financial interest.

Written declarations have been obtained from all members of Council, senior officers of the University and directors of fully owned subsidiary companies, either listing transactions during the year ended 31 July 2016 between the University and third parties in which they or close family members held a position of influence, or stating that there were no relevant transactions during the period.

The declarations have been reviewed by the Director of Finance. There were a number of related party transactions during the year ended 31 July 2016 significant enough to warrant disclosure in the Financial Statements.

Mr Peter Hollins, a lay member of Council, is also chair of the University Hospital Southampton NHS Foundation Trust Board; Dr David Price, the Treasurer, and Professor Iain Cameron, Dean of the Faculty of Medicine, are also non-executive members of the University Hospital Southampton NHS Foundation Trust Board. The University has a strong partnership with the Trust; most of the Faculty of Medicine's accommodation is on the Trust's Southampton General Hospital site, and the link with clinical services in the NHS is critical for the delivery of the Faculty's education, research and enterprise strategies.

Rear Admiral Philip Greenish, a lay member of Council, is also Chief Executive of the Royal Academy of Engineering. The University is in receipt of a number of research grants from the Royal Academy of Engineering. Income to the University was a total of £443,000 in 2015/16 (2014/15: £510,000).

Professor Dame Jessica Corner, former Dean of the Faculty of Health Sciences and a member of Council until December 2015, is also Chief Clinician at Macmillan Cancer Support. The University is in receipt of a number of research grants from Macmillan Cancer Support, funding research into people affected by cancer. Income to the University was a total of £369,000 in 2015/16 (2014/15: £385,000).

Mr Benjamin Franklin and Mr Alex Hovden were members of Council (Class 5 membership) as representatives of the Students' Union. Mr Hovden (Mr Franklin for the period July 2015 to June 2016) is President of the University of Southampton Students' Union, which is a separate entity over which the University does not exercise control or significant influence over policy decisions. The Union receives a grant from the University, an amount of £2,752,000 in 2015/16 (2014/15: £2,514,000), which is calculated annually according to a methodology agreed between the University and the Union. All other transactions between the two parties are conducted on a commercial basis.

In accordance with the exemptions contained within FRS 102 Financial Reporting Standard Section 33 (Related Party Disclosures) no disclosure has been made for transactions between the University and fully owned group undertakings. Transactions between the University and spin-out companies in which minority shareholdings are held are not generally disclosed as the University does not control or exercise any significant influence over the financial and operating policies of the companies. However, in 2014/15 Southampton Asset Management Ltd (a subsidiary in which the University has a 80% holding) made a gift aid payment of £896,000 to the University of Southampton following the sale of one its investments. There was no gift aid payment in 2015/16.

25. Capital and other commitments

Provision has not been made for the following capital commitments at 31 July 2016:

	Consolidated		University	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
Commitments contracted for	**35,632**	38,520	**33,757**	38,314
Authorised but not contracted for	**43,223**	48,817	**43,223**	48,817
	78,855	87,337	**76,980**	87,131

26. Lease obligations

At 31 July 2016 the University was committed to making the following payments under non-cancellable operating leases:

Consolidated

	Land and buildings	Plant and machinery	**2016 Total**	2015 Total
	£000	£000	**£000**	£000
Future minimum lease payments due:				
Not later than one year	3,138	1,300	**4,438**	4,410
Between one and five years	12,578	59	**12,637**	12,424
Over five years	43,408	-	**43,408**	45,965
	59,124	**1,359**	**60,483**	62,799

University

	Land and buildings	Plant and machinery	**2016 Total**	2015 Total
	£000	£000	**£000**	£000
Future minimum lease payments due:				
Not later than one year	3,012	1,300	**4,313**	4,529
Between one and five years	11,167	59	**11,226**	11,485
Over five years	41,992	-	**41,992**	44,421
	56,171	**1,359**	**57,531**	60,435

Notes to the Financial Statements for the year ended 31 July 2016

27. Pension Schemes

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the University of Southampton Pension and Assurance Scheme (PASNAS). These are both defined-benefit schemes.

The University also contributes to the National Health Service Pension Scheme (NHPS), the Teachers' Pension Scheme (TPS), the Medical Research Council Pension Scheme (MRCPS), Hampshire County Council (HCC), National Employment Savings Trust (NEST) and schemes relating to subsidiary companies.

Employer pension contributions for USS and PASNAS within this note are shown on the basis of the scheme contribution rate before any additional contributions under a salary sacrifice scheme.

The pension scheme costs incurred in 2015/16 and 2014/15 for the consolidated group are summarised as follows:

		2015/16			2014/15	
	Employer contributions	**Pension accounting adjustment**	**Total Cost**	Employer contributions	Pension accounting adjustment	Total Cost
	£000	**£000**	**£000**	£000	£000	£000
USS	**27,222**	**-**	**27,222**	25,342	-	25,342
PASNAS*	**6,433**	**2,387**	**8,820**	6,268	2,793	9,061
NHPS	**1,116**	**-**	**1,116**	1,094	-	1,094
Other pension schemes	**450**	**(10)**	**440**	431	(10)	421
Total pension cost (note 9)	**35,221**	**2,377**	**37,598**	33,135	2,783	35,918

* The figure for PASNAS employer contributions excludes an amount of £154,000 (2015: £124,000) which is made on behalf of a third party at no cost to the University.

Employer contributions in 2016/17 are expected to be:

	Rate %	£000
USS	18.00	30,436
PASNAS	17.25	6,732
TPS	14.10	77
NHPS	14.30	1,168
MRCPS	14.90	123
HCC	15.60	64
NEST	3.00	141

HCC contributions include a fixed fee of £32,000 which is payable over and above the salary based rate of 15.6%.

27. Pension Schemes (continued)

The University has fully adopted the disclosure rules of FRS 102 Section 28 'Employee Benefits'. The notes that follow show the detailed valuations required by the standard. However, pension fund liabilities can be valued in a number of other ways, and the University will continue to support the schemes based on the principles of on-going operations, as advised by the scheme trustees and actuaries.

