

**UPP Bond 1 Issuer plc
Report and financial statements
For the year ended 31 August 2017**

UPP Bond 1 Issuer plc



Report and financial statements for the year ended 31 August 2017

	Pages
Directors and advisors	1
Directors' report	2 – 4
Strategic report	5 – 7
Report of the independent auditor	8 – 15
Statement of comprehensive income	16
Statement of financial position	17
Statement of changes in equity	18
Statement of cash flows	19
Notes to the financial statements	20 – 35

UPP Bond 1 Issuer plc

Directors and advisors



Directors

J C W Benkel

S O'Shea

Intertrust Directors 1 Limited

R Bienfait

Secretary

J C W Benkel

Auditor

UHY Hacker Young LLP

Quadrant House

4 Thomas More Square

London

E1W 1YW

Registered office

40 Gracechurch Street

London

EC3V 0BT

Directors' report for the year ended 31 August 2017

The directors present their report and financial statements for the year ended 31 August 2017.

Principal activity

The principal activity of the company is that of a financing company.

Financial risk management objectives and policies

The company's financial risk management objectives and policies are considered to be of strategic significance and are therefore detailed in the Strategic Report on pages 5 to 7.

Going concern

After reviewing the company's forecasts and projections and those of its seven fellow group undertakings to which the company has provided on-loan arrangements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing these financial statements.

Dividend

The directors did not declare any dividends for the year (2016: nil).

Directors

The directors holding office during the year to 31 August 2017 and subsequently are:

J C W Benkel

S O'Shea

Intertrust Directors 1 Limited

R Bienfait (appointed 23 November 2016)

Directors' report for the year ended 31 August 2017 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report, the Strategic Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company for the year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website, www.upp-ltd.com/investors. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors are protected by Directors and Officers Liability Insurance provided by the Company.

UPP Bond 1 Issuer plc

Directors' report for the year ended 31 August 2017 (continued)

Independent auditors

UHY Hacker Young LLP were appointed auditor during the period in accordance with section 485(3) of the Companies Act 2006. The auditors have expressed their willingness to continue in office, and a resolution for their appointment will be proposed at the next Annual General Meeting.

On behalf of the Board



R A Bienfait

Director

 .. December 2017

Strategic report for the year ended 31 August 2017

Results and review of the business

The company was incorporated on 16 October 2012 and commenced trading on 5 March 2013.

On 5 March 2013 the company issued £307,100,000 of fully amortising fixed rate senior secured notes and £75,000,000 of fully amortising RPI index-linked senior secured notes, listed on the Irish Stock Exchange. The proceeds of this issuance were on-lent on the same terms and conditions to six fellow group companies to enable them to refinance their senior bank facilities and associated costs.

On 9 December 2014 the company issued £149,700,000 of fully amortising RPI index-linked senior secured notes, listed on the Irish Stock Exchange, ranking pari-passu with the initial senior notes. The proceeds of this issuance were on-lent to a sister company, UPP (Exeter) Limited, to enable that company to refinance its senior bank facilities and some associated costs, see note 11.

During the year, the seven fellow group companies have continued to meet their obligations under the on-loan agreements.

The directors of the company have chosen to adopt Financial Reporting Standard 102 – 'The financial reporting standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102') from incorporation and these financial statements have been produced on that basis.

The company loss for the year is £203,000 (2016: £99,000). It is not expected that the role of the company will change in the foreseeable future.

Financial risk management objectives and policies

The company uses various financial instruments including equity, fixed rate and index linked bonds, derivatives and cash. The main purpose of these financial instruments is to raise finance for the fellow group undertakings. All of the company's financial instruments are of sterling denomination and the company does not trade in financial instruments or derivatives.

The existence of these financial instruments exposes the company to a number of financial risks, which are described in more detail below. The directors review and agree policies for managing each of these risks and they are summarised below.

Liquidity risk

The company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and debt servicing and by investing cash assets safely and profitably.

The maturity of borrowings is set out in note 13 to the financial statements.

Interest rate risk

The company finances its operations through a mixture of equity and fixed rate and index-linked secured senior notes. Through the issue of fixed rate notes the company has mitigated its exposure to interest rate fluctuations on that portion of its borrowings. The index-linked notes have a nominal fixed rate that is linked to RPI (see below). The funds raised from these instruments have been on-lent to fellow group undertakings under the same terms.

Strategic report for the year ended 31 August 2017 (continued)

Inflation rate risk

The company is financed through a mixture of fixed rate and index linked bonds which in turn have been on-lent to fellow group undertakings.

These fellow group undertakings all provide student accommodation and use rental income received to service the cost of these on-loans. Growth in rental income is linked to the movement in RPI and the fellow group undertakings manage the exposure to this index through a mix of inflation linked debt on-lent from this company and the use of RPI swaps to hedge a portion of the fixed rate debt servicing costs. This company also has back to back external swaps which materially offset in fair value terms with the swaps with fellow group undertakings.

