UPP Bond 1 Limited Half Year Summary

For the six months ended 28 February 2018

This Half Year summary is being published by UPP Bond 1 Limited ("The Group Agent") on behalf of UPP Bond 1 Holdings Limited ("HoldCo"), UPP Bond 1 Issuer Plc ("Issuer"), UPP (Alcuin) Limited, UPP (Broadgate Park) Holdings Limited, UPP (Kent Student Accommodation) Limited, UPP (Nottingham) Limited, UPP (Oxford Brookes) Limited, UPP (Exeter) Limited and UPP (Plymouth Three) Limited ("The AssetCos") (together the "Obligors") pursuant to the Common Terms Agreement ("CTA").

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Disclaimer

Forward-looking statements:

Unless otherwise stated, the figures in the Summary reflect the position as at 28 February 2018. In addition, the Summary contains forward-looking statements that reflect the current judgement of the management of the Obligors regarding conditions that it expects to exist in the future. Forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will occur in the future and, accordingly, are not guarantees of future performance. Management's assumptions rely on its operational analysis and expectations for the operating performance of each of Obligor's assets based on their historical operating performance and management expectations as described herein. Factors beyond management's control could cause events to differ from such assumptions and actual results to vary materially from the expectations discussed herein. Investors are cautioned that the assumptions and forecast information included herein are not fact and should not be relied upon as being necessarily indicative of future results and are cautioned not to place undue reliance on such assumptions and forecast information. It should also be noted that the information in this Investor Report has not been reviewed by the Obligors' auditors.

Note on higher education sector:

This document includes information derived from third-party reports or publicly available information. This information has not been independently verified and no representation is being made as to the accuracy, fairness and completeness. Notwithstanding, the third-party sources of information generally state that the information is derived from reliable sources.

This report is not intended as an offer for sale or subscription of, or solicitation of any offer to buy or subscribe, any security of UPP Bond 1 Issuer Plc or any other member of the UPP Group nor should it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whatsoever.

HALF YEAR SUMMARY

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29 **Appendix 1**
Unaudited consolidated financial statements for UPP Bond 1 Holdings Limited

Unless otherwise defined herein, capitalised terms have the meanings given in the Prospectus for the £5,000,000,000 multicurrency programme for the issuance of senior secured notes dated 5 March 2013 ("the Programme") and as updated on 1 December 2014.

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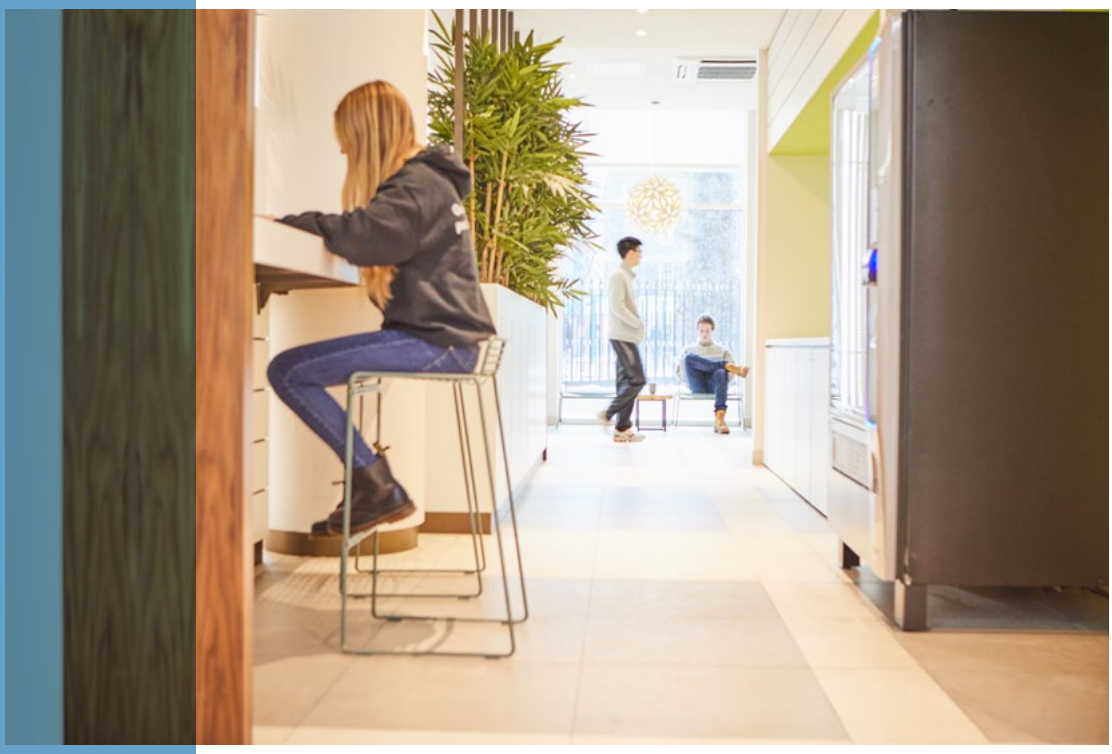
General overview: UPP Bond 1 Holdings Limited



UPP Bond 1 Holdings Limited

Results for the six months ended 28 February 2018

Financial highlights for the six months ended 28 February 2018

£'000	Feb 2018	Feb 2017	Change %
Turnover	31,895	31,020	2.8
Gross profit	22,412	21,529	4.1
EBITDA*	20,808	20,043	3.8
EBITDA margin*	65.2%	64.6%	

** EBITDA before sinking fund expenditure*

Business highlights

- Occupancy for 2017/18 of 100.0% (2016/17: 99.8%)
- Turnover of £31.9 million up 2.8%
- Gross profit of £22.4 million up 4.1%
- Historic and Projected Annual Debt Service Cover Ratios comfortably above lock-up triggers
- Full room nominations at Exeter and Oxford Brookes for 2018/19 academic year, meaning 28% of rental receipts have been secured

Sean O'Shea, Group Chief Executive Officer

"The Executive team at UPP is pleased to report the continued strong performance of UPP Bond 1 Limited for the half year ended 28 February 2018. The consolidated accounts for the period saw increases in turnover of 2.8 per cent to £31.9 million and an increase in EBITDA of 3.8 per cent to £20.8 million.

Underpinned by the unique partnership model developed by UPP two decades ago, UPP Bond 1 Limited and the wider Group continue to secure sector-leading levels of occupancy – with the current financial year achieving 100 per cent occupancy.

Whilst the number of 18-year-olds as a proportion of the UK population is projected to fall until 2021 and thereafter grow steeply over the course of the next decade, demand for on-campus residential accommodation remains resilient. This is driven on the one hand by a structural undersupply in the market, but also by a recognition on the part of leading universities that facilities represent a critical element in the decision-making processes of students.

My Board colleagues and I, therefore, remain confident about our prospects for growing the portfolio and further strengthening our market-leading position."

