
UPP Bond 1 Issuer Plc Request for Consent – Project Pollen



Noteholder meetings January/February 2018

Disclaimer



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Agenda

1. Introductions and UPP Bond 1
2. Background to the Request
3. REIT Conversion and Proposed Changes
4. Supporting Evidence
5. Group Relief tax consent
6. Requested Consent
7. Monitoring Advisor recommendation
8. Noteholder Meeting
9. Process and Timetable
10. Questions

1. Introductions and UPP Bond 1

UPP Board Directors

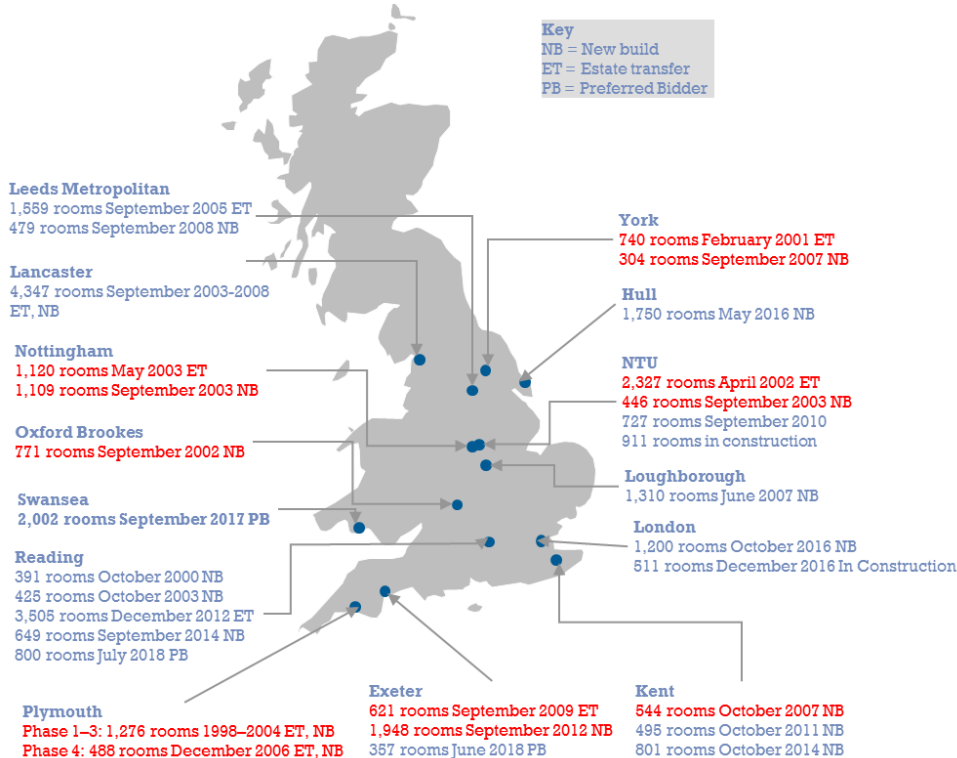


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UPP Group Portfolio



UPP Bond 1 portfolio in red

Components of the Business Model

- Infrastructure located in heart of campus
- Long term, stable, RPI linked rental income with ability to pass-through costs, e.g. utilities, insurances and changes in law
- 33,000 rooms under operation, in excess of 3,000 rooms currently at preferred bidder.
- 1,494 rooms under asset management agreements with Imperial College, London and the University of Bath
- Insulation from property value volatility
- Significant student demand (>supply) and long term restrictive covenants on universities (e.g. minimum student/bed ratio) mitigates demand risk
- Robust marketing and allocation obligations on the partnering university
- Fixed price contracts for FM services
- Pass through of credit and void risk to university once license agreement signed
- Alignment of long-term commercial interests between university and UPP Group