The actuaries' recommendations for contributions to USS, PASNAS and HCC are based on triennial valuations of the schemes' liabilities. In the intervening years, the actuaries review the progress of the schemes. The latest valuations of the schemes' assets and liabilities for which results are available are:

	USS	PASNAS	HCC
Date of valuation	31 March 2014	31 July 2015	31 March 2013
Market valuation of assets	£41,600 million	£170 million	£4,341 million
Past service liabilities	£46,900 million	£210 million	£5,428 million
Deficit of assets	(£5,300) million	(£40) million	(£1,087) million

The USS and HCC valuations reflect the total assets and liabilities of the schemes, not just the element attributable to the University.

USS

The assets of USS are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. USS is a multi-employer defined benefit pension scheme. It is not possible to identify each institutional members' share of the assets and liabilities of the scheme on a consistent and reasonable basis, and therefore this scheme has been accounted for as a defined contribution scheme. As a result the costs charged to the Statement of Comprehensive Income represent the contributions payable to the scheme for the accounting period.

The institution has entered into an agreement (the Recovery Plan that determines how each employer within the scheme will fund the overall deficit) and therefore recognises a liability for the contributions payable that arise from the agreement to the extent that they relate to the deficit and the resulting expense in the income and expenditure account.

The latest available full actuarial valuation of the scheme was at 31 March 2014, which was carried out using the projected unit method. At the valuation date, the scheme's assets were sufficient to cover 89% of the benefits which had accrued to members after allowing for expected future increases in earnings.

As at 31 March 2016, USS had over 180,000 active members and the University had 4,073 active members participating in the scheme.

The total employer contributions for the year were £27,222,000 (2015: £25,342,000) which includes £2,495,000 (2015: £2,148,000) of contributions outstanding at the Balance Sheet date, payable in August 2016.

NHPS/TPS/MRCPS

The NHPS, TPS and MRCPS schemes are externally funded. Each institutions' share of the underlying assets and liabilities of these schemes cannot be identified and therefore contributions to these schemes are accounted for as if they were defined contribution schemes. As a result the costs charged to the income and expenditure account represent the contributions payable to the schemes for the year.

27. Pension Schemes (continued)

The number of members of these schemes employed by the University as at 31 July 2016 was TPS 9; NHPS 127 and MRCPS 15.

The total pension costs due for the University and contributions outstanding at the Balance Sheet date were:

	Pension cost		Outstanding at 31 July	
	2016	2015	**2016**	2015
	£000	£000	**£000**	£000
NHPS	**1,116**	1,094	**96**	90
TPS	**76**	75	**6**	7
MRCPS	**129**	158	**10**	12

NEST

From April 2013, the University introduced the NEST scheme to comply with the Pensions Act 2008. This gives all University workers access to a qualifying pension scheme.

The total pension cost for the year was £79,000 (2015: £49,000) which includes £12,000 (2015: £5,000) of contributions outstanding at the Balance Sheet date, payable in August 2016.

The number of members of this scheme as at 31 July 2016 was 617.

Federated Superannuation Scheme for Universities (FSSU)

The University maintains records for former members of FSSU, which is a closed scheme, based on fixed pensions. These pensions are supplemented by the University on an ex gratia basis from general income approximately in line with increases of other pensions which have an annual inflation element built in. During the year a total of £5,114 (2015: £6,088) was paid to former members of FSSU or widows of members in respect of these unfunded liabilities.

PASNAS

The University operates a final salary defined benefit scheme for non-academic staff (PASNAS). The scheme is funded by contributions made in accordance with the recommendations of the scheme's actuaries.

As at 31 July 2016 there was a total of 1,978 active members of PASNAS.

The last formal triennial actuarial valuation of the scheme was performed as at 31 July 2015 and indicated that the scheme's assets represented 81% of the technical provisions.

27. Pension Schemes (continued)

The principal actuarial assumptions used to calculate scheme liabilities under FRS 102 are:

	31 July 2016	31 July 2015
Increase in salaries	3.10% pa	3.55% pa
Increase in pensions – pre 1 Oct 2010 (CPI)	2.10% pa	2.60% pa
Increase in pensions – post 1 Oct 2010 (CPI max 2.5%)	1.80% pa	2.10% pa
Discount rate	2.60% pa	3.90% pa
Inflation (RPI)	3.10% pa	3.60% pa
Inflation (CPI)	2.10% pa	2.60% pa

The most significant non-financial assumption is the assumed level of longevity. The table below shows the life expectancy assumptions used in the accounting assessments based on the life expectancy of male and female members at age 65.

	Retiring today	Retiring in 20 years
Male	21.8	23.5
Female	24.0	25.8

The asset allocation of the scheme's assets calculated at fair value is:

	Value 31 July 2016 £000	Value 31 July 2015 £000	Value 31 July 2014 £000
Gilts	**24,511**	23,726	19,262
Bonds	**18,855**	15,253	14,817
Equities	**99,930**	86,430	72,605
Target return funds	**35,824**	33,895	31,116
Property	**9,427**	8,474,	7,409
Cash	**-**	1,695	2,963
Total	**188,547**	169,473	148,172

Notes to the Financial Statements for the year ended 31 July 2016

27. Pension Schemes (continued)

	2016	2015
	£000	£000
Analysis of the amount shown in the balance sheet		
Scheme assets	**188,547**	169,473
Scheme liabilities	**(280,738)**	(233,560)
Deficit in the scheme – net pension liability recorded within pension provisions (note 21)	**(92,191)**	(64,087)
Analysis of the amount charged to staff costs within operating surplus		
Current service cost	**(8,974)**	(9,185)
Total operating charge	**(8,974)**	(9,185)
Analysis of the amount charged to interest payable within operating surplus		
Expected return on scheme assets	**6,640**	6,430
Interest cost	**(8,988)**	(8,863)
Net finance cost	**(2,348)**	(2,433)
Analysis of other comprehensive income		
Gain on assets	**10,881**	12,163
Experience gains on liabilities	**9,652**	1,992
Losses from changes to financial assumptions	**(43,902)**	(12,228)
Charge to other comprehensive income	**(23,369)**	1,927
Movement in deficit during the year		
Deficit in scheme at beginning of the year	**(64,087)**	(60,788)
Movement in the year:		
Current service cost	**(8,974)**	(9,185)
Contributions	**6,587**	6,392
Net finance cost	**(2,348)**	(2,433)
(Loss)/gain recognised in other comprehensive income	**(23,369)**	1,927
Deficit in scheme at end of year	**(92,191)**	(64,087)