Enquiries

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Summary of the UPP Group business

UPP Group (defined as UPP Group Holdings Limited and its subsidiaries) is the leading provider of on-campus student accommodation infrastructure and support services within the UK. We have over 35,000 rooms under management or in construction through long-term partnerships with 16 leading UK universities, of which 11,693 are rooms operated by the AssetCos.

The key features of UPP Group's cash-generative business model, based on bespoke partnerships with the universities and including the seven AssetCos, are:

- An integrated service model for universities encompassing the funding, design, construction and operation of student accommodation
- A business model underpinned by long-term contracts (typically in excess of 40 years) with all partner universities

My Board colleagues and I remain confident about our prospects for growing the portfolio and further strengthening our market-leading position.

- Annual rent increases for the life of the project linked to the Retail Price Index ("RPI")
- A restrictive covenant regime that limits long-term competing university supply in order to maintain healthy demand dynamics
- Partnerships with leading institutions targeted on the basis of its own rigorous selectivity criteria
- Accommodation is always located on, or very near to, campus, which is the preferred location for target cohorts of first-year domestic and international undergraduate and postgraduate students
- Average occupancy over the last five years has been in excess of 99.5 per cent across the AssetCos
- Credit and void risk is passed to the university partner once a student of the university enters into a student residence agreement
- The university partner markets UPP accommodation at the agreed rent concurrent to its own stock
- Each AssetCo has the ability to pass cost increases in utilities, insurances and those resulting from a change of law through to student rents to the extent that they are not covered by the annual RPI-linked uplift
- Facilities management costs are subject to five-yearly benchmarking exercises

1.2 Summary of bond issuance

On 5 March 2013, UPP Bond 1 Issuer Plc issued a £382.1 million secured bond listed on the Irish Stock Exchange. The bond was secured against the income from the properties at the University of York, the University of Nottingham, Nottingham Trent University, the University of Kent, Oxford Brookes University and the University of Plymouth ("the AssetCos"). UPP Bond 1 Holdings Limited is a wholly-owned subsidiary of UPP Group and was set up to be the intermediate holding Company for the six AssetCos.

This issuance comprised two tranches:

- £307.1 million 4.9023 per cent amortising fixed-rate bond due 2040
- £75.0 million 2.7921 per cent amortising index-linked bond due 2047

On 9 December 2014, the Group acquired UPP (Exeter) Limited from UPP Group Limited. On the same day, UPP Bond 1 Issuer Plc issued a new tranche of £149.7 million 1.037 per cent amortising index-linked secured notes, listed on the Irish Stock Exchange. These funds were on-lent to UPP (Exeter) Limited to enable that Company to repay its bank facilities and associated costs. This tranche is due 2049.

Proceeds of both issuances, along with a tranche of unsecured subordinated debt, were utilised to:

- Repay existing senior bank facilities owed by the seven AssetCos
- Fund the payment of break costs crystallised on the termination of the interest rate and RPI hedging arrangements in place with the current bank funders
- Prefund a debt service reserve account for the new bond issuance
- Purchase minority interest shareholdings held by two of the university partners in the relevant AssetCos
- Fund the costs associated with the transaction

Interest and principal repayments are due on February and August each year.

All notes issued under the Programme benefit from security granted by the AssetCos specified below, in respect of seven student accommodation concessions granted by seven English universities, namely:

- University of York – UPP (Alcuin) Limited
- University of Nottingham – UPP (Broadgate Park) Holdings Limited
- University of Kent – UPP (Kent Student Accommodation) Limited
- Nottingham Trent University – UPP (Nottingham) Limited
- Oxford Brookes University – UPP (Oxford Brookes) Limited
- University of Plymouth – UPP (Plymouth Three) Limited
- University of Exeter – UPP (Exeter) Limited

Photo credit: Robert Greshoff

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Higher education sector and trading update

Photo credit: Robert Greshoff

2.1 The higher education sector

Global higher education (HE) has come to represent a key driver of wider economic development and, in being so, demand for tertiary qualifications continues to increase.

OECD data indicates that countries investing in a highly-skilled workforce benefit from increased productivity, social mobility and sustainable economic growth. According to the same source, the number of young people aged 25-34 years old attaining a tertiary qualification has increased considerably over the past decade from 26 per cent in 2000 to 43 per cent in 2016 – a trend that is expected to continue over the coming decade.

Additionally, across OECD countries, individuals with a high qualification have 10 per cent higher employment rates than adults with an upper secondary qualification, earn on average 56 per cent more than those with only upper secondary education and have overall better life and health-related outcomes.[1]

In 2013 there were 137 million 25-34-year-olds with a tertiary education and the same age group is projected to increase to 300 million by 2030.[2] This continuing demand has increased the level of global competition between universities for students, in which context the provision of high-quality residential and academic facilities plays an important role in attracting applicants.

With this in mind, most HE systems, including the UK, continue to move in the direction of decentralisation – changing their structure, size and funding arrangements. Many HE systems are therefore experiencing a greater focus from students on quality and value for money, particularly where the burden of funding HE has moved from the public purse to individual students. Cumulative global demand has continued to drive an increase in student mobility, with the number of students enrolled outside of their country of citizenship increasing fivefold over the last four decades to 4.6 million.[3]

Whilst HE systems continue to evolve in light of these changing patterns of demand – in particular the requirement for a more diverse range of provision for changing labour markets – the traditional campus model of delivery continues to predominate. The development of HE courses delivered on-line, for instance, has to date proved to be a complementary rather than alternative method of provision.

It is within the framework of the internationalisation of education and the increased competition in the labour market that the UK remains one of the top global destinations for HE. Institutions across the nation continue to retain world-class status, with the Times Higher Education World University Rankings for 2018 ranking 31 UK institutions in the top 200 and 12 within the top 100.[4] In terms of global popularity, it remains second only to the US and the number one destination for HE students in Europe.[5]

Despite the demographic decline in the 18-24-year-old cohort – one which is set to begin increasing again from 2021 – the UK sector has continued to attract applicants from both the UK and overseas. Indeed, the Higher Education Initial Participation Rate (HEIPR), which provides an estimation of the likelihood of a young person participating in HE by the age of 30, has identified a continuing upward trend. Additionally, figures released by the Department for Education on 28 September 2017 showed an overall participation rate for 2015/16 of 49 per cent – an increase of 1.4 percentage points on the previous year.

Photo credit: Robert Greshoff

The data also identified that individuals are more likely to participate in HE for the first time at age 18 than at any other age. The 2015/16 initial participation rate for 18-year-olds (the most recent data available) is the highest in the series at 27 per cent, up by 1.1 percentage points compared to 2014/15.[6]

UK HE continues to be a key economic asset contributing to a knowledge-based economy, fostering innovation and improving capabilities at a local and national level. In 2014/15 the sector generated £95 billion of gross output through direct, indirect and induced activities in the economy, contributed £52.9 billion gross value adding to UK GDP – equivalent to 2.9 per cent of all economic activity in the nation – and created almost one million new jobs. Looking specifically at the economic impact of international students, their tuition fees and their on- and off-campus expenditure contributed £25.8 billion to the UK economy in 2014/15.