Principal risks and uncertainties

Demand risk

The company is subjected to the risk of one or more of the fellow group undertakings not being able to service the cost of their on-loan arrangement and consequently the company defaulting on its own borrowings. These fellow group undertakings are subjected to risks arising from occupancy voids and no nominations by the university partners that can lead to uncertain revenues. This risk is managed by cementing relationships with the university, improved marketing of accommodation and improved third party revenues to compensate for any shortfalls in rental income. Additionally, there is a cross collateralisation arrangement in place allowing the pooling of each of the bond participants' surplus cash, which can then be used to support any underperforming bond participants.

Portfolio risk

The assets of the fellow group undertakings are in the student market and reduced student numbers could impact upon financial performance and consequently the ability of these companies to repay loans made by this company. These fellow group undertakings seek to mitigate this risk by building excellent long term relationships with its university partners and ensuring up to date in depth market analysis is completed each year to enable each company to review its strategic position.

Key performance indicators

The company's principal activity is that of a financing company providing funding to seven fellow group undertakings by way of on-loan arrangements. The performance of these group undertakings is critical to the ability of this company to service its own debt commitments.

These fellow group undertakings all provide student accommodation and use rental income received to service the cost of these on-loans.

The following are considered by the directors to be indicators of average performance of these fellow group undertakings that are not necessarily evident from the financial statements but provide insight into the quality of underlying cash flows for the borrowers.

	2016/17	2015/16
Average Applications : Acceptance ratio	5.76:1	5.69:1
Average core demand pool (no. of students)	14,491	14,093

Strategic report for the year ended 31 August 2017 (continued)

Key performance indicators (continued)

The indicators above are directly related to the performance of the relevant university partners of these fellow group undertakings and any changes in these statistics may potentially affect the performance of that company and in turn, the economic viability of this company.

The directors also monitor the occupancy levels of the student accommodation facilities across the seven companies.

	2016/17	2015/16
Average occupancy across the facilities	99.86%	99.91%

The target occupancy level across the facilities is 98-99%. As such, the directors are satisfied that the movements noted above are within tolerable limits for the recovery of credit extended to these group undertakings. In addition, all of the seven group undertakings met their on-loan obligations in the period.

Other financial key performance indicators relate to financial covenants relating to the listed debt instruments. The financial covenants are monitored by the Board and none of those have been breached during the financial year.

On behalf of the Board



R A Bienfait

Director



..... December 2017

Independent auditor's report to the members of UPP Bond 1 Issuer plc

We have audited the financial statements of UPP Bond 1 Issuer plc (the 'company') for the year ended 31 August 2017 which comprise of the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 (United Kingdom Generally Accepted Accounting Practice).

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

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 August 2017 and of its loss 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 requirements of the Companies Act 2006.

Basis for opinion

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

Independent auditor's report to the members of UPP Bond 1 Issuer plc (continued)

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

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

1) Fixed rate and index linked bonds valuation and classification

Fixed rate and index linked bonds are one of the largest balances in the company's Statement of Financial Position. The proceeds of these issues are on-lent to fellow group companies to enable them to refinance their senior bank facilities and associated costs.

As set out in note 1(f) of the financial statements, the directors have classified the company's fixed rate and index linked bonds as basic financial instruments. Fixed rate bonds are initially measured at transaction price and subsequently measured at amortised cost using the effective interest method. Index linked bonds are fully amortised with the principal repayments and interest adjusted by the change in the RPI index.

Fixed rate and index linked bonds is a key audit matter as there is a significant risk of misstatement if the bonds are incorrectly classified as basic financial instruments.

2) Internal and External Retail Price Index ('RPI') swap valuations

As set out in note 1(h) of the financial statements, the company measures their internal and external RPI swaps at fair value. This is a significant accounting estimate and involves a range of judgmental assumptions. During the year the company changed its valuation method from a settlement valuation to a transfer valuation. A prior year adjustment was also required as set out in note 1(a).

Independent auditor's report to the members of UPP Bond 1 Issuer plc (continued)

RPI swaps are initially recognised at fair value at the date the derivative is entered into and are subsequently re-measured to their fair value at each reporting date. Valuations are performed by an independent professionally accredited expert.

3) Recoverability of inter-company ('SPVs') debtors and Going Concern

As noted above, the company has on-lent the proceeds of the debt issues to a number of fellow group companies to enable them to refinance their senior bank facilities and associated costs.

As set out in note 8 of the financial statements, loans to fellow group undertakings is the largest balance in the company's Statement of Financial Position. The SPVs service the company's debt and is a key audit matter surrounding the going concern assumption and loan covenant requirements of the bond group.

4) Management override of controls

In accordance with ISA 240.31 'While the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities and is a significant risk of material misstatement due to fraud.'

Our application of materiality

We define materiality as the amount of misstatement in the financial statement that is likely to influence the economic decisions of a reasonably knowledgeable person. We set quantitative thresholds for materiality which, together with qualitative considerations, help us to plan the scope of our audit work and to evaluate the results of our work.