Business Highlights



- UPP Bond 1 Issuer Plc issued a £382.1m secured bond listed on the Irish Stock Exchange on 05 March 2013 against the income from the properties at the universities of York, Nottingham, Nottingham Trent, Kent, Oxford Brookes and Plymouth (“the AssetCos”). UPP Bond 1 Holdings Limited is a wholly owned subsidiary of UPP Group Limited holding Company for the six AssetCos.
- This issuance comprised two tranches:
 - £307.1m 4.9023% Amortising Fixed Rate Bond due 2040
 - £75m 2.7291% Amortising Index Linked Bond due 2047
- A further issuance relating to the acquisition of UPP (Exeter) Limited was made 09 December 2014.
- This issuance comprised of a further tranche:
 - £149.7m 1.037% Amortising Index Linked Bond due 2049.
- Occupancy for 2015/16 of 99.9%
- Turnover for FY 2015/16 £61.3m up by 3.5%, reflecting RPI linked annual term rental income increases
- Operating cash flow for 2015/16 of £35.5m
- Both Historic and Projected Annual Debt Service Coverage Ratios comfortably above lock up triggers post year end
- AssetCos achieving 100% occupancy

2. Background to the Request

Background



UPP Group is proposing to convert to a UK Real Estate Investment Trust (REIT).

As a REIT:

- the cash-flows in each AssetCo will be more resilient, because the incidence of UK corporation tax on property income moves from each AssetCo to UPP's ultimate shareholders, upon their receipt of property income distributions; and
- the AssetCos will be able to mitigate the adverse impact on cash-flows arising from the proposed changes to UK tax legislation, particularly the imminent implementation of BEPS and related tax loss restrictions.

UPP has obtained tax, accounting and legal advice to ensure the UPP Group and its AssetCos can satisfy the conditions of the HMRC's REIT regime.

UPP has received clearance from HMRC on relevant technical matters which removes all obstacles from converting to a REIT.

UPP plans to implement the conversion to a REIT on 28 February 2018.

Clifford Chance has been retained to provide advice to the Issuer Security Trustee and the Monitoring Advisor.

3. REIT Conversion and Proposed Changes

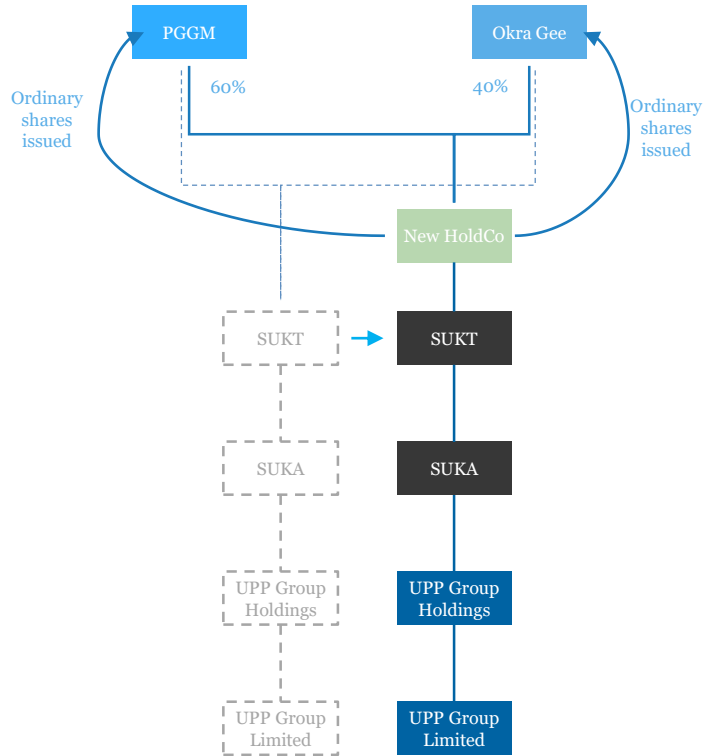
Outline of REIT Conversion



- Conversion to a REIT does not require significant structural changes to the existing UPP group.
- Conversion to a REIT requires the ultimate holding company of UPP Group to file a written election with HMRC, following which all the AssetCos will be exempt from UK corporation tax on their property income and gains.
- The proposed steps to implement the REIT conversion do not create a tax cost.

- The principal changes to the structure are:
 - the establishment of new ultimate holding company , in order to meet the specific REIT requirements for a listed parent company;
 - waiver of the existing subordinated shareholder debt between each AssetCo and UPP Bond 1 Limited (“ParentCo”) (the “Intra Group Debt Waiver”); and
 - flexibility to access future surplus cash of the AssetCos by way of dividends or upstream loans.