1. *OECD (2017) OECD Education at a Glance 2017, OECD Publishing, Paris,*
2. *OECD (2015) Education Indicators in Focus*
3. *OECD (2017) OECD Education at a Glance 2017, OECD Publishing, Paris,*
4. *The Times Higher Education World University Rankings 2018*
5. *Project Atlas (2017)*
6. *Department for Education – September 2017*

2.2 Academic demand: domestic and international

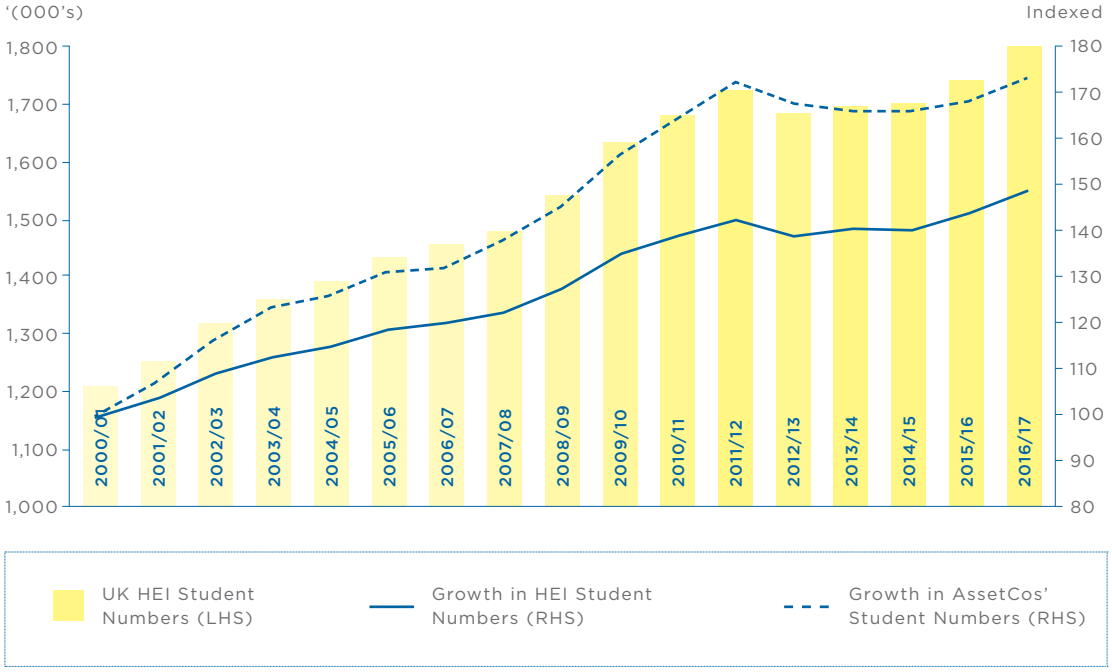
Domestic:

Demand for HE continues to demonstrate its historic anti-cyclical characteristics. In 2006/07, the number of full-time students in the UK HE system was more than 1.4 million. A decade later in 2015/16, there were more than 2.3 million recorded students studying in the UK, of which 1.8 million were enrolled full time. This increase of approximately 350,000 full-time students translates into a compound annual growth rate of 2.2 per cent, an impressive record given the changing regulatory and economic environment facing the sector over the same period.

As expected, in line with the demographic decline in 18-24-year-olds in the UK, UCAS data as at the 30 June 2017 deadline identified a fall in the overall number of applicants of four per cent. Despite this, there was an increase of 1,510 in 18-year-old applicants – the target market of accommodation offered by UPP Bond 1 Limited. In England, the proportion of the 18-year-old applicants this year was the highest on record at 37.9 per cent.

Applications from students from less privileged backgrounds also increased by 22.1 per cent, reaching record levels in 2017.[7] Domestic applicant numbers stood at approximately 530,000, similar levels to those seen in the 2013/14 academic year. Applicant numbers from the EU also saw a decline of 2,600 or five per cent, potentially as an initial reaction to the UK Referendum decision to leave the European Union (EU).

Full-time Student Enrolment 2000/01 to 2016/17 (UPP Bond 1 Limited vs HEI Sector Indexed)



Source: HESA Headcount

Historic UCAS applications and acceptances data does, however, continue to underline the popularity of UK HE, identifying that the ratio of applications to acceptances has remained remarkably consistent. The annual applications to acceptances ratio at sector level has typically remained between 6.6:1 and 6.9:1 since 2008. For the 2017 cycle this ratio fell to 6.4:1, identifying that universities continue to issue high levels of acceptances supporting robust and sustainable demand for accommodation on campus.

Total annual applications have grown by more than 600,000 since the 2008 cycle, an increase of 27.2 per cent to 2017. Acceptances over the same period have grown by 15.7 per cent with 59,000 more acceptances issued in 2017 than 2008. Applications to those universities – the accommodation for which falls within the UPP Bond 1 Limited ring-fence – continue to grow at a stronger rate than the sector average. Applications have grown by 29.4 per cent over the same period and acceptances have risen by 16.2 per cent – the equivalent of more than 51,000 extra applications each year in 2017 than was the case in 2008 and approximately 5,000 extra acceptances.[8]

UCAS data published during September 2017 identified the position with respect to acceptances recorded four weeks following A Level results. It identified that almost 505,680 students had been accepted to UK universities through UCAS, representing a fall of only one per cent on the same point in 2016 and marginally higher than the number placed during the 2015 cycle.[9]

7. *UCAS: Deadline Applicant Statistics: June 2017*
8. *Applicants and Acceptances for universities and college 2016*
9. *UCAS: Acceptances: 30 June 2017*

International:

In 2016/17, the most recent year for which domicile data is available, there were 442,375 EU and international students studying at publicly-funded HE institutions across the UK – 246,825 studying at undergraduate level and 195,550 at postgraduate.[10] Over the last two decades, as a global destination for HE, demand for UK institutions has grown exponentially from non-UK domiciled students and both EU and international applicant numbers remain strong.

2.3 Academic demand indicators for 2018/19

Initial data from UCAS with respect to applicants for the academic year 2018/19, which includes applicants for courses in medicine, dentistry, and veterinary degrees as well as for all courses at the University of Cambridge and the University of Oxford, was released following the 15 October 2017 deadline. The total number of applicants to 15 October deadline courses was 61,440 – a year-on-year increase of seven per cent (4,250 applicants) on figures released at the same point in the 2017 cycle.