27. Pension Schemes (continued)

	2016	2015
	£000	£000
Analysis of movement in fair value of fund assets		
Assets at beginning of year	**169,473**	148,172
Employer contributions	**6,587**	6,392
Employee contributions	**2,496**	2,420
Benefits paid (net of expenses)	**(6,598)**	(5,413)
Administration costs	**(932)**	(691)
Interest on assets	**6,640**	6,430
Return on scheme assets	**10,881**	12,163
Assets at end of year	**188,547**	169,473
Analysis of movement in present value of liabilities		
Liabilities at beginning of year	**(233,560)**	(208,960)
Current service cost	**(8,974)**	(9,185)
Interest on scheme liabilities	**(8,988)**	(8,863)
Employee contributions	**(2,496)**	(2,420)
Benefits paid	**7,530**	6,104
Actuarial experience gain on liabilities	**9,652**	1,992
Changes in assumptions underlying the present value of the scheme liabilities	**(43,902)**	(12,228)
Liabilities at end of year	**(280,738)**	(233,560)

	2016	2015
History of experience gains and losses		
Experience gains on assets in excess of interest (£000)	**10,881**	12,163
Percentage of scheme assets	**5.8%**	7.2%
Experience gains on liabilities (£000)	**9,652**	1,992
Percentage of scheme liabilities	**3.4%**	0.9%

27. Pension Schemes (continued)

HCC

HCC has been able to apportion a percentage of its funds assets and liabilities relating to the University and therefore the scheme has been treated as a defined benefit scheme in the accounts.

The principal actuarial assumptions used to calculate scheme liabilities under FRS 102 are:

	31 July 2016	31 July 2015
Increase in salaries	3.3% pa	3.6% pa
Increase in pensions	1.8% pa	2.1% pa
Discount rate	2.3% pa	3.6% pa
RPI inflation	2.9% pa	3.2% pa
CPI inflation	1.8% pa	2.1% pa

The current mortality assumptions include sufficient allowance for future improvements in mortality rates and are further adjusted to reflect the actual mortality experience of the Fund. The assumed life expectations in years on retirement at age 65 are:

	Retiring today	Retiring in 20 years
Male	24.6	26.7
Female	26.4	28.7

The number of active members of this scheme employed by the University as at 31 July 2016 was 6.

The asset allocation of the scheme's assets calculated at fair value is:

	Value 31 July 2016 £000	Value 31 July 2015 £000	Value 31 July 2014 £000
Equities	**2,692**	2,519	2,408
Government bonds	**1,249**	1,130	956
Property	**352**	359	308
Corporate bonds	**86**	74	52
Cash	**247**	145	152
Other	**124**	153	124
Total	**4,750**	4,380	4,000

27. Pension Schemes (continued)

	2016	2015
	£000	£000
Analysis of the amount shown in the balance sheet		
Scheme assets	**4,750**	4,380
Scheme liabilities	**(7,410)**	(6,390)
Deficit in the scheme – net pension liability recorded within pension provisions (note 21)	**(2,660)**	(2,010)
Analysis of the amount charged to staff costs within operating surplus		
Current service cost	**(60)**	(60)
Total operating charge	**(60)**	(60)
Analysis of the amount charged to interest payable within operating surplus		
Expected return on scheme assets	**150**	160
Interest on scheme liabilities	**(230)**	(240)
Net finance cost	**(80)**	(80)
Analysis of other comprehensive income		
Gain on assets	**390**	280
Loss on liabilities	**(970)**	(330)
Charge to other comprehensive income	**(580)**	(50)
Movement in deficit during the year		
Deficit in scheme at beginning of the year	**(2,010)**	(1,890)
Movement in the year:		
Current service cost	**(60)**	(60)
Employer contributions	**70**	70
Net finance cost	**(80)**	(80)
Loss recognised in other comprehensive income	**(580)**	(50)
Deficit in scheme at end of year	**(2,660)**	(2,010)

27. Pension Schemes (continued)

	2016	2015
	£000	£000
Analysis of movement in fair value of fund assets		
Assets at beginning of year	**4,380**	4,000
Employer contributions	**70**	70
Employee contributions	**20**	20
Benefits paid	**(260)**	(150)
Interest on assets	**150**	160
Return on scheme assets	**390**	280
Assets at end of year	**4,750**	4,380

Analysis of movement in present value of liabilities		
Liabilities at beginning of year	**(6,390)**	(5,890)
Current service cost	**(60)**	(60)
Interest on scheme liabilities	**(230)**	(240)
Employee contributions	**(20)**	(20)
Benefits paid	**260**	150
Actuarial experience loss on liabilities	**(970)**	(330)
Liabilities at end of year	**(7,410)**	(6,390)

28. National College for Teaching and Leadership (NCTL) bursaries

Consolidated and University

	At 1 August 2015	Income received	Disbursements	Returned to NCTL	**At 31 July 2016**
	£000	£000	£000	£000	**£000**
Initial Teacher Training bursaries	**299**	2,117	(2,085)	(2)	**329**
	299	2,117	(2,085)	(2)	**329**

The receipts and disbursements above are excluded from the Statement of Comprehensive Income as the funds are administered by the University on an agency basis on behalf of the NCTL.

29. Linked charities

Consolidated and University

	At 1 August 2015	Transfers	Income	Expenditure	Change in market value	**At 31 July 2016**
	£000	£000	£000	£000	£000	**£000**
Miss Betty Evelyn Veal Will Trust	**56**	-	1	-	1	**58**
The Southampton University Development Trust	**1,653**	38	5	(43)	-	**1,653**
The Spitfire Mitchell Memorial Fund	**215**	-	1	-	-	**216**
	1,924	38	7	(43)	1	**1,927**

The Miss Betty Evelyn Veal Will Trust provides financial support for postgraduate students with physical disabilities studying at the University.