Establishment of a new holding company



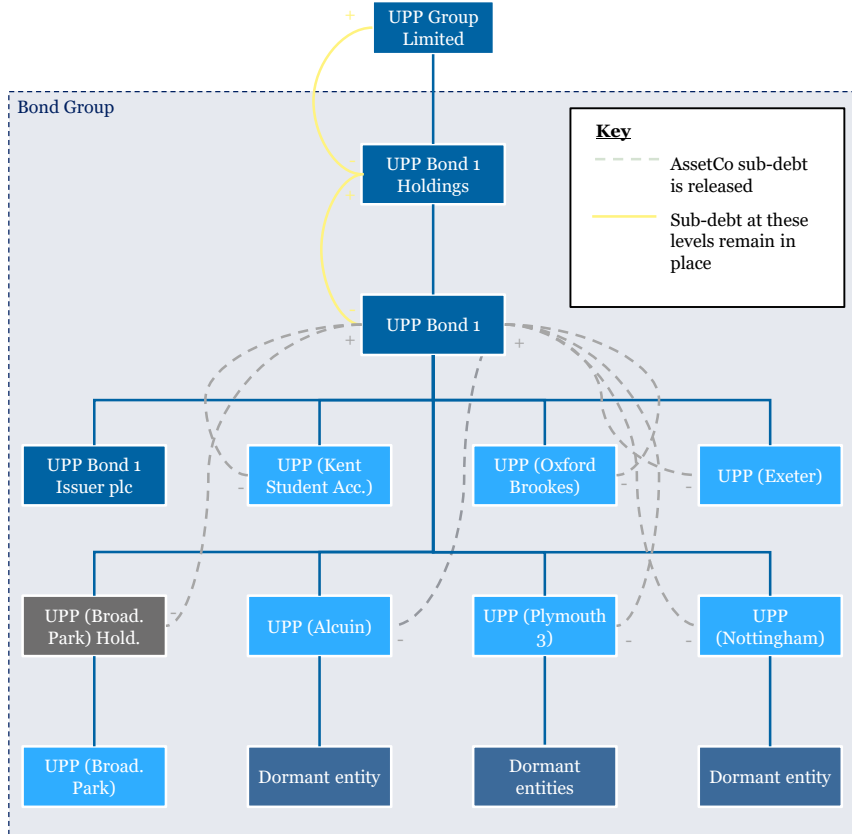
Purpose:

- A new ultimate holding company (the “New Topco”) will be established and its equity will be listed on The International Stock Exchange (TISE). This new ultimate holding company will satisfy the UK HMRC requirements for a REIT company.
- A new company has been established in order to make the listing process easier.

Bond documentation restrictions:

- Establishing a new ultimate holding company does not of itself require the consent;
- the Tax Deed of Covenant obligates SUKT (the “Retiring TopCo”) to procure that the New TopCo enter into a deed supplemental to the Tax Deed of Covenant pursuant to which the New TopCo will give the same representations, warranties and covenants as the Retiring TopCo has given in the Tax Deed of Covenant;
- however, as the Retiring TopCo will no longer have any control over the Group, it is proposed that the Retiring TopCo is effectively released from all its obligations under the Tax Deed of Covenant by novating these to the New TopCo. This will require the consent of the Issuer Security Trustee.