The number of applicants from the UK had risen by six per cent (2,530 applicants) to 41,970. This represents the highest number recorded since 2010/11, well before the introduction of the £9,000 tuition fee cap. In particular, this increase is driven by a rise in applications from 18-year-olds in England and Wales (an increase of eight per cent and seven per cent respectively), with 2,190 more young people submitting applications despite a fall in the UK 18-year-old population of around three per cent this year.

First-time applicants to this deadline are up eight per cent to 56,020 and applicants from the EU saw an increase of six per cent to 6,610, reversing much of the fall recorded at the equivalent point in the 2017 cycle. Applicant numbers from outside the EU have increased by 12 per cent to 12,860 (an increase of 1,350 applicants).

A far more meaningful picture of demand for the academic year 2018/19 applicant data was provided by the 15 January 2018 deadline data set. It identified that application rates from English 18-year-olds have reached a record high.

Although those submitting to this deadline represent typically only 10 per cent of total applicant numbers, the figures represent an encouraging indicator with respect to continuing demand for the academic year 2018/19.[11]

A far more meaningful picture of demand for the academic year 2018/19 applicant data was provided by the 15 January 2018 deadline data set. It identified that application rates from English 18-year-olds have reached a record high – increasing by 0.4 percentage points to 37.4 per cent. This pattern indicates that, across the UK as a whole, 18-year-olds are more likely than ever before to apply to HE – one per cent more likely than was the case in 2017.

UCAS: Applicants For All Courses by Domicile Group (15 January 2018 deadline)

Applicant Domicile	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
England	383,840	394,330	408,300	411,420	408,990	385,870	374,440
Northern Ireland	18,290	19,590	19,550	20,040	20,400	19,479	18,630
Scotland	39,170	39,950	41,080	45,100	45,420	44,530	44,900
Wales	20,880	20,440	21,010	21,000	21,130	19,620	19,100
UK	**461,180**	**474,310**	**489,940**	**497,550**	**495,940**	**469,490**	**457,070**
EU (excluding UK)	36,210	37,990	39,780	42,720	45,220	42,070	43,510
Not EU	42,640	46,510	50,290	52,020	52,560	52,630	58,450
Total	**540,020**	**558,820**	**580,000**	**592,290**	**593,720**	**564,190**	**559,030**

Overall, there was a 0.9 per cent reduction in the total number of HE applicants to 559,000, compared to the same figure in 2017. This reflects a 2.5 per cent fall in the 18-year-old population in the UK together with falling demand from 19-year-olds and those aged 25 or older. The number of applicants from the EU increased by 3.4 per cent to 43,510 and the number of international applicants increased to its highest-ever number by 11 per cent, to 58,450.

[10]. *HESA (2016-17)*

[11]. *UCAS Applicant Deadline Data 15 October 2017*

2.4 Student accommodation demand

There continues to exist a structural undersupply of purpose-built student accommodation relative to the full-time student population, with enrolment having grown at more than twice the rate of supply since 1998. This situation has been exacerbated by the ongoing need for further capital investment in the sector.

Whilst the HE sector in England has invested around £20 billion in capital since 2005/06, OECD data shows that the UK currently spends significantly less on capital expenditure than its key international competitors. There also exists a huge variation in the level of capital expenditure across the sector. This means that not only does it appear that English HEIs spend relatively little, but that the average is driven by a handful of HEIs spending large amounts, with the majority of other institutions lagging far behind. As a reflection of this, nearly half of institutions invested less than three per cent of insured asset value in the past four years, relative to a recognised sector benchmark of 4.5 per cent.[12]

The UK HE estate is also in need of considerable investment in backlog maintenance, estimated to be some £5 billion, given that approximately 25 per cent of the estate is in need of either complete refurbishment or redevelopment.[13]

In terms of supply, significant planning disincentives remain in place for private sector landlords seeking to convert properties for use as HMO stock and for those seeking to provide purpose-built accommodation in many city markets on a direct-let basis. Article Four Directives continue to be used by local authorities bringing the conversion of residential properties for student letting under the Town and Country Planning Act and therein local authority control. In the case of the latter, Local Authorities will often not consider planning applications without the tacit support of a specific institution.

There continues to be robust demand for on-campus residential accommodation and there remain approximately one million students in the UK living in houses of multiple occupation and/or living with their parents.

There continues to be robust demand for on-campus residential accommodation and there remain approximately one million students in the UK living in houses of multiple occupation and/or living with their parents. A significant proportion of these students would prefer to live on campus – with sufficient supply and the right product at the right price – and it is increasingly recognised by institutions that high-quality facilities are a critical factor to achieving sustainable student demand.

[12] *Frontier Economics Limited (2015) "A review of HEFCE capital expenditure"*
[13] *A Report to HEFCE HEFCE Estates Management Statistics*

3.0

Financial highlights for the six months ended 28 February 2018

Photo credit: Robert Greshoff

Photo credit: Robert Greshoff

Highlights of the consolidated results of UPP Bond Holdings 1 Limited were:

- Occupancy of 100.0 per cent achieved across the seven AssetCos
- Turnover of £31.9 million, up 2.8 per cent on a like-for-like basis
- EBITDA before sinking fund of £20.8 million
- Increase in EBITDA before sinking fund of 3.8 per cent
- Healthy cash balance of £48.9 million made up largely of liquidity reserve accounts and amounts payable to the holder of subordinated loan notes

For the period from 1 September 2017 through to 28 February 2018, the Bond portfolio has performed in line with expectations. The historic ADSCR of 1.37 for the 12 month period to 28 February 2018 was comfortably above lock-up triggers set at 1.15.

Occupancy for the 2017/18 academic year has been secured at 100.0 per cent across the portfolio; as such rental receipts are now fixed for the year as are the majority of costs with the exception of utilities.

3.1 AssetCo Consolidated Profit and Loss Account for the six months ended 28 February 2018

	February 2018	February 2017	Change %
	£'000	£'000	
Turnover	31,895	31,020	2.8%
Cost of sales	(9,483)	(9,491)	0.1%
Gross profit	22,412	21,529	4.1%
Gross profit margin	70.3%	69.4%	
Overheads	(1,604)	(1,486)	(7.9%)
EBITDA before sinking fund expenditure	20,808	(20,043)	3.8%
EBITDA margin	65.2%	64.7%	
Sinking fund expenditure	(1,674)	(892)	(87.7%)
EBITDA	19,134	19,151	(0.1%)

Financial highlights are:

- Turnover up 2.8 per cent, primarily due to RPI-linked rental increases
- Occupancy for 2017/18 of 100.0 per cent (2016/17: 99.8 per cent)
- Strong gross profit and EBITDA margins in line with expectations

Turnover is defined as rental receipts from students net of contractual amounts deducted by university partners for taking credit and void risk, incentives offered to returning students, plus commercial and vacation income derived from other activities at each AssetCo and any payments or receipts under the relevant inflation-linked swaps.