Independent auditor's report to the members of UPP Bond 1 Issuer plc (continued)

We determined materiality for the financial statements as a whole as follows:

Overall materiality	2017: £2,766,900	2016: £2,685,000
How we determined it	2017: average of 5% profit before tax, 4% net assets and 2% gross assets	2016: average of 5% profit before tax, 4% net assets and 2% gross assets
Rationale for benchmark	Profit before tax, net assets and gross assets are key performance measures for the company and takes into account all aspects of trading performance of the company	Profit before tax, net assets and gross assets are key performance measures for the company and takes into account all aspects of trading performance of the company

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £138,345 (2016: £134,000) as well as misstatements below that amount that, in our opinion, merited reporting on qualitative grounds. We also reported to the Audit Committee any disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

We designed our audit by obtaining an understanding of the company and its environment, and assessing the risk of material misstatement in the financial statements. When assessing the risk of material misstatement, we consider whether the directors made judgments or assumptions that are, by their nature, subjective. The scope of our audit was influenced by the level of materiality we determined.

1) Fixed rate and index linked bonds valuation and classification

We reviewed the accounting treatment of the fixed rate and index linked bonds to assess that they continued to comply with Section 11 'Basic Financial Instruments' of Financial Reporting Standard 102 (United Kingdom Generally Accepted Accounting Practice).

We obtained backing documentation relating to the fixed rate and index linked bonds and recalculated their amortised cost and interest payable for the financial reporting period. We also assessed if the correct disclosures were made within the financial statements.

Independent auditor's report to the members of UPP Bond 1 Issuer plc (continued)

We believe that the valuation and classification of the fixed rate bonds are materially correct and comply with the Financial Reporting Standard 102 (United Kingdom Generally Accepted Accounting Practice).

For the index linked bonds, Section 11.9 (aA) states a contract is basic if it provides for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.

Although both the principal and return of the company's index linked bonds are linked to the RPI index, the linked return is calculated on the original principal and not the uplifted principal. This has the same mathematical effect of a basic financial instrument that has a fixed rate of interest but its principal is uplifted by the RPI index.

It was agreed after extensive consultation that, on balance, the index linked bonds could be classified as a basic financial instrument. As a result, this financial instrument has not been accounted for at fair value.

We did not identify any other issues in respect of the accounting treatment of the senior securities and interest payable.

2) Internal and External Retail Price Index ('RPI') swap valuations

The company's derivative financial instruments (which are RPI swaps) are measured at fair value at each reporting date. We obtained an independent valuation of these items to assess if they had been correctly valued. We ensured that these items, and the associated movements in value, were correctly reflected in the financial statements.

We also reviewed the valuation method adopted to ensure it complied with the Financial Reporting Standard 102 (United Kingdom Generally Accepted Accounting Practice).

RPI swap valuations can differ depending upon the model and assumptions used. The company has 3 external RPI swap contracts with Royal Bank of Canada and Mitsubishi UFJ Securities International plc and 6 internal RPI swap contracts with various inter-companies ('SPVs'). Our independent valuation of one external swap and one internal swap for the years ending 31 August 2017, 31 August 2016 and 31 August 2015 highlighted a net difference in the amount of £48,972. Our independent valuer also confirmed that the assumptions used by the company are within an acceptable range.

We believe that the accounting and disclosure of the RPI swaps are materially correct and comply with the Financial Reporting Standard 102 (United Kingdom Generally Accepted Accounting Practice).

Independent auditor's report to the members of UPP Bond 1 Issuer plc (continued)

3) Recoverability of inter-company ('SPVs') debtors and Going Concern

No issues were noted regarding the recoverability of the company's inter-company debtors and Going Concern.

A Common Terms Agreement is in place between the company and the various SPVs which sets out the terms that are common to all the financing instruments and the relationship between them. This agreement includes a clause where any SPV unable to service their proportion of the company's debt requirement will be covered by the other SPVs with surplus cash.

The performance of the SPVs is therefore critical if the company is to continue to service its own debt commitments. Occupancy levels of the student accommodation for 2017 and forecasted for 2018 are 99.86% and 99.97% respectively. As such, we are satisfied that the occupancy levels are within tolerable limits to recover the SPV debtors.

Management also produces a budget for the following 12 months to ensure that the SPVs can meet the debt-service ratio requirement of 1.15. No issues were noted. Assumptions for the SPV forecasts have also been checked and are considered reasonable.

We believe that the SPVs can and will continue to service the company's debt requirements in the foreseeable future.

4) Management override of controls

We tested the appropriateness of journal entries recorded in the general ledger and any other adjustments made in the preparation of the financial statements.

We obtained an understanding of the business rationale of any significant transactions outside the normal course of business or appeared to be unusual given our understanding of the company and its environment.

No unusual journals were identified. The company has limited transactions and highly automated calculations.

Independent auditor's report to the members of UPP Bond 1 Issuer plc (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the directors' report and the strategic report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Independent auditor's report to the members of UPP Bond 1 Issuer plc (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx>. This description forms part of our auditor's report.

Other matters which we are required to address

We were re-appointed by UPP Bond 1 Issuer plc on 27 August 2017. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.



Subarna Banerjee (Senior Statutory Auditor)
for and on behalf of UHY Hacker Young LLP, Statutory Auditor
Quadrant House
4 Thomas More Square
London
E1W 1YW

Date 11/12/17

UPP Bond 1 Issuer plc



Statement of comprehensive income for year ended 31 August 2017

		Year ended 31 August 2017	Restated Year ended 31 August 2016
	Notes	£'000	£'000
Interest receivable and similar income	4	40,169	34,263
Interest payable and similar charges	5	(40,373)	(34,363)
Other operating income		1	1
Operating loss		(203)	(99)
Loss on ordinary activities before taxation		(203)	(99)
Tax on loss on ordinary activities	6	-	-
Loss for the year attributable to owners of the parent		(203)	(99)
Total comprehensive loss for the year attributable to owners of the parent		(203)	(99)

The above results all relate to continuing operations.