The Southampton University Development Trust was formed in 1986 to raise funds for various University projects. Since November 2009 all donations have been received directly by the University but the Trust continues to process existing standing order arrangements and legacy gifts that are specifically directed to the Trust. The Trust is an independent entity which is not included within the consolidated University balance sheet or income and expenditure account.

The Spitfire Mitchell Memorial Fund provides scholarships at the University with an emphasis on aeronautics and engineering.

30. Transition to FRS 102 and the 2015 SORP

As explained in the accounting policies, these are the University's first financial statements prepared in accordance with FRS 102 and the 2015 SORP. The accounting policies set out in Note 1 have been applied in preparing the financial statements for the year ended 2016, the comparative information presented in these financial statements for the year ended 2015 and in the preparation of an opening FRS 102 Balance Sheet at 1 August 2015. In preparing its FRS 102, SORP based Balance Sheet, the University has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (2007 SORP). An explanation of how the transition to FRS 102 and the 2015 SORP has affected the University's financial position, financial performance and cash flows is set out in the following tables.

Notes to the Financial Statements for the year ended 31 July 2016

30. Transition to FRS 102 and the 2015 SORP (continued)

Consolidated: transition of Balance Sheet to FRS 102 and the 2015 SORP

		1 August 2014			31 July 2015		
	Notes	2007 SORP	Effect of transition to 2015 SORP	2015 SORP	2007 SORP	Effect of transition to 2015 SORP	2015 SORP
		£000	£000	£000	£000	£000	£000
Non-current assets							
Intangible assets and goodwill	1	-	7,227	7,227	-	5,339	5,339
Fixed Assets	2	499,921	76,169	576,090	558,366	78,385	636,751
Heritage assets		6,000	-	6,000	6,000	-	6,000
Investments	3	1,385	4,674	6,059	1,385	2,738	4,123
		507,306	88,070	595,376	565,751	86,462	652,213
Endowment assets	4	12,101	(12,101)	-	12,470	(12,470)	-
Debtors: amounts falling due after more than one year		473	-	473	443	-	443
Current assets							
Stock		707	-	707	726	-	726
Trade and other receivables	5	46,208	4,536	50,744	65,912	8,554	74,466
Investments	4,6	54,618	10,603	65,221	54,052	277	54,329
Cash and cash equivalents	4	58,224	1,691	59,915	56,568	12,384	68,952
		159,757	16,830	176,587	177,258	21,215	198,473
Less: Creditors: amounts falling due within one year	7, 8, 9	(144,263)	18,589	(125,674)	(152,942)	21,592	(131,350)
Net current assets		15,494	35,419	50,913	24,316	42,807	67,123
Total assets less current liabilities recorded within other Comprehensive Income		535,374	111,388	646,762	602,980	116,799	719,779
Creditors: amounts falling due after more than one year	9, 10	(91,168)	(573)	(91,741)	(127,382)	(4,083)	(131,465)
Provisions							
Pension provisions	11	(62,678)	(28,716)	(91,394)	(66,097)	(57,934)	(124,031)
Other provisions	12	(246)	(1,428)	(1,674)	(373)	(1,134)	(1,507)
Total net assets		381,282	80,671	461,953	409,128	53,648	462,776

30. Transition to FRS 102 and the 2015 SORP (continued)

		1 August 2014			31 July 2015		
	Notes	2007 SORP £000	Effect of transition to 2015 SORP £000	2015 SORP £000	2007 SORP £000	Effect of transition to 2015 SORP £000	2015 SORP £000
Deferred capital grants	13	177,366	(177,366)	-	180,060	(180,060)	-
Restricted Reserves							
Income and expenditure reserve - endowment reserve		12,101	-	12,101	12,470	-	12,470
Income and expenditure reserve - restricted reserve	14	-	13,198	13,198	-	14,982	14,982
Unrestricted Reserves							
Income and expenditure reserve - unrestricted		191,815	244,839	436,654	216,598	218,726	435,324
		381,282	80,671	461,953	409,128	53,648	462,776

Notes to the reconciliation:

1. Intangible assets with a net book value of £7,114,000 at 1 August 2014 and £4,951,000 at 31 July 2015 have been reclassified from fixed assets (equipment) to intangible assets and disclosed separately as required under FRS 102. In addition, new items were capitalised with a value of £113,000 at 1 August 2014 and £388,000 at 31 July 2015.
2. The value of the University's land was previously held on the Balance Sheet at cost, this has been revalued at a deemed cost of £84,937,000 as at the transition date of 1 August 2014. The effect of minor transactions in 2014/15 has increased this figure further to £85,016,000 at 31 July 2015. These values are reduced by transfers from equipment to intangibles (see 1 above). In addition, the mixed use element of buildings owned by the University of Southampton Science Park Limited has been reflected with buildings held as investment properties but occupied by the University reclassified as buildings valued at deemed historic cost (a reduction in value of £1,654,000 at 1 August 2014, £1,680,000 at 31 July 2015).
3. Prior to the adoption of FRS 102, the subsidiaries acting as investment companies measured the value of their investments at cost. Under FRS 102, fair value has been applied to those investments which can be reliably measured. This has resulted in an uplift in value of £4,674,000 at 1 August 2014, £2,738,000 at 31 July 2015.
4. In accordance with FRS 102, the assets relating to endowments are recorded in the Balance Sheet according to their nature. Endowment funds are held as either investments or cash and cash equivalents, and have therefore been transferred to these headings within current assets accordingly.
5. Trade and other receivables have been adjusted to reflect the impact of changes to income recognition under FRS 102. This reflects the accelerated recognition of income to which the University is entitled, predominantly arising from HEFCE capital grants.
6. In addition to reflecting the value of investments previously held within endowment assets, the University has applied fair value to its portfolio of shares (previously measured at the lower of cost or net realisable value, this has resulted in an uplift in value of £193,000 at 1 August 2014, £191,000 at 31 July 2015).
7. FRS 102 requires any liability for short-term employee benefits to be recognised, and therefore accrued annual leave owed to University staff is now recognised as a liability in the Balance Sheet. This had a value of £2,379,000 on transition to FRS 102, rising to £2,430,000 at 31 July 2015.