Turnover increased by 2.8 per cent on a like-for-like basis primarily due to contractual rental increases which are above the underlying RPI increases for the relevant period of 2.6 per cent. For the six months ended 28 February 2018, occupancy was 100.0 per cent across the portfolio which is in excess of modelled expectations. Turnover for the period is £31.9 million.

Cost of sales is made up of facilities management costs, employee costs, utilities and internet access costs which decreased by 0.1 per cent to £9.5 million (2017: £9.5 million). Facilities management costs and employee costs are subject to RPI increases year on year; however this has been offset by a contractual reduction in internet access costs and savings on utility expenditure.

Overheads have increased by 7.9 per cent to £1.6 million (2017: £1.5 million) primarily due to an increase in costs at UPP (Kent Student Accommodation) Limited relating to drainage works.

In total, EBITDA before sinking fund increased by 3.8 per cent to £20.8 million (February 2017: £20.1 million).

Sinking fund costs consist of items throughout the accommodation that reach the end of their economic life and require replacement. While sinking fund expenditure is highly predictable and modelled in line with the relevant replacement period for each item, they are not necessarily comparable from one year to the next. In addition, some sinking fund items are capital in nature as opposed to being expensed through the Profit and Loss account. Accordingly, the amount charged to the Profit and Loss account, while visible, can vary substantially between years and as such EBITDA before sinking fund expenditure is the preferred key performance indicator.

Following a process of gaining the consent of Bondholders and effective from 1 March 2018, the Group converted to a UK Real Estate Investment Trust (REIT). The REIT structure, which has been promoted by the UK government as an efficient vehicle for the long-term ownership of UK real estate interests, will allow the asset companies composing the Group's property portfolio to benefit from the REIT exemption from corporation tax arising in its property rental business. To facilitate the conversion to a UK REIT, UPP has listed on The International Stock Exchange (TISE). UPP REIT Holdings Limited is now the Parent Company of the Group. UPP remains UK tax resident.

3.2 Update on latent defect at Exeter accommodation

At UPP (Exeter) Limited, the Group is continuing its remediation work in relation to latent defects identified in its newly-built accommodation during the year ended 31 August 2015. Remediation works are underway and will continue over the next four financial years, with no financial impact on the performance of the subsidiary undertaking.

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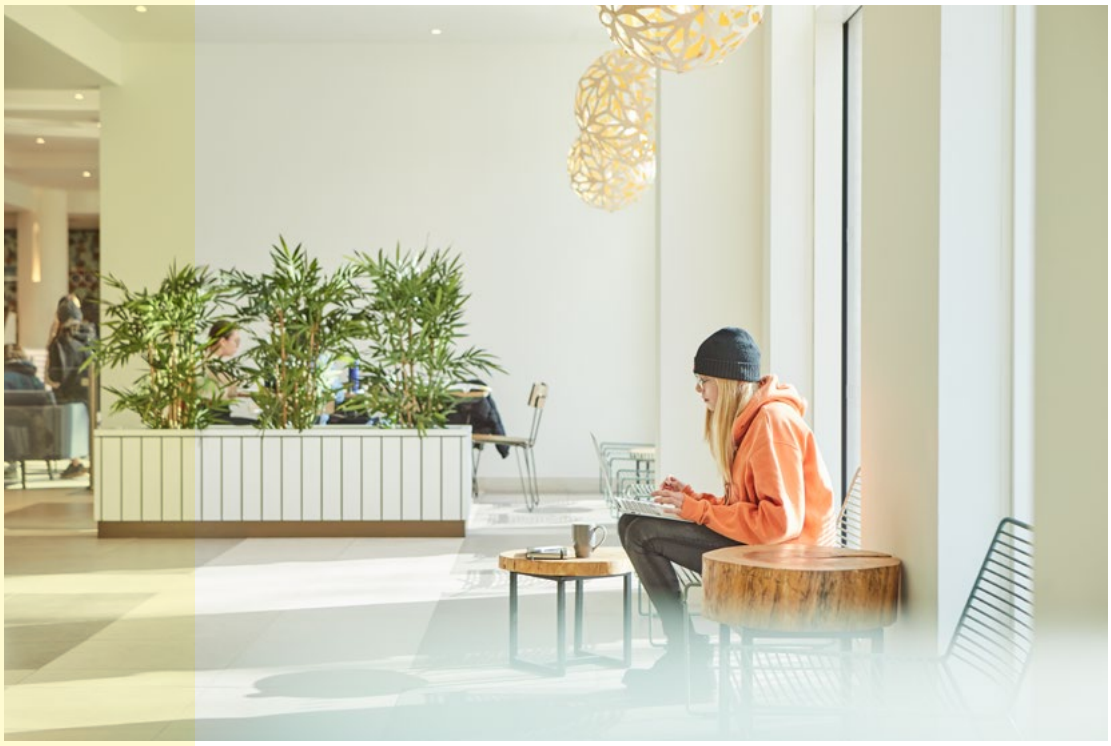
Ratio calculations



As set out in Paragraph 2 of Part 2 of Schedule 9 of the CTA the ratio calculations as at 28 February 2018 are:

4.1 Historic Senior DSCR (for the 12 months to 28 February 2018):

£'000	Consolidated
Turnover	63,520
Cost of sales	(18,944)
Overheads	(2,789)
EBITDA pre sinking fund	**41,787**
Sinking fund	(5,660)
EBITDA	**36,127**
CAFDS adjustment[1]	1,545
CAFDS	**37,672**
Debt service	**27,488**
Historic Senior DSCR	**1.37**

4.2 Projected Senior DSCR (for the 12 months to 28 February 2019):

£'000	Consolidated
Turnover	64,463
Cost of sales	(18,963)
Overheads	(2,804)
EBITDA pre sinking fund	**42,696**
Sinking fund	(4,540)
EBITDA	**38,156**
CAFDS adjustment[1]	514
CAFDS	**38,670**
Debt service	**28,916**
Projected Senior DSCR	**1.34**

1. The Cash Available for Debt Service (CAFDS) adjustment adds back sinking fund expenditure and deducts the sinking fund deposit to get to the net sinking fund cash position in the year. Interest receivable is also added to get to the final CAFDS figure.

4.3 Historic AssetCo DSCR

UPP (Alcuin) Limited	1.37
UPP (Broadgate Park) Holdings Limited	1.39
UPP (Kent Student Accommodation) Limited	1.37
UPP (Nottingham) Limited	1.35
UPP (Oxford Brookes) Limited	1.39
UPP (Plymouth Three) Limited	1.35
UPP (Exeter) Limited	1.38

4.4 Projected AssetCo DSCR

UPP (Alcuin) Limited	1.33
UPP (Broadgate Park) Holdings Limited	1.36
UPP (Kent Student Accommodation) Limited	1.40
UPP (Nottingham) Limited	1.29
UPP (Oxford Brookes) Limited	1.37
UPP (Plymouth Three) Limited	1.35
UPP (Exeter) Limited	1.33

Compliance Certificate

To: U.S. Bank Trustees Limited as Issuer Security Trustee and the Issuer Note Trustee and any Private Placement Noteholder (or its representative)

c.c. Bishopsfield Capital Partners Limited as Monitoring Adviser

From: UPP Bond 1 Limited ("the Group Agent")
UPP Bond 1 Issuer PLC as the Issuer ("the Issuer")

Date: 27 April 2018

Dear Sirs

Common Terms Agreement dated 5 March 2013 between, among others, the Issuer, the AssetCos, the Issuer Security Trustee and the Issuer Note Trustee.