UPP Bond 1 Issuer plc

Statement of financial position as at 31 August 2017

		31 August 2017 £'000	Restated 31 August 2016 £'000
	Notes		
Current assets			
Debtors: due within one year	7	9,106	7,641
Debtors: due after more than one year	8	516,192	531,359
Cash		15,553	14,421
		540,851	553,421
Creditors: amounts falling due within one year	9	(18,644)	(15,844)
Net current assets		522,207	537,577
Creditors: amounts falling due after more than one year	10	(516,192)	(531,359)
		6,015	6,218
Share capital and reserves			
Called up share capital	12	50	50
Capital contributions		6,580	6,580
Retained earnings		(615)	(412)
		6,015	6,218

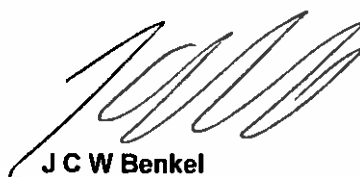
The financial statements were approved by the board and authorised for issue on 8 December 2017 and were signed on its behalf by:



R A Bienfait

Director

Registered no: 08255980



J C W Benkel

Director

UPP Bond 1 Issuer plc



Statement of changes in equity as at 31 August 2017

Attributable to owners of the parent

	Share Capital	Capital contributions £'000	Retained earnings £'000	Total £'000
At 1 September 2016	50	6,580	(412)	6,218
Loss for the financial year	-	-	(203)	(203)
Total comprehensive income for the year	-	-	(203)	(203)
Balance at 31 August 2017	50	6,580	(615)	6,015

**Statement of cash flows
For the year ended 31 August 2017**

	Year ended 31 August 2017 £'000	Year ended 31 August 2016 £'000
Cash flows from operating activities		
Loss for the year	(203)	(99)
Adjustments for:		
Interest expense included in profit or loss, not paid	205	99
Movement on creditors / debtors	11	(14)
Net cash generated from / (used) in operating activities	13	(14)
Cash flows from investing activities		
Scheduled repayments of loans to fellow group undertakings	8,111	7,394
Net cash generated from investing activities	8,111	7,394
Cash flows from financing activities		
Scheduled repayment of senior secured notes	(8,111)	(7,394)
Proceeds of loans from fellow group undertakings	1,119	461
Net cash used in financing activities	(6,992)	(6,933)
Net increase in cash and cash equivalents	1,132	447
Cash and cash equivalents at beginning of year	14,421	13,974
Cash and cash equivalents at the end of the year	15,553	14,421

Notes to the financial statements for the year ended 31 August 2017

1. Principal accounting policies

(a) Basis of accounting

UPP Bond 1 Issuer plc is a company registered and domiciled in England and Wales. These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The financial reporting standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006.

The financial statements are presented in GBP (£), which is the Company's functional currency, rounded to the nearest thousand.

Change in accounting policy

Directors have adopted a new policy of measuring fair value of derivative financial instruments on a transfer basis rather than marked to market or so called settlement basis. A transfer value basis measures an instrument on a notional trade between two equal parties, as opposed to the Group and an independent third party. The transfer basis method of valuation better reflects the economic relationship between the swaps and the hedged items in relation to hedge effectiveness (see also section (h) valuation of RPI swaps for further details on the transfer value measurement basis).

The impact of this change in accounting policy to prior period amounts presented is summarised as follows:

Notes to the financial statements for the year ended 31 August 2017

1. Principal accounting policies (continued)

Reconciliation of profit / (loss) for the financial period

	As at 31 August 2016 £'000	As at 31 August 2015 £'000
As stated under previous accounting policy	(99)	(63)
Movement due to change in policy:		
Fair value movement on RPI swaps (debtors)	15,471	19,480
Fair value movement on RPI swaps (creditors)	<u>(15,471)</u>	<u>(19,480)</u>
As stated in accordance with new accounting policy	<u>(99)</u>	<u>(63)</u>

Reconciliation of reserves for the financial period

	As at 31 August 2016 £'000	As at 31 August 2015 £'000
As stated under previous accounting policy	(412)	(313)
Movement due to change in policy:		
Fair value movement on RPI swaps (debtors)	15,471	19,480
Fair value movement on RPI swaps (creditors)	<u>(15,471)</u>	<u>(19,480)</u>
As stated in accordance with new accounting policy	<u>(412)</u>	<u>(313)</u>

Reconciliation of non-current debtors for the financial period

	As at 31 August 2016 £'000	As at 31 August 2015 £'000
As stated under previous accounting policy	502,318	510,524
Movement due to change in policy:		
Fair value movement on RPI swaps	<u>29,041</u>	<u>13,570</u>
As stated in accordance with new accounting policy	<u>531,359</u>	<u>524,094</u>

Reconciliation of non-current creditors for the financial period

	As at 31 August 2016 £'000	As at 31 August 2015 £'000
As stated under previous accounting policy	502,318	510,524
Movement due to change in policy:		
Fair value movement on RPI swaps	<u>29,041</u>	<u>13,570</u>
As stated in accordance with new accounting policy	<u>531,359</u>	<u>524,094</u>

Notes to the financial statements for the year ended 31 August 2017

1. Principal accounting policies (continued)

(b) Going Concern

After reviewing the company's forecasts and projections and those of its fellow group undertakings to which the company has provided the on-loans, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing these financial statements.