Intra-Group Debt Waiver



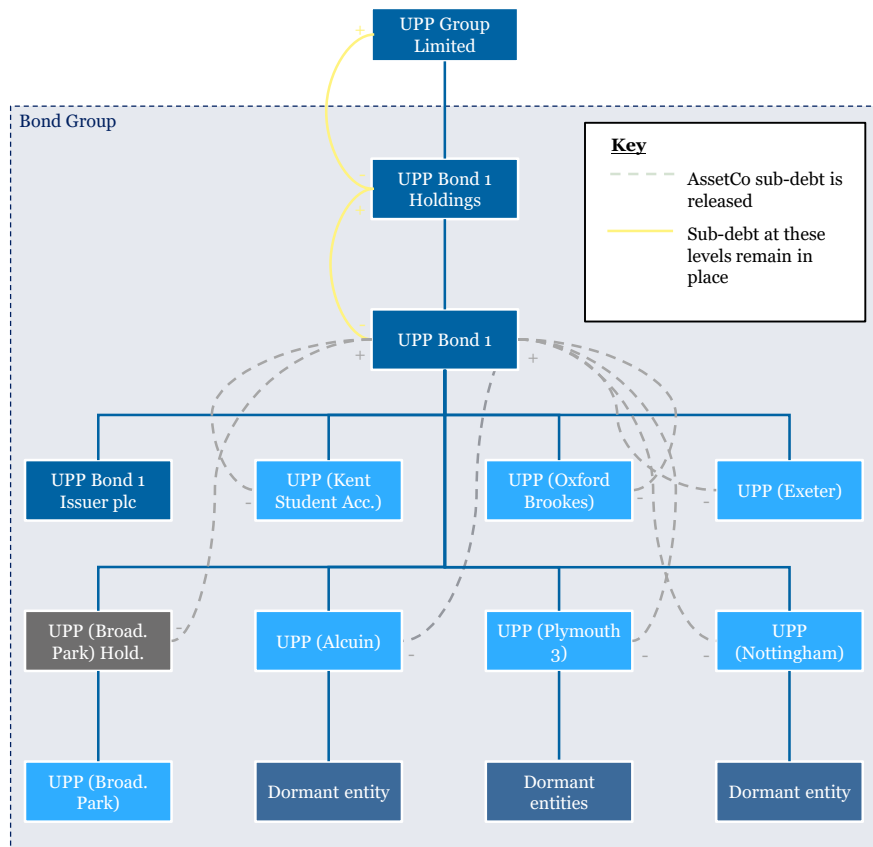
Purpose:

- Once UPP converts to a REIT, from a tax perspective, it will be no longer be possible to offset the interest income generated from the subordinated debt in ParentCo by the interest expense in the AssetCos, thereby creating a tax inefficiency. Waiving the sub debt removes this tax inefficiency.
- The original purpose for structuring sub debt into each AssetCo was to provide flexibility to extract surplus cash from the AssetCos.

Bond documentation restrictions:

- The waiver by the ParentCo of the existing subordinated shareholder debt is restricted and consent of the Issuer Security Trustee is also required as a result of the Intra-Group Debt Documents being Assigned Agreements for the purpose for the purpose of the AssetCo Debentures and ParentCo Debenture.
- The consent of the Issuer Security Trustee for the purposes of the Intra-Group Debt is sought by means of the Proposal Request.
- The Intra-Group Debt Waiver will result in the release of rights in respect of the Intra Group Debt from the security created pursuant to the AssetCo Debentures and the ParentCo Debenture and, as such, constitutes an Entrenched Right pursuant to limb (m) of the definition thereof as contained in the Common Terms Agreement (“CTA”).

Flexibility to Access Future Surplus Cash



Purpose:

- The sub debt between the AssetCos and the ParentCo currently allows access by the ParentCo to surplus cash in the AssetCos. Once the Intra-Group Debt Waiver has been effected, we seek flexibility with the existing cash pooling arrangement and by way of dividends to allow access to future surplus cash in the AssetCos.

Bond documentation constraints:

- Cash extraction from the AssetCos to ParentCo is permitted pursuant to the Transaction Documents, subject to compliance with the provisions set out in Schedule 14, Part 1, Paragraph 12 of the CTA.
- It is proposed that any such cash extraction will only be made in compliance with these provisions and so no amendments or waivers are being requested in respect of these.

4. Supporting Evidence

Independent Expert Advice



UPP has sought independent expert advice from:

- Deloitte for tax advice;
- PWC for structuring and accounting advice; and
- Addleshaw Goddard for legal advice.

Deloitte has produced a report confirming that no negative tax implications will arise as a result of the Proposed Changes, a copy of which has been provided to the Monitoring Advisor for the purpose of advising the Issuer Security Trustee (the “Independent Tax Report”). The Independent Tax Report can be made available, subject to the entry into a hold harmless letter.

PWC has produced a report explain the structuring advice provided for each of the implementation steps. The structure report can be made available, subject to the agreement of hold harmless requirements set out by PWC.

The Monitoring Advisor and the Issuer Security Trustee are being advised by Clifford Chance.

UK Tax Legislation Changes



Impending changes to United Kingdom tax legislation will (if no conversion to REIT status occurs) very significantly affect the tax position of the AssetCos. Those changes (which are explained in detail in the Independent Tax Report) are:

- the likely restriction on tax relief for interest and financing costs associated with the Intra Group Debt; and
- particularly, limitations on use of existing brought forward losses.