Capitalised terms not defined in this certificate have the meaning given to them in the Common Terms Agreement.

1. We refer to the Common terms Agreement. This is a Compliance Certificate is delivered by the Issuer and the Group Agent pursuant to:

   (a) Paragraph 7.3 of Part 1 of Schedule 6; and
   (b) Paragraph 2 of Part 1 of Schedule 7

2. We confirm that the ratios (together the "Ratios") are as detailed in the tables below:

Historic Ratios	Historic for Relevant Calculation Period/Date	
	Applicable Ratio	Actual Ratio
UPP (Alcuin) Limited	1.15	1.37
UPP (Broadgate Park) Holdings Limited	1.15	1.39
UPP (Kent Student Accommodation) Limited	1.15	1.37
UPP (Nottingham) Limited	1.15	1.35
UPP (Oxford Brookes) Limited	1.15	1.39
UPP (Plymouth Three) Limited	1.15	1.35
UPP (Exeter) Limited	1.15	1.38
Senior DSCR	1.15	1.37

Projected Ratios	Projected for Relevant Calculation Period/Date	
	Applicable Ratio	Actual Ratio
UPP (Alcuin) Limited	1.15	1.33
UPP (Broadgate Park) Holdings Limited	1.15	1.36
UPP (Kent Student Accommodation) Limited	1.15	1.40
UPP (Nottingham) Limited	1.15	1.29
UPP (Oxford Brookes) Limited	1.15	1.37
UPP (Plymouth Three) Limited	1.15	1.35
UPP (Exeter) Limited	1.15	1.33
Senior DSCR	1.15	1.34

3. We confirm that historic ratios have been calculated using the most recently available financial information required to be provided by the relevant AssetCo under Schedule 8 (Covenants of the AssetCos) of the Common Terms Agreement and delivered together with this Compliance Certificate.

4. We confirm that all forward-looking financial ratio calculations and projections:

   (a) have been made on the basis of assumptions made in good faith and arrived at after due and careful consideration;

   (b) are consistent and updated by reference to the most recently available financial information required to be produced by the AssetCos under Schedule 8 (Covenants of AssetCos) to the Common Terms Agreement and delivered together with this Compliance Certificate; and

   (c) are consistent with the Accounting Standards (insofar as such Accounting Standards reasonably apply to such calculations and projections).

5. We set out below the computation of the following Ratios set out in Paragraph 2 above for your information:

   (a) Historic AssetCo DSCR means, in respect of any AssetCo as at 28 February 2018 (" the Test Date"), the ratio of:

      i. the aggregated Net Cash Flow in respect of such AssetCo for the 12 months ("the Test Period"): ended on 28 February 2018; to

      ii. the AssetCo Debt Service Requirement in respect of such AssetCo for the Test Period. ended on 28 February 2018

   (b) Historic Senior DSCR means, as at the Test Date, the ratio of:

      i. the aggregated Net Cash Flow in respect of all AssetCos for the Test Period ended on 28 February 2018; to

      ii. the aggregated AssetCo Debt Service Requirement in respect of all AssetCos for the Test Period ended on 28 February 2018.

   (c) Projected AssetCo DSCR means, in respect of any AssetCo as at the Test Date , the ratio of:

      i. the aggregated Net Cash Flow in respect of such AssetCo projected for the Test Period following 28 February 2018; to

      ii. the AssetCo Debt Service Requirement of such AssetCo projected for the Test Period immediately following such 28 February 2018.

(d) Projected Senior DSCR means, as at the Test Date, the ratio of:

i. the aggregated Net Cash Flow in respect of all AssetCos projected for the Test Period immediately following 28 February 2018; to

ii. the aggregated AssetCos Debt Service Requirement in respect of all AssetCos projected for the Test Period immediately following such 28 February 2018.

6. We also confirm that:

(a) to the best of the knowledge and belief of the signatories to this Compliance Certificate having made all due enquiries, no Default has occurred and is continuing other than as previously notified or waived;

(b) to the best of the knowledge and belief of the signatories to this Compliance Certificate having made all due enquiries, no Monitoring Trigger Event has occurred and is continuing other than as previously notified or waived,

(c) to the best of the knowledge and belief of the signatories to this Compliance Certificate having made all due enquiries, no Lock-Up Event has occurred and is continuing other than as previously notified or waived;

(d) to the best of the knowledge and belief of the signatories to this Compliance Certificate having made all due enquiries, the Group is in compliance with the Hedging Policy; and

(e) this Compliance Certificate is accurate in all material respects.

Yours faithfully,

Richard Bienfait
Chief Financial Officer

For and on behalf of UPP Bond 1 Issuer PLC

Julian Benkel
Group Compliance Director and Company Secretary

For and on behalf of UPP Bond 1 Limited

UPP Bond 1 Holdings Limited

Unaudited consolidated financial statements for the six months ended 28 February 2018

APPENDIX 1

Basis of reporting

The Company commenced trading on 5 March 2013 by acquiring six subsidiary Companies from its Parent Company, UPP Group Limited. The Company acquired an additional Company, UPP (Exeter) Limited, on 9 December 2014.

The Company's principal activity is that of a holding Company for its subsidiary undertakings.

Group income statement for the six months ended 28 February 2018

	Notes	**Unaudited** Six months ended 28 February 2018 £'000	Unaudited Six months ended 28 February 2017 £'000
Turnover	5	**31,895**	31,020
Cost of sales		**(9,483)**	(9,491)
Gross profit		**22,412**	21,529
Operating expenses		**(6,915)**	(5,893)
Operating profit	7	**15,497**	15,636
Interest receivable and similar income	8	**95**	123
Interest payable and similar charges	9	**(22,600)**	(25,791)
Loss on ordinary activities before taxation		**(7,008)**	(10,032)
Tax credit/(charge) on loss on ordinary activities	10	**941**	773
Loss for the financial period		**(6,067)**	(9,259)

The above results all relate to continuing operations.