(c) Significant judgements and sources of estimation

Classification of index-linked financial instruments

The Company's index linked senior secured notes are fully amortising with both principal repayments and real interest adjusted semi-annually by the change in the RPI index. Management have concluded that despite both principal and interest being linked to RPI, these links are not leveraged because both principal and interest repayment obligations change in the same proportion and therefore the condition in paragraph 11.9(a) and (aA) is met and the Company's index linked financial instruments are classified as basic and carried at amortised cost.

Credit risk

To mitigate the risk of inflation movements impacting on the company's ability to service the fixed rate secured senior notes the company has entered into RPI swaps that rank ahead of payments to the bond holders.

There is a cross collateralisation agreement in place allowing the pooling of each of the bond participants' surplus cash (after operating expenses and relevant on-loan debt service), which can be used to support any underperforming bond participants.

Notes to the financial statements for the year ended 31 August 2017

1. Principal accounting policies (continued)

(c) Significant judgements and estimations (continued)

Credit risk (continued)

A key assumption used in the valuation of the onward RPI swaps to fellow group undertakings is credit risk. Based on the above terms, management consider that the aggregate credit risk of the underlying participants in the bond approximates to the credit risk of the Company bond and therefore the RPI swaps to fellow group undertakings have been fair valued on this basis. Management regularly model and monitor the credit risk of the company and that of the underlying participants in the bond to ensure they do not materially differ. Details of the amounts included in the financial statements are disclosed in note 13.

(d) Financial assets

Loan, prepayments and loans to fellow group undertakings

Prepayments are measured at transaction cost. Loans made to fellow group undertakings are initially measured at fair value net of transaction costs and then they are subsequently measured at amortised cost using the effective interest rate method less impairment.

(e) Finance income

Interest income is recognised in profit and loss as it accrues, using the effective interest method.

Financing income also include gains arising on the change in fair value of derivatives recognised in profit or loss.

(f) Financial liabilities

Loans and secured notes

Loans and secured notes are initially measured at fair value, net of transaction costs. They are then subsequently measured at amortised cost using the effective interest method, with the interest expense recognised on the basis of the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant year. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter year, to the net carrying amount on initial recognition.

Where loans have been received at below market terms from fellow group undertakings at the direction of this company's parent, the difference between the proceeds and fair value is taken to capital contributions within equity.

Where the financial liability has variable cash flows, such as the index linked bonds, the change in RPI is charged to the profit and loss in the period to which it relates.

Notes to the financial statements for the year ended 31 August 2017

1. Principal accounting policies (continued)

(g) Finance costs

Financing costs, comprising interest payable on loans, secured notes and the costs incurred in connection with the arrangement of borrowings are recognised in profit or loss using the effective interest rate method.

Financing costs also include losses arising on the change in fair value of hedging instruments that are recognised in profit or loss.

(h) Derivative financial instruments

The Company entered into derivative financial instruments, being RPI swaps, to manage its exposure to RPI. This company also has back to back external swaps which materially offset in fair value terms with the swaps with fellow group undertakings.

Derivatives are initially recognised at fair value at the date a derivative is entered into and are subsequently re-measured to their fair value at each reporting date. The fair value of the derivatives has been determined on a transfer value basis, which takes into consideration the price the instrument could be replaced with by another one with the same remaining terms. To that end, a calibration of usual valuation models has been performed on the trade date for each derivative to determine an initial spread to be added onto market conditions applied at each year end. Those market interest rates and inflation curves for a replacement have been used, deriving future cash flows based on forward rates and discounting them to produce their reported value. The Company has used a third party expert to assist with valuing such instruments.

The resulting gain or loss is recognised in the profit or loss immediately.

The company does not apply hedge accounting within these financial statements.

(i) Current and deferred tax

The tax charge for the year represents the sum of the tax currently payable and deferred tax based on the taxable profit for the year.

Deferred tax is recognised on all timing differences at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenditure in tax assessment in periods different from those in which they are recognised in the financial statements. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realised or the deferred tax liability to be settled on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting year.

Notes to the financial statements for the year ended 31 August 2017

1. Principal accounting policies (continued)

(j) Equity and reserves

Share capital represents the nominal value of the shares that have been issued.

Where loans have been received at below market terms from fellow group undertakings at the direction of this company's parent, the difference between the proceeds and fair value is taken to capital contributions within equity.

Retained earnings include all retained profits since incorporation.

All transactions with owners of the parent are recorded separately within equity.

(k) Related party transactions

The company is a wholly owned subsidiary of UPP Group Holdings Limited and as such the company has taken advantage of the related party transaction exemption of FRS102 not to disclose related party transactions between two or more members of a group that are wholly owned by the group.