30. Transition to FRS 102 and the 2015 SORP (continued)

8. Under the 2007 SORP, donations, funding council grants, capital grants and some service contracts for specifically indicated purposes were recognised in line with expenditure with unspent income being deferred as a current liability. Under the 2015 SORP performance model income is recognised upon receipt or entitlement and therefore the University has now recognised income which was previously deferred as a current liability.
9. The split between short-term creditors and creditors falling due after more than one year has been updated in the 2014/15 restated Balance Sheet; £3,653,000 has been moved from short-term creditors to long-term creditors.
10. The University of Southampton Science Park Limited was not previously required to recognise its derivative financial instrument on the Balance Sheet. Under FRS 102, this financial instrument is measured at fair value as a financial liability. On adoption of FRS 102, financial liabilities of £573,000 were recognised on the Balance Sheet, reducing to £431,000 at 31 July 2015.
11. Where an institution participates in a defined benefit multi-employer pension plan and has an obligation to fund past deficits within the scheme, FRS 102 requires that a liability must be recognised within the Balance Sheet for this obligation. The University participates in the USS pension scheme and has recognised a liability of £28,716,000 at 1 August 2014. Under the terms of the new deficit recovery plan agreed during 2014/15, this amount has increased to £57,934,000 at 31 July 2015.
12. A provision has been recognised for deferred tax arising in the University's subsidiary companies. This has arisen from the fair value movements on the investments, the financial instrument and the investment property portfolio. Deferred tax of £1,428,000 was recognised at the transition date of 1 August 2014, reducing to £1,134,000 at 31 July 2015.
13. Under the 2015 SORP performance model all capital grants are recognised as income when the performance conditions have been met rather than over the asset lifetime as with the 2007 SORP. Existing capital grants where performance conditions have been met have been transferred to unrestricted reserves.
14. The 2015 SORP introduces the concept of restricted reserves for income which has been recognised but which has a restriction on its use or purpose. The University has reviewed sources of income with restrictions and has reflected the unspent element of these funds as a restricted reserve.

30. Transition to FRS 102 and the 2015 SORP (continued)

University: transition of Balance Sheet to FRS 102 and the 2015 SORP

		1 August 2014			**31 July 2015**		
	Notes	2007 SORP	Effect of transition to 2015 SORP	2015 SORP	2007 SORP	Effect of transition to 2015 SORP	2015 SORP
		£000	£000	£000	£000	£000	£000
Non-current assets							
Intangible assets and goodwill	1	-	7,227	7,227	-	5,339	5,339
Fixed Assets	2	468,203	77,823	546,026	525,914	80,065	605,979
Heritage assets		6,000	-	6,000	6,000	-	6,000
Investments		14,238	-	14,238	15,938	-	15,938
		488,441	85,050	573,491	547,852	85,404	633,256
Endowment assets	3	12,101	(12,101)	-	12,470	(12,470)	-
Debtors: amounts falling due after more than one year		583	-	583	561	-	561
Current assets							
Stock		707	-	707	726	-	726
Trade and other receivables	4	47,191	4,536	51,727	67,374	8,555	75,929
Investments	3, 5	54,618	10,603	65,221	54,052	277	54,329
Cash and cash equivalents	3	56,689	1,691	58,380	53,188	12,384	65,572
		159,205	16,830	176,035	175,340	21,216	196,556
Less: Creditors: amounts falling due within one year	6, 7, 8	(141,598)	18,589	(123,009)	(150,186)	21,618	(128,568)
Net current assets		17,607	35,419	53,026	25,154	42,834	67,988
Total assets less current liabilities recorded within other Comprehensive Income		518,732	108,368	627,100	586,037	115,768	701,805
Creditors: amounts falling due after more than one year	8	(82,401)	-	(82,401)	(119,343)	(3,653)	(122,996)
Provisions							
Pension provisions	9	(62,678)	(28,716)	(91,394)	(66,097)	(57,934)	(124,031)
Total net assets		373,653	79,652	453,305	400,597	54,181	454,778

30. Transition to FRS 102 and the 2015 SORP (continued)

		1 August 2014			31 July 2015		
	Notes	2007 SORP £000	Effect of transition to 2015 SORP £000	2015 SORP £000	2007 SORP £000	Effect of transition to 2015 SORP £000	2015 SORP £000
Deferred capital grants	10	177,366	(177,366)	-	180,035	(180,035)	-
Restricted Reserves							
Income and expenditure reserve - endowment reserve		12,101	-	12,101	12,470	-	12,470
Income and expenditure reserve - restricted reserve	11	-	13,198	13,198	-	14,982	14,982
Unrestricted Reserves							
Income and expenditure reserve - unrestricted		184,186	243,820	428,006	208,092	219,234	427,326
		373,653	79,652	453,305	400,597	54,181	454,778

Notes to the reconciliation:

1. Intangible assets with a net book value of £7,114,000 at 1 August 2014 and £4,951,000 at 31 July 2015 have been reclassified from fixed assets (equipment) to intangible assets and disclosed separately as required under FRS 102. In addition, new items were capitalised with a value of £113,000 at 1 August 2014 and £388,000 at 31 July 2015.
2. The value of the University's land was previously held on the Balance Sheet at cost, this has been revalued at a deemed cost of £84,937,000 as at the transition date of 1 August 2014. The effect of minor transactions in 2014/15 has increased this figure further to £85,016,000 at 31 July 2015. These values are reduced by transfers from equipment to intangibles (see 1 above).
3. In accordance with FRS 102, the assets relating to endowments are recorded in the Balance Sheet according to their nature. Endowment funds are held as either investments or cash and cash equivalents, and have therefore been transferred to these headings within current assets accordingly.
4. Trade and other receivables have been adjusted to reflect the impact of changes to income recognition under FRS 102. This reflects the accelerated recognition of income to which the University is entitled, predominantly arising from HEFCE capital grants.
5. In addition to reflecting the value of investments previously held within endowment assets, the University has applied fair value to its portfolio of shares (previously measured at the lower of cost or net realisable value, this has resulted in an uplift in value of £193,000 at 1 August 2014, £191,000 at 31 July 2015).
6. FRS 102 requires any liability for short-term employee benefits to be recognised, and therefore accrued annual leave owed to University staff is now recognised as a liability in the Balance Sheet. This had a value of £2,379,000 on transition to FRS 102, rising to £2,430,000 at 31 July 2015.
7. Under the 2007 SORP, donations, funding council grants, capital grants and some service contracts for specifically indicated purposes were recognised in line with expenditure with unspent income being deferred as a current liability. Under the 2015 SORP performance model income is recognised upon receipt or entitlement and therefore the University has now recognised income which was previously deferred as a current liability.
8. The split between short-term creditors and creditors falling due after more than one year has been updated in the 2014/15 restated Balance Sheet; £3,653,000 has been moved from short-term creditors to long-term creditors.