Group statement of comprehensive income for the six months ended 28 February 2018

	Unaudited	Unaudited
	Six months ended 28 February 2018	Six months ended 28 February 2017
	£'000	£'000
Loss for the financial period	**(6,067)**	(9,259)
Fair value movements on RPI swaps	**(216)**	(11,884)
Deferred tax on fair value of RPI swaps	**2,640**	2,139
Deferred tax on revaluation of principal asset	**19,494**	500
Re-measurement (loss)/gain recognised on defined benefit pension scheme*	**-**	-
Movement on deferred tax relating to pension liability*	**-**	-
Total other comprehensive income	**21,918**	(9,245)
Total comprehensive income for the period	**15,851**	(18,504)

*Year end adjustment only

Group statement of changes in equity for the six months ended 28 February 2018

Attributable to owners of the Parent

	Share capital	Re-valuation reserve	Other reserve	Cash flow hedge reserve	Profit and loss account	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 September 2016	55,570	14,483	(21,462)	20,975	(24,672)	44,894
Loss for the financial period	-	-	-	-	(9,259)	(9,259)
Other comprehensive income	-	500	-	(9,745)	-	(9,245)
Balance at 28 February 2017	55,570	14,983	(21,462)	11,230	(33,931)	26,390
At 1 March 2017	55,570	14,983	(21,462)	11,230	(33,931)	26,390
Loss for the financial period	-	-	-	-	(7,546)	(7,546)
Other comprehensive income	-	1,326	-	1,651	-	2,977
At 31 August 2017	55,570	16,309	(21,462)	12,881	(41,477)	21,821
At 1 September 2017	55,570	16,309	(21,462)	12,881	(41,477)	21,821
Loss for the financial period	-	-	-	-	(6,067)	(6,067)
Other comprehensive income	-	19,494	-	2,424	-	21,918
Balance at 28 February 2018	**55,570**	**35,803**	**(21,462)**	**15,305**	**(47,544)**	**37,672**

Other reserve

Other reserve relates to deferred tax liability on fair value adjustments arising on business combinations.

Group statement of financial position as at 28 February 2018

Company registration number: 08253967

	Notes	Unaudited 28 February 2018 £'000	Unaudited 28 February 2017 £'000
Fixed assets			
Intangible fixed assets	11	**127,151**	131,094
Tangible fixed assets	12	**549,863**	553,099
		677,014	684,193
Current assets			
Debtors: amounts falling due within one year	13	**1,099**	1,630
Debtors: amounts falling due after one year	14	**20,704**	18,520
Cash at bank and in hand		**48,857**	46,460
		70,660	66,610
Creditors: amounts falling due within one year	15	**(32,715)**	(29,714)
Net current assets		**37,945**	36,896
Total assets less current liabilities		**714,959**	721,089
Creditors: amounts falling due after more than one year	16	**(675,633)**	(668,257)
Net assets excluding pension liability		**39,326**	52,832
Provisions for liabilities	17	**(1,654)**	(26,442)
Net assets		**37,672**	26,390
Share capital and reserves			
Called up share capital	18	**55,570**	55,570
Revaluation reserve		**35,803**	14,983
Other reserve		**(21,462)**	(21,462)
Cash flow hedge reserve		**15,305**	11,230
Profit and loss account		**(47,544)**	(33,931)
		37,672	26,390

Group statement of cash flows for the six months ended 28 February 2018

	Notes	Unaudited Six months ended 28 February 2018 £'000	Unaudited Six months ended 28 February 2017 £'000
Net cash flow from operating activities	19(a)	**28,686**	28,100
Investing activities			
Interest received		**95**	123
Interest paid		**(9,119)**	(19,408)
Net cash flow from investing activities		**(9,024)**	(19,285)
Financing activities			
Cash outflow from repayment of fixed rate debt		**(4,117)**	(3,111)
Cash outflow from repayment of index linked debt		**(2,317)**	(2,180)
Net cash flow from financing activities		**(6,434)**	(5,291)
Increase in cash and cash equivalents		**13,228**	3,524
Cash and cash equivalents at 1 September 2017		**35,629**	42,936
Cash and cash equivalents at 28 February 2018	19(b)	**48,857**	46,460

Notes to the unaudited consolidated financial statements for the six months ended 28 February 2018

1. Company information

UPP Bond 1 Holdings Limited is a private Company limited by shares incorporated in England. The registered office is 40 Gracechurch Street, London, EC3V 0BT.

2. Basis of preparation

These interim financial statements have been prepared in accordance with The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair-value basis for all derivative instruments and revaluation of fixed assets as specified in the accounting policies below.

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

Basis of consolidation

The non-statutory consolidated financial statements consolidate the financial statements of UPP Bond 1 Holdings Limited and its subsidiaries using the acquisition method from the date control passes to the Group.

The Directors consider the acquisition of subsidiary undertakings by way of a share for share exchange and cash purchase of minorities from the Parent Company on 5 March 2013 and 9 December 2014 a series of transactions and not individual transactions.

On this basis, the Directors have concluded that acquisition accounting must be applied as overall the series of transactions do not qualify for merger accounting and have prepared these financial statements accordingly.

Where the Company has used merger relief or Group reconstruction relief to account for an investment in a subsidiary, the difference between the fair value of the equity issues and the value of the equity issued after applying merger relief or Group reconstruction relief is reinstated as another reserve on consolidation

Going concern

The Directors have reviewed the Group's projected profits and cash flows which they have prepared on the basis of a detailed analysis of the Group's finances, contracts and likely future demand trends. After consideration of these projections the Directors consider that the Group will be able to settle its liabilities as they fall due and accordingly the financial statements have been prepared on a going concern basis.

3. Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to exercise judgement in applying the Group's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. However, the nature of estimation means that actual outcomes could differ from those estimates.

Estimates and assumptions are reviewed on an ongoing basis with revisions recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving the most sensitive estimates and assumptions that are significant to the financial statements are set out below:

Revaluation of the principal assets

The Group has adopted a policy to revalue the principal assets every five years with an interim valuation performed in year three of the cycle and in other years if there is evidence that the value has changed significantly. The Group engages independent valuation specialists to determine the fair value of the assets every five years, with a Directors' valuation performed at any other interim period. The valuation technique employed by both the independent valuers and Directors is based on a discounted cash flow model as there is a lack of comparable market data due to the specific nature of the property assets. The determined fair value of the principal assets is most sensitive to the estimated rental growth, discount rate and the long-term occupancy rates.

Valuation of RPI swaps

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 hedging 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 rate 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 Group has used a third-party expert to assist with valuing such instruments.

Goodwill useful economic life

The Group establishes a reliable estimate of the useful economic life of goodwill arising on business combinations. Goodwill attributed to subsidiary undertakings is amortised on a straight-line basis over the remaining lease period on the principal asset held by each subsidiary. This period of amortisation represents the period over which each subsidiary undertaking acquired will continue to generate operating cash flows. For further details refer to note 11.

Impairment of non-financial assets

The Group assesses at each reporting date whether an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through impairment in profit and loss unless the asset is carried at a

revalued amount where the impairment loss of a revalued asset is a revaluation decrease.

An impairment loss recognised for all assets, including goodwill, is reversed in a subsequent period only if the reasons for the impairment loss have ceased to apply.