(l) Segment information

FRS 102 requires operating segments to be determined based on the Company's internal reporting to the Chief Operating Decision Maker ('CODM') as they are primarily responsible for the allocation of resources to segments and the assessment of the performance of each segment.

The principal activity of the company is that of a financing company. Management consider that there is only one operating segment, as this is the lowest level at which discrete financial information is available. All of the company's income is generated from UK operations.

The measurement policies the company uses for segment reporting under FRS 102 are the same as those used in its financial statements.

2. Directors' remuneration

The immediate parent company, UPP Bond 1 Limited, paid a fee of £6,000 (2016: £6,000) to Intertrust Directors 1 Limited in respect of services performed in connection with the management of the affairs of the company for the year ended to 31 August 2017.

No other directors of the company received payment for services performed in relation to the management of the company.

Notes to the financial statements for the year ended 31 August 2017

3. Auditor's remuneration

The following amounts have been paid to the auditor of the company in respect of the services provided to the company:

	Year ended 31 August 2017 £'000	Year ended 31 August 2016 £'000
Fees payable to the Company's auditor for the audit of the company's annual accounts	19	19
	19	19

These fees have been borne by its immediate parent company, UPP Bond 1 Limited, and included in the results of that company for the year.

4. Finance income

	Year ended 31 August 2017 £'000	Restated Year ended 31 August 2016 £'000
<i>Finance assets held at amortised cost</i>		
Interest from on-loan agreements with fellow group undertakings calculated using the effective interest rate method	19,043	19,169
Indexation of index-linked on-loans	7,331	3,096
Total effective interest receivable from on-loans	26,374	22,265
Bank interest receivable	109	163
Finance assets held at amortised cost	26,483	22,428
<i>Held at fair value through profit or loss</i>		
Fair value movement on derivative financial instruments	13,686	11,835
	40,169	34,263

The change in accounting policy relating to the 2016 restated figures is detailed in Note 1(a).

Notes to the financial statements for the year ended 31 August 2017

5. Finance costs

	Year ended 31 August 2017 £'000	Restated Year ended 31 August 2016 £'000
<i>Financial liabilities measured at amortised cost</i>		
Interest on secured bond notes, calculated using the effective interest rate method	19,043	19,169
Indexation of index-linked bonds	7,331	3,096
Total effective interest payable on bond notes	26,374	22,265
Interest paid on cash balances held on behalf of fellow group undertakings	108	163
Imputed interest on fair value of loans to fellow group undertakings, calculated using the effective interest method	205	100
Financial liabilities measured at amortised cost	26,687	22,528
<i>Financial liabilities measured at fair value through profit or loss</i>		
Fair value movement on derivative financial instruments	13,686	11,835
	40,373	34,363

The change in accounting policy relating to the 2016 restated figures is detailed in Note 1(a).

6. Tax on loss on ordinary activities

Taxation

(a) Recognised in the income statement

	Year ended 31 August 2017 £000	Year ended 31 August 2016 £000
<i>Current tax expense</i>		
Current year	-	-
Total current tax	-	-
<i>Deferred tax expense</i>		
Current year	-	-
Total deferred tax	-	-
Total tax in income statement	-	-

Notes to the financial statements for the year ended 31 August 2017

6. Tax on loss on ordinary activities (continued)

b) Reconciliation of effective tax rate

	Year ended 31 August 2017 £000	Year ended 31 August 2016 £000
Loss on ordinary activities before tax for the year	<u>(203)</u>	<u>(99)</u>
Tax on loss on ordinary activities using the UK corporation tax rate of 19% (2016: 20%)	(39)	(19)
<i>Effects of:</i>		
Permanent differences relating to the application of the taxation of securitisation companies regulation	<u>39</u>	<u>19</u>
Total tax in income statement	<u>-</u>	<u>-</u>

7. Debtors: amounts falling due within one year

	31 August 2017 £'000	31 August 2016 £'000
Loans to fellow group undertakings, net of transaction costs	9,056	7,591
Amounts owed by parent company	50	50
	<u>9,106</u>	<u>7,641</u>

8. Debtors: amounts falling due after more than one year

	31 August 2017 £'000	Restated 31 August 2016 £'000
Derivative financial instruments	21,013	34,700
Loans to fellow group undertakings, net of transaction costs	495,179	496,659
	<u>516,192</u>	<u>531,359</u>

The loans to fellow group companies were made on 5 March 2013 from the proceeds of an issuance by the company of £307,100,000 of fully amortising fixed rate senior secured notes and £75,000,000 of fully amortising RPI index-linked senior secured notes. An additional £149,700,000 was made on 9 December 2014 from the proceeds of issuance by the company of fully amortising RPI index-linked senior secured notes. The proceeds of these loans enabled these fellow group companies to refinance their previous bank facilities and associated costs.

Notes to the financial statements for the year ended 31 August 2017

8. Debtors: amounts falling due after more than one year (continued)

On 5 March 2013 the company entered into RPI swaps with these fellow group companies, and the amount above reflects the fair value of these instruments at the year-end date.

These loans bear the same terms and conditions as the secured notes, see note 11.