30. Transition to FRS 102 and the 2015 SORP (continued)

9. Where an institution participates in a defined benefit multi-employer pension plan and has an obligation to fund past deficits within the scheme, FRS 102 requires that a liability is recognised within the Balance Sheet for this obligation. The University participates in the USS pension scheme and has recognised a liability of £28,716,000 at 1 August 2014. Under the terms of the new deficit recovery plan agreed during 2014/15, this amount has increased to £57,934,000 at 31 July 2015.
10. Under the 2015 SORP performance model all capital grants are recognised as income when the performance conditions have been met rather than over the asset lifetime as with the 2007 SORP. Existing capital grants where performance conditions have been met have been transferred to unrestricted reserves.
11. The 2015 SORP introduces the concept of restricted reserves for income which has been recognised but which has a restriction on its use or purpose. The University has reviewed sources of income with restrictions and has reflected the unspent element of these funds as a restricted reserve.

Notes to the Financial Statements for the year ended 31 July 2016

30. Transition to FRS 102 and the 2015 SORP (continued)

Consolidated: transition of Income and Expenditure Account to FRS 102 and the 2015 SORP

			Effect of transition to 2015 SORP		
	Notes	2007 SORP	STRGL Items*	Other Items	2015 SORP
		£000	£000	£000	£000
Income					
Funding body grants	1, 2	78,968	825	941	80,734
Tuition fees and education contracts	1, 2	213,382	(81)	989	214,290
Research grants and contracts	1, 2	124,188	1,273	305	125,766
Other income	1, 2, 3, 4	108,578	(66)	(4,233)	104,279
Investment income		1,785	-	(8)	1,777
Donations and endowments	1, 2, 3	-	748	4,296	5,044
Total income		526,901	2,699	2,290	531,890
Expenditure					
Staff costs	5	281,778	220	28,593	310,591
Other operating expenses	6, 7, 8	181,201	(379)	729	181,551
Depreciation	9	28,859	-	(43)	28,816
Interest and other finance costs	6, 10	8,581	1,190	(363)	9,408
Total expenditure		500,419	1,031	28,916	530,366
Gain on disposal of fixed assets	7	-	-	103	103
Loss on investments	11	-	289	(794)	(505)
Surplus/(deficit) before tax		26,482	1,957	(27,317)	1,122
Taxation	12	(2,470)	-	294	(2,176)
Surplus/(deficit) after tax		24,012	1,957	(27,023)	(1,054)
Actuarial gain in respect of pension schemes		-	1,877	-	1,877
Total comprehensive income for the year		24,012	3,834	(27,023)	823

* This column represents items that were previously recorded within the Statement of Total Recognised Gains and Losses (STRGL) and are now recorded within the Statement of Comprehensive Income (SoCI). These are as follows:

i) release of the net movement of deferred capital grants of £2,694,000 to the Income Statement;

ii) the net increase in endowment assets of £5,000;

iii) recognition of the fair value movement in endowment investments of £289,000 in the Income Statement;

iv) the unrealised gain on the annual revaluation of the University of Southampton Science Park Limited of £379,000 is recognised in the income statement under FRS 102;

v) costs relating to defined benefit pension schemes. A gain of £467,000 was recorded for 2014/15, which is now shown as staff costs of £220,000, interest and other finance costs of £1,190,000, and an actuarial gain of £1,877,000.

30. Transition to FRS 102 and the 2015 SORP (continued)

Notes to the reconciliation:

1. Under the FRS 102 performance model, all capital grants are recognised on entitlement to the income rather than over the lifetime of the related asset. Therefore, additional income was recognised in 2014/15. Deferred capital grant releases to match depreciation costs no longer occur and the adjustment also reflects the restatement for this change.
2. Under the FRS 102 performance model, income is recognised on entitlement or receipt, therefore additional income was recognised in 2014/15.
3. Under UK GAAP, donation income was included under Other Income, but is separately classified under FRS 102.
4. Investments held by the University's subsidiary companies are recorded at fair value where possible under FRS 102, with changes in the year on year value being charged to the Income Statement. Other Income has been adjusted by £1,139,000 for realised gains in 2014/15 which were recognised upon transition in both the restated opening Balance Sheet and the gain/loss on investments below.
5. Under FRS 102 the University is required to accrue for its commitment under the USS deficit recovery scheme. The accrual will then be released to the Income Statement over the recovery period which will reduce staff costs. In 2014/15 a new deficit recovery plan was agreed and resulted in a significant increase in staff costs of £28,542,000 (the effect of the increased liability arising from the new plan and the unwinding of the provision). In addition, the change in the liability relating to accrued staff holiday resulted in a charge of £51,000.
6. The pension accrual for the Univeristy's commitment under the USS deficit recovery scheme is discounted which results in an interest charge as the discount factor unwinds, this was an amount of £675,000 in 2014/15. In addition, the University holds a loan designated in Euros; under FRS 102, exchange rate gains and losses on loans are recognised as a finance cost. The exchange rate gain of £897,000 has been transferred to interest and other finance costs.
7. Sales of fixed assets in 2014/15 yielded a gain of £103,000, under FRS 102 this amount has been separately identified within the Income Statement.
8. The capitalisation of additional intangible assets in 2014/15 has resulted in reduced expenditure of £274,000. Further small adjustments of £13,000 have also been made.
9. A small reduction to the depreciation charge of £78,000 was made in 2014/15 to reflect the separate identification of land within the Balance Sheet. In addition, the mixed use element of buildings owned by the University of Southampton Science Park Limited has been reflected with buildings held as investment properties but occupied by the University depreciated at historic cost, giving an additional charge of £35,000 in 2014/15.
10. Under FRS 102, the derivative financial instrument which the University of Southampton Science Park Limited holds is subject to fair value with gains or losses being charged to the Income Statement. A gain of £142,000 was recorded in the total for interest and other finance costs for 2014/15.
11. In addition to the gain on endowment investments of £289,000 which was previously recognised through the STRGL under old GAAP and a small additional gain of £3,000 which was recognised on the University's share portfolio, the fair value adjustments on the investments held by University subsidiaries has been recognised, a net loss of £797,000 in 2014/15.
12. Deferred tax has been accounted for on the relevant transactions.