Taken together (and assuming the changes are introduced as announced), UPP has modelled and calculated that (absent the REIT conversion) significant amounts of corporation tax will become payable for each year, commencing with the financial period commencing 1st September 2018. This compares to the original financial models prepared at the time of issue of Bonds that projected that the AssetCos would not become tax paying at all for a considerable number of years (due to the prior availability of such financing costs and brought forward tax losses).

Modelling Output - ADSCR

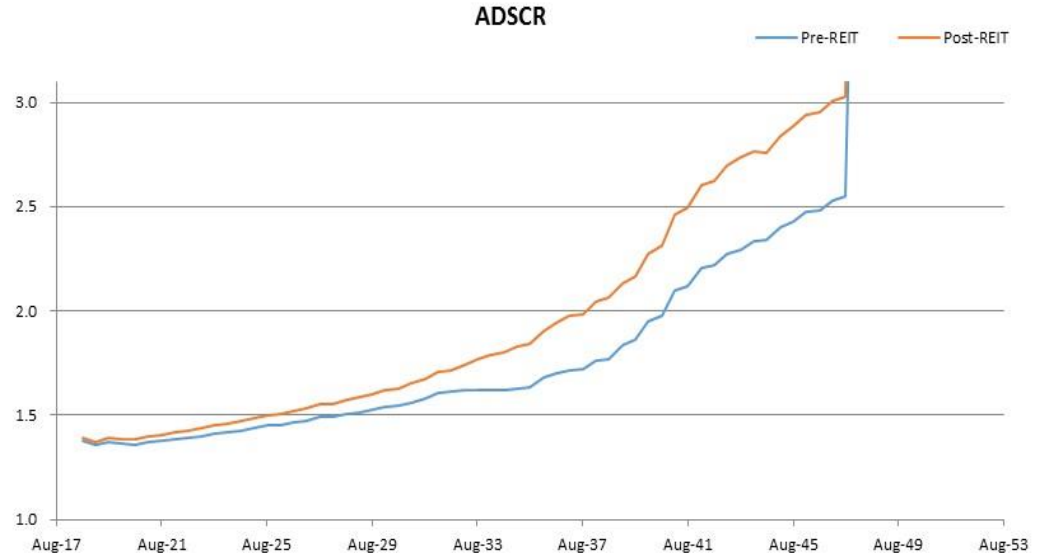


The graph shows the ADSCR for the aggregate AssetCos before and after the REIT conversion.

The ADSCR profile for the pre REIT scenario assumes the implementation by UK HM Government of BEPS and tax loss restrictions, as per the draft legislation for the second Finance Act 2017.

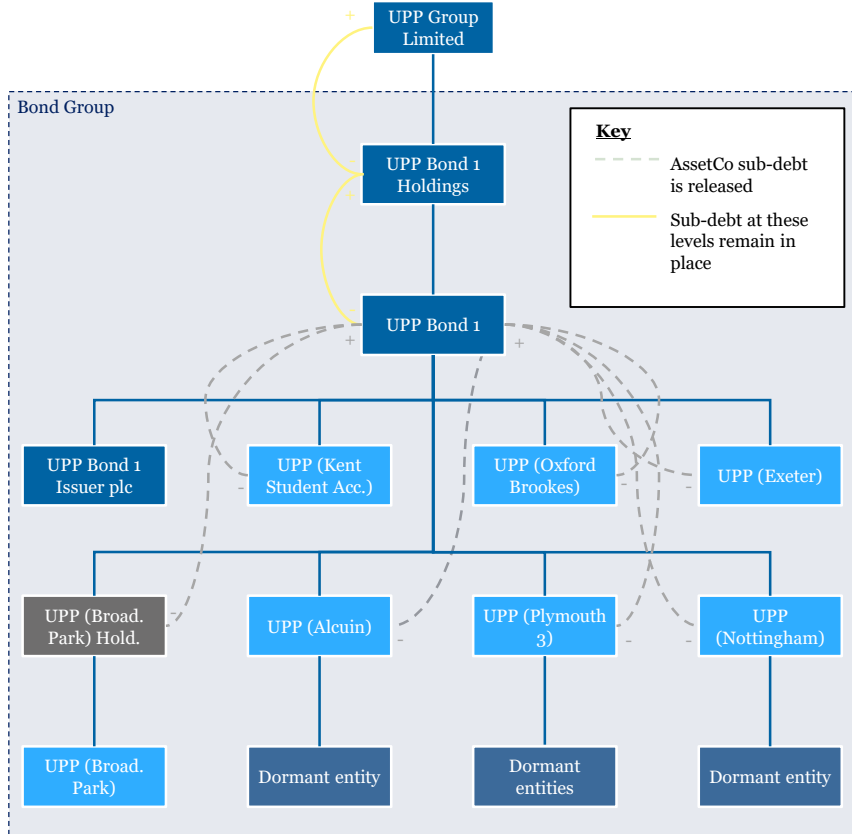
As a result of the REIT conversion, the cash-flows of the AssetCos, and ADSCR profile for the post REIT, are improved as a result of the Corporation Tax no longer being payable by the AssetCos throughout the life of the concession arrangements.