The change in accounting policy relating to the 2016 restated figures is detailed in Note 1(a).

9. Creditors: amounts falling due within one year

	31 August 2017 £'000	31 August 2016 £'000
Fixed rate senior secured notes, net of transaction costs	4,448	3,252
Index linked senior secured notes, net of transaction costs	4,608	4,340
Loans from fellow group undertakings (note 13)	9,577	8,252
Accruals	11	-
	18,644	15,844

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

	31 August 2017 £'000	Restated 31 August 2016 £'000
Fixed rate senior secured notes, net of transaction costs	281,514	285,962
Index linked senior secured notes, net of transaction costs	213,665	210,697
Derivative financial instruments	21,013	34,700
	516,192	531,359

The change in accounting policy relating to the 2016 restated figures is detailed in Note 1(a).

Notes to the financial statements for the year ended 31 August 2017

11. Borrowings

This note provides information about the contractual terms of the Company's interest bearing loans and borrowings. For more information about the Company's exposure to interest rate risk, see note 13.

On 5 March 2013 the company issued £307,100,000 of fully amortising fixed rate senior secured notes and £75,000,000 of fully amortising RPI index-linked senior secured notes, listed on the Irish Stock Exchange. The proceeds of this issuance were on-lent on the same terms and conditions to six fellow group companies to enable them to repay their previous bank facilities and associated costs.

The fixed rate senior secured notes are fully amortising by 2040 and bear interest at 4.9023%, with repayments commencing on 30 August 2013.

The index-linked senior secured notes are fully amortising by 2047 with a real interest rate of 2.7291% increasing semi-annually by RPI. The notional amount of these notes at issuance was £75,000,000 and the principal amount repayable increases semi-annually by RPI. Repayments are scheduled to commence in August 2038.

On the same day the company entered into derivative financial instruments, being RPI swaps with three external counterparties. These instruments are mirrored with matching derivative instruments to the six fellow group undertakings. This is to manage the exposure of this company to RPI movements from loan receipts from fellow group undertakings where revenue streams are sensitive to inflation rate risk. See note 13.

The fair values of these instruments are included within Debtors: amounts falling due after more than in year and Creditors: amounts falling due after more than one year.

On 9 December 2014 the company issued £149,700,000 of fully amortising RPI index-linked senior secured notes, listed on the Irish Stock Exchange, ranking pari-passu with the initial senior notes. The proceeds of this issuance were on-lent to a sister company, UPP (Exeter) Limited, to enable that company to refinance its senior bank facilities and some associated costs.

These index-linked senior secured notes are fully amortising by 2049 with a real interest rate of 1.037% increasing semi-annually by RPI. The principal amounts repayable increase semi-annually by RPI with repayments commencing in August 2015.

The senior secured notes issued are secured against the assets of the company and six related undertakings all 100% owned by the parent company UPP Bond 1 Limited.

12. Called up share capital

	31 August 2017 £'000	31 August 2016 £'000
Issued, allotted, called up and fully paid		
50,000 Ordinary shares of £1 each	50	50

Notes to the financial statements for the year ended 31 August 2017

13. Financial risk management

The use of financial instruments is managed under policies and procedures approved by the Board. These are designed to reduce the financial risks faced by the Company, which relate to credit, interest and liquidity risks, which arise in the normal course of the Company's business.

Credit risk

Financial instruments which potentially expose the Company to credit risk consist primarily of cash and loans receivable from fellow group undertakings. Cash is deposited only with major financial institutions that satisfy certain credit criteria.

The company funds its financing activities through the provision of on-loan arrangements with seven fellow group undertakings. All payments due in the year under these on-loan arrangements were received.

Each fellow group company has an individual on-loan arrangement with the company, however under the Common Term Agreements there is a cross collateralisation agreement in place allowing the pooling of each of the bond participants surplus cash (after operating expenses and relevant on-loan debt service), which can be used to support any underperforming bond participants.

At the year-end date, the credit risk was concentrated with the seven fellow group undertakings. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

The loans to fellow group undertakings are aged as follows, using gross cash flows:

	31 August 2017 £'000	31 August 2016 £'000
Within one year	9,056	7,592
Between one and two years	10,500	9,056
Between two and five years	36,648	34,243
After more than five years	448,031	453,360
	504,235	504,251

Interest rate risk

Through the issue of fixed rate loan notes the company has mitigated its exposure to interest rate fluctuations on that portion of its borrowings. The index-linked loan notes have a real fixed rate that is linked to RPI (see below).

Inflation rate risk

The company funds its financing activities through the provision of fixed rate on-loan arrangements to six fellow group undertakings. The ability of the fellow group undertakings to repay these on-loans is sensitive to inflation rate risk as these fellow group undertakings provide student accommodation where the growth in rental income is linked to the movement in RPI.

Notes to the financial statements for the year ended 31 August 2017

13. Financial risk management (continued)

Inflation rate risk (continued)

To mitigate the risk of inflation movements impacting on the company's ability to service the fixed rate tranche of the bond debt the company has entered into RPI swaps and then issued onward RPI swaps to the fellow group undertakings that have entered into on-loan arrangements with the company.