Notes to the Financial Statements for the year ended 31 July 2016

30. Transition to FRS 102 and the 2015 SORP (continued)

University: transition of Income and Expenditure Account to FRS 102 and the 2015 SORP

	Notes	2007 SORP	Effect of transition to 2015 SORP: STRGL Items*	Other Items	2015 SORP
		£000	£000	£000	£000
Income					
Funding body grants	1, 2	78,968	825	941	80,734
Tuition fees and education contracts	1, 2	212,833	(81)	989	213,741
Research grants and contracts	1, 2	122,797	1,273	305	124,375
Other income	1, 2, 3	106,561	(66)	(3,085)	103,410
Investment income		1,785	-	(8)	1,777
Donations and endowments	1, 2, 3	-	748	4,287	5,035
Total income		522,944	2,699	3,429	529,072
Expenditure					
Staff costs	4	280,270	220	28,593	309,083
Other operating expenses	5, 6, 7	179,849	-	739	180,588
Depreciation	8	28,572	-	(78)	28,494
Interest and other finance costs	5	8,269	1,190	(222)	9,237
Total expenditure		496,960	1,410	29,032	527,402
Gain on disposal of fixed assets	6	-	-	103	103
Gain on investments	9	-	289	3	292
Surplus/(deficit) before tax		25,984	1,578	(25,497)	2,065
Taxation		(2,470)	-	-	(2,470)
Surplus/(deficit) after tax		23,514	1,578	(25,497)	(405)
Actuarial gain in respect of pension schemes		-	1,877	-	1,877
Total comprehensive income for the year		23,514	3,455	(25,497)	1,472

* This column represents items that were previously recorded within the Statement of Total Recognised Gains and Losses (STRGL) and are now recorded within the Statement of Comprehensive Income (SoCI).

i) release of the net movement of deferred capital grants of £2,694,000 to the Income Statement;

ii) the net increase in endowment assets of £5,000;

iii) recognition of the fair value movement in endowment investments of £289,000 in the Income Statement;

iv) costs relating to defined benefit pension schemes. A gain of £467,000 was recorded for 2014/15, which is now shown as staff costs of £220,000, interest and other finance costs of £1,190,000, and an actuarial gain of £1,877,000.

30. Transition to FRS 102 and the 2015 SORP (continued)

Notes to the reconciliation:

1. Under the FRS 102 performance model, all capital grants are recognised on entitlement to the income rather than over the lifetime of the related asset. Therefore, additional income was recognised in 2014/15. Deferred capital grant releases to match depreciation costs no longer occur and the adjustment also reflects the restatement for this change.
2. Under the FRS 102 performance model, income is recognised on entitlement or receipt, therefore additional income was recognised in 2014/15.
3. Under UK GAAP, donation income was included under Other Income, but is separately classified under FRS 102.
4. Under FRS 102 the University is required to accrue for its commitment under the USS deficit recovery scheme. The accrual will then be released to the Income Statement over the recovery period which will reduce staff costs. In 2014/15 a new deficit recovery plan was agreed and resulted in a significant increase in staff costs of £28,542,000 (the effect of the increased liability arising from the new plan and the unwinding of the provision). In addition, the change in the liability relating to accrued staff holiday resulted in a charge of £51,000.
5. The pension accrual for the University's commitment under the USS deficit recovery scheme is discounted which results in an interest charge as the discount factor unwinds, this was an amount of £675,000 in 2014/15. In addition, the University holds a loan designated in Euros; under FRS 102, exchange rate gains and losses on loans are recognised as a finance cost. The exchange rate gain of £897,000 has been transferred to interest and other finance costs.
6. Sales of fixed assets in 2014/15 yielded a gain of £103,000, under FRS 102 this amount has been separately identified within the Income Statement.
7. The capitalisation of additional intangible assets in 2014/15 has resulted in reduced expenditure of £274,000. Further small adjustments of £13,000 have also been made.
8. A small reduction to the depreciation charge of £78,000 was made in 2014/15 to reflect the separate identification of land within the Balance Sheet.
9. In addition to the gain on endowment investments of £289,000 which was previously recognised through the STRGL under old GAAP, a small additional gain of £3,000 was recognised on the University's share portfolio.

Financial Indicators

	2016	2015
Key financial metrics		
Surplus after depreciation of assets and tax as % of total income	**5.0%**	(0.2)%
Net liquidity/ (total expenditure - depreciation) (days)	**92**	90
External borrowing as % of total income	**23.5%**	25.4%
Net cash inflow from operating activities as % of total income	**11.2%**	8.2%
Long term liabilities as % of income and expenditure reserves	**30.8%**	30.2%
Net (cash)/debt as % of total income	**(1.0)%**	(2.2)%
Staff costs as % of total income	**53.2%**	58.4%
Current assets / Current liabilities	**1.50:1**	1.51:1
Source of income		
Funding Council grants	**13.4%**	15.2%
Home/EU fees and support grants	**29.4%**	26.7%
International fees	**14.7%**	13.6%
Research grants and contracts	**20.3%**	23.6%
Other operating income	**21.5%**	19.6%
Endowment income and interest receivable	**0.8%**	1.3%
	100.0%	100.0%