Tax computations pre and post REIT are scheduled to the proposal request.



5. Group Relief tax consent

Group Relief tax consent



Consent request:

- The existing tax deed prevents the surrendering of tax loss arising in UPP Bond 1 Holdings on sub debt interest to UPP Group Limited.
- When UPP Group converts to a REIT, tax losses will arise in UPP Bond 1 Holdings Limited and corresponding tax gains will be created UPP Group based on the interest payable and receivable on the sub-debt instrument between both entities.
- The consent request, with clause 4 of the tax deed of novation, seeks to amend the Tax Deed of Covenant so that UPP Bond 1 Holdings will be permitted to surrender tax losses to UPP Group Limited. UPP Group Limited will be obligated to pay for any tax losses surrendered by UPP Bond 1 Holdings on a £ for £.
- The tax deed of novation was published by UPP Bond 1 Issuer as part of the proposal request on 10 January 2018.
- A set of questions and answers have been developed, as part of UPP's engagement with the Monitoring Advisor. These Q&As are published on our website and called: "Loss Surrender Q&As".

6. Requested Consent

Requested Consent



The UPP Bond 1 documentation contains two consent procedures which overlap.

The consents requested in order to effect the REIT conversion falls within the scope of both consent procedures.

Therefore the Group Agent, UPP Bond 1, issued both a Proposal Request and a Monitoring Advisors Proposal Request (“MA Proposal Request”) on 10 January 2018, in order to initiate the two procedures.

Effectively, the Group Agent requires the consent of the Issuer Security Trustee under both procedures. The Issuer Security Trustee will need to be directed by:

- a. Issuer Secured Creditors (“ISC”) consent; each ISC either must approve or be deemed to approve by not responding within the relevant decision period; and
- b. Noteholder consent by means of an Extraordinary Resolution, which requires 75% of holders to vote in favour with a quorum of more than 50% noteholders.

7. MA Recommendation

MA Recommendation



On 12 January 2018, the Monitoring Advisor notified the Issuer Security Trustee of its **recommendation to the Issuer Secured Creditors to approve** the MA Proposal Request subject to procedural points which the Group Agent will address.

8. Noteholder Meeting

Noteholder Meeting



On 17 January, UPP Bond 1 Issuer PLC issued a Notice to Noteholders of a meeting to be held on 15 February 2018 to consider the Extraordinary Resolution which is effectively seeking consent to the Requesting Consents documented in the Proposal Request and the usual protections for the Issuer Note Trustee.

9. Process and Timetable

Process and Timetable



On 10 January 2018, the Group Agent, UPP Bond 1, issued a Proposal Request and an MA Proposal Request.

On 12 January 2018, the Monitoring Advisor issued its MA recommendation to the Issuer Secured Trustee.

On 17 January 2018, UPP Bond 1 issued a Notice to Noteholders in respect of a meeting to be held on 15 February 2018.

Noteholders are asked to vote in accordance with the usual clearing system procedures in response to the Notice to Noteholders as soon as possible and before the Noteholder meeting on 15 February 2018.

For the other Issuer Security Creditors the deadline for responding to the proposal requests is 24 February 2018.

Assuming all consents are obtained, the intention is to effect the changes to implement the REIT structure on 28 February 2018.

10. Questions