As at 31 August 2017, the Company has economically hedged this risk by carrying the following derivatives, all initially entered into on 5 March 2013, details of which are as follows:

External hedge arrangements

- two 27 year RPI swaps with Royal Bank of Canada commencing in February 2014 and finishing in February 2040
- a 27 year RPI swap with Mitsubishi UFJ Securities International plc commencing in February 2014 and finishing in February 2040

The notional amounts swapped for each year have been determined with reference to a percentage of the fixed rate bond servicing costs, and split equally over the hedge counterparties. On each of these swap arrangements the hedge counterparty pays or receives a fixed amount and the company pays or receives a floating amount.

Hedge arrangements with fellow group undertakings

- a 25 year RPI swap with UPP (Alcuin) Limited commencing in February 2015 and finishing in August 2040
- a 27 year RPI swap with UPP (Broadgate Park) Holdings Limited commencing in February 2015 and finishing in February 2042
- a 27 year RPI swap with UPP (Kent Student Accommodation) Limited commencing in February 2015 and finishing in February 2042
- a 27 year RPI swap with UPP (Nottingham) Limited commencing in February 2015 and finishing in February 2042
- a 26 year RPI swap with UPP (Oxford Brookes) Limited commencing in February 2014 and finishing in August 2039
- a 27 year RPI swap with UPP (Plymouth Three) Limited commencing in February 2015 and finishing in February 2042

The notional amounts swapped for each year have been determined with reference to a percentage of the debt servicing costs of the fixed rate tranche of the relevant company's on-loan agreement with the company. On each of these swap arrangements the company pays or receives a fixed amount and the fellow group undertaking pays or receives a floating amount.

Notes to the financial statements for the year ended 31 August 2017

13. Financial risk management (continued)

Liquidity risk

The Company prepares annual cash flow forecasts reflecting known commitments and anticipated payments received from its on-loan arrangements. The Company has available cash flow from these on-loan arrangements to fund present commitments.

Terms and debt repayment schedule

	Currency	Nominal interest rate (%)	Year of maturity	Book value 2017 £'000
Fixed rate senior secured notes	£	4.9023%	2040	285,962
Index linked senior secured notes	£	3.0124%	2047	80,887
Index linked senior secured notes	£	1.0859%	2049	137,386
Loans from fellow group undertakings	£	4.9023%	2047	9,577
				<u>513,812</u>

The loans from fellow group companies are to fund a debt service reserve account that is sized to be adequate to cover the next six months of service costs of both tranches of the senior secured notes. This amount is reviewed every six months and increased or decreased accordingly. Interest on these loans is paid at the rate at which the company earns interest on the cash balances it holds.

Capital risk management

The Company maintains a debt service reserve account to cover the next six months of service costs of both tranches of the senior secured notes. The Company manages its capital to ensure it will be able to continue as a going concern.

Notes to the financial statements for the year ended 31 August 2017

13. Financial risk management (continued)

Capital risk management (continued)

The Company's capital structure is as follows:

	31 August 2017 £'000	31 August 2016 £'000
Capital contributions	6,580	6,580
Equity	50	50
	<u>6,630</u>	<u>6,630</u>

Foreign currency risk

The Company operates entirely in the UK and is not exposed to any foreign currency risks.

Financial Instrument categories

The carrying amounts of financial assets and liabilities by categories shown in the statement of financial position are as follows:

	Carrying amount 2017 £000	Restated Carrying amount 2016 £000
Financial assets		
<i>Financial assets held at amortised cost</i>		
Cash at bank and in hand	15,553	14,421
Loans to fellow group undertakings (note 7/8)	504,235	504,250
Amounts owed by parent company	50	50
<i>Total financial assets held at amortised cost</i>	<u>519,838</u>	<u>518,721</u>
<i>Measured at fair value through profit and loss</i>		
Derivative financial instruments assets (note 8)	<u>21,013</u>	<u>34,700</u>
Financial liabilities		
<i>Financial liabilities measured at amortised cost:</i>		
Fixed rate senior secured noted (note 9/10)	285,962	289,214
Loans from fellow group undertakings (note 9)	9,577	8,252
Index linked senior secured notes (note 9/10)	218,273	215,037
Accruals	11	-
<i>Total financial liabilities measured at amortised cost:</i>	<u>513,823</u>	<u>512,503</u>
<i>Financial liabilities measured at fair value through profit or loss</i>		
Derivative financial instruments liabilities (note 10)	<u>21,013</u>	<u>34,700</u>

Notes to the financial statements for the year ended 31 August 2017

14. Parent undertaking and controlling party

The company's immediate parent undertaking is UPP Bond 1 Limited, whose immediate parent company is UPP Bond 1 Holdings Limited. The parent company of UPP Bond 1 Holdings Limited is UPP Group Limited. UPP Group Limited is a wholly owned subsidiary of UPP Group Holdings Limited.

UPP Group Holdings Limited is controlled by a 60% stake held by PGGM Vermogensbeheer BV ("PGGM") on behalf of its pension fund clients. PGGM is incorporated in The Netherlands.

The parent undertaking of the smallest and largest group of which the company is a member and for which group accounts are prepared is UPP Group Holdings Limited.

Copies of the accounts can be obtained from Companies House, Cardiff CF4 3UZ.