Financial Statistics

Income from sponsored research for the year ended 31 July 2016

From Research Councils	**£000**
Arts and Humanities Research Council	730
Biotechnology and Biological Sciences Research Council	3,228
British Academy	368
Economic and Social Research Council	2,567
Engineering and Physical Sciences Research Council	30,490
Medical Research Council	5,731
Natural Environment Research Council	4,701
Royal Society	1,224
Science and Technology Facilities Council	1,647
Total Research Councils	**50,686**

From UK-based Charitable Bodies (continued)	**£000**
Academy of Medical Sciences	32
Alzheimer's Research UK	466
Alzheimer's Society	73
Arthritis Research UK	319
Asthma UK	76
Bloodwise	1,417
Brainstrust	21
Breast Cancer Now	293
British Heart Foundation	222
British Liver Trust	102
British Lung Foundation	58
British Skin Foundation	26
Cancer Research UK	4,479
Charlie's Challenge	29
Crohn's in Childhood Research Association	55
Cystic Fibrosis Trust	37
Diabetes UK	76
Fight for Sight	79
Guy's and St. Thomas' Charity	43
Health Foundation	146
International Glaucoma Association	26
Kay Kendall Leukaemia Fund	196
Leverhulme Trust	1,005

Income from sponsored research for the year ended 31 July 2016 (continued)

Lloyd's Register Foundation	300
Macmillan Cancer Support	369
Macular Disease Society	24
Marine Biological Association of the UK	195
MQ: Transforming Mental Health	82
Multiple Sclerosis Society	58
National Osteoporosis Society	47
Nuffield Foundation	22
Pathological Society of Great Britain & Ireland	46
Prostate Cancer UK	633
Rosetrees Trust	31
Royal Academy of Engineering	443
Royal College of Anaesthetists	28
Royal College of Surgeons of England	46
Royal Commission for the Exhibition of 1851	26
Southampton Hospital Charity	34
Sparks	57
Wellcome Trust	624
Wessex Medical Research	160
Wessex Neurological Centre Trust	39
World Cancer Research Fund	43
Others less than £20,000	322
Total UK-based Charitable Bodies	**12,905**

From Other Sources	**£000**
ABB Switzerland Ltd	95
Abbott Laboratories	34
Air Products Plc	32
Airbus Operations Ltd	20
Airbus Operations S.A.S.	176
Andrew W. Mellon Foundation	24
Antabio	83
AppLearn Ltd	27
Aquinox Pharmaceuticals Inc. (Canada)	66
ARM Ltd	99
AstraZeneca (UK) Ltd	50

Financial Statistics

Income from sponsored research for the year ended 31 July 2016 (continued)

AstraZeneca AB	170
Aurora Medical Ltd	21
BAE Systems (Marine) Ltd	635
BAE Systems (Operations) Ltd	449
Beijing T&S Technologies Co., Ltd	58
Bill & Melinda Gates Foundation	925
BioInvent International AB	314
BP Exploration Operating Ltd	61
Bristol-Myers Squibb Company	33
British Council	203
Calouste Gulbenkian Foundation	85
Celldex Therapeutics Inc.	105
Chiesi Farmaceutici S.p.A	43
Copper Development Association	143
Covesion Ltd	42
CRRC Qingdao Sifang Co., Ltd	50
Department for Environment, Food and Rural Affairs	95
Department for International Development	77
Department for Transport	46
Department of Health	731
DePuy International Ltd	20
Domo Tactical Communications (DTC) Ltd	20
Dublin Institute for Advanced Studies	71
E.V. Analytics Ltd	42
EDF Energy Holdings Ltd	65
EEF Expeditions Ltd	265
Eisai Ltd	134
Eli Lilly and Company Ltd	25
Energy Technologies Institute	33
English Heritage	39
English Institute of Sport Ltd	225
European Asylum Support Office	28
European Commission	14,439
European Organisation for Research and Treatment of Cancer	51
European Space Agency	192
F. Hoffmann-La Roche Ltd	60
Food and Agriculture Organization of the United Nations	27

Income from sponsored research for the year ended 31 July 2016 (continued)

Food Standards Agency	105
Ford Motor Company Ltd	27
Forestry Commission	72
GE Global Research	52
Gilead Sciences Inc.	97
GlaxoSmithKline Biologicals S.A.	339
GlaxoSmithKline Plc	213
Global Research Foundation	58
Health Education England Wessex	118
Higher Education Academy	83
Higher Education Funding Council for England	32
Hitachi Europe Ltd	28
Home Office	96
Honeywell International Inc.	41
Huawei Technologies Co., Ltd	112
Huawei Technologies Duesseldorf GmbH	52
IBM UK Ltd	78
Informa UK Ltd	49
Innovate UK	2,184
International Continental Scientific Drilling Program (ICDP)	59
International Development Research Centre	304
International Institute for Environment and Development	72
Invibio Ltd	22
Jaguar Land Rover Ltd	50
Janssen Research & Development LLC	22
Janssen-Cilag Ltd	112
John Templeton Foundation	51
Lloyd's Register EMEA	25
LSS Logistic System Service GmbH	39
Luxfer Gas Cylinders Ltd	21
Marin Academy	35
Matoke Holdings Ltd	38
MED-EL UK Ltd	28
MedImmune LLC	74
Merck & Co., Inc.	46
Merck Serono Ltd	49
Mesothelioma Applied Research Foundation, Inc.	22

Financial Statistics

Income from sponsored research for the year ended 31 July 2016 (continued)

Microsoft Corporation	82
Ministry of Higher Education (Malaysia)	38
Mitsubishi Electronic Corporation	62
Moormead Solutions Ltd	24
National Grid Electricity Transmission Plc	228
National Health and Medical Research Council (Australia)	57
National Institutes of Health (USA)	263
National Physical Laboratory	20
Nestec Ltd (Switzerland)	1,525
Network Rail	179
New Opportunities for Research Funding Agency Co-operation in Europe (NORFACE)	29
NHS England	72
NHS National Institute for Health and Care Excellence	22
NHS National Institute for Health Research	9,393
NHS South Central Strategic Health Authority	86
Nissan Motor Co., Ltd	23
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Others less than £20,000	3,814
HMRC - Research and development expenditure credit (RDEC) claim	685
Total Other Sources	**48,913**
Total income from Sponsored Research	**112,504**

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