Deferred taxation

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

Defined-benefit pension scheme

The cost of defined-benefit pension plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of high-quality corporate bonds in the respective currency, with extrapolated maturities corresponding to the expected duration of the defined-benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Presentation of the principal asset

Rent receivable is generated from the Group's interests in university accommodation.

These interests fall within the scope of Section 34 of FRS 102, however, due to the transitional relief adopted in relation to service concession arrangements, the Group continues to account for all its principal assets applying the policies under the extant UK GAAP, FRS 5 (Application Note F).

Each year the Group applies judgement in assessing the status of these interests, in accordance with the provisions of FRS 5 (Application Note F), assessing the balance of the significant risks and rewards of ownership of the asset. The appropriate balance sheet treatment of these interests is to treat the asset as a finance receivable asset where the Company does not have the majority of significant risks and rewards. Where it does, the asset is treated as a tangible fixed asset.

The Directors consider the balance of the risks and rewards lies with the Group and therefore the assets are treated as tangible fixed assets.

Classification of index-linked financial instruments

The Group'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 Group's index-linked financial instruments are classified as basic and carried at amortised cost.

Hedge accounting for inflation swaps

The Group has chosen to apply hedge accounting for all hedging instruments which are in a qualifying hedging relationship under FRS 102 Section 12. Significant judgement is exercised in concluding that future inflationary increases or decreases in rent receivable from university partners are separately identifiable

and reliably-measurable components of the rental income which ensures the inflation component of rental income and the related RPI swaps are in a hedging relationship which meets the qualifying criteria for hedge accounting under Section 12 of FRS 102.

4. Principal accounting policies

(a) Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is calculated so as to write off the cost of the tangible fixed assets, less any residual value, over the expected useful economic lives of the assets concerned once construction is complete. The principal rates of depreciation used for this purpose are:

Assets for use in operating leases — annuity method over the term of the lease

The economic benefit of the principal assets for use in operating leases is the return on assets invested into the financing arrangement with the relevant university. The annuity method takes into account the cost of capital notionally invested in the principal asset. Notional interest calculated using the relevant Company's actual weighted cost of capital and depreciation combined will give an approximately constant charge to revenue.

The Group has adopted a policy to revalue the principal asset every five years with an interim valuation performed in year three of the cycle and in other years if there is evidence that the value has changed significantly. The surplus or deficit on the book value of the historical asset is transferred to the revaluation reserve, except that a deficit which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charged to the profit and loss account. A deficit which represents a clear consumption of economic benefits is charged to the profit and loss account regardless of any such previous surplus

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the profit and loss account as a movement on reserves.

At each reporting date the Group assesses whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is determined which is the higher of its fair value less costs to sell and its value in use. An impairment loss is recognised where the carrying amount exceeds the recoverable amount.

(b) Turnover

Turnover consists of rent receivable that is recognised on a straight-line the basis of the amount receivable in respect of the accounting period. Amounts received in advance are included within deferred income.

(c) Intangible fixed assets

Goodwill arising on acquisition of subsidiary undertakings is the difference between the fair value of consideration paid and the fair value of the net assets acquired from the date that control passes.

Goodwill attributed to the subsidiary undertakings is amortised on a straight-line basis over the remaining lease period on the principal asset held by each subsidiary. This period of amortisation is greater than 20 years but represents the period over which each subsidiary undertaking acquired will continue to generate operating cash flows.

(d) Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment. Where merger relief is applicable, the cost of the investment in a subsidiary undertaking is measured at the nominal value of the shares issued together with the fair value of any additional consideration paid.

(e) Debtors

Short-term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective-interest method, less any impairment.

Impairment is determined by making an estimate of the likely recoverable value of short-term debtors by considering factors such as the credit rating, the aging profile and the historic experience of the respective debtor

(f) Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Group Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

(g) Interest bearing loans and borrowings

Loans, secured and unsecured notes

Fixed-rate senior secured notes, index-linked senior secured notes and subordinated loan notes are initially measured at transaction price, net of transaction costs. They are then subsequently measured at amortised cost using 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 flows through the effected life of the financial liability, or (where appropriate) a shorter year, to the net carrying amount on initial recognition.

Where the financial liability has variable index-linked interest and principal repayments the change in RPI is charged to the profit and loss in the period to which it relates.

(h) Creditors

Short-term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at transaction price, net of transaction costs, and are measured subsequently at amortised cost using the effective-interest method.

(i) Derivative instruments

Derivatives, including inflation swaps, are not basic financial instruments.

To mitigate its exposure to changes in inflation, the Group has entered into inflation-linked swaps ('RPI swaps') with external counterparties. All derivative instruments are initially measured at fair value on the date the contract is entered into and subsequently re measured to fair value at each reporting date. The gain or loss on re measurement is taken to the income statement in finance cost or finance income as appropriate, unless they are included in a hedging arrangement.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair values of inflation swap contracts are determined by calculating the present value of the estimated future cash flows using observable yield curves.

(j) Finance costs

Financing costs, comprising interest payable on loans and subordinated loan notes and the costs incurred in connection with the arrangement of borrowings are recognised in the income statement using the effective-interest method. Issue costs are initially recognised as a

reduction in the proceeds of the associated capital instrument unless the capital instrument is subsequently carried at fair value in which case the initial issue costs are expensed in the profit and loss account.

Financing costs also include losses or gains arising on any ineffective portion of fair value changes designated for hedge accounting derivative instruments. Any movements in fair value of derivative instruments designated for hedge accounting that are effective are recognised in other comprehensive income as finance gains or losses.

(k) Borrowing costs

Borrowing costs directly attributable to the acquisition and construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(l) Hedge accounting

The Group applies hedge accounting for transactions entered into to manage the cash flow exposures of borrowings and rental income. The Group designates all its derivative financial instruments, which meet the qualifying conditions for hedge accounting, as cash flow hedges.

Inflation swaps are held to manage the Group's exposure to changes in RPI. The Group's rental income from student accommodation is linked to RPI and the swap contacts manage the exposure to RPI by swapping RPI annual rate changes with a fixed-rate.

Changes in the fair values of derivatives designated as cash flow hedges, and which are effective, are recognised in other comprehensive income directly in cash flow hedge reserve. Any ineffectiveness in the hedging relationship (being the excess of the cumulative change in fair value of the hedging instrument since inception of the hedge over the cumulative change in the fair value of the hedged item since inception of the hedge) is recognised in the profit and loss account.

The gain or loss recognised in other comprehensive income is reclassified to the profit and loss when the hedge relationship ends. Hedge accounting is discontinued when the hedging instrument expires, no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedged debt instrument is derecognised or the hedging instrument is terminated.

The Group has elected to adopt hedge accounting for all its swaps which meet the qualifying criteria for hedge accounting under Section 12 of FRS 102.

(m) Taxation

(i) Current tax

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

(i) Deferred tax

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

Deferred tax assets that arise from trading operations of the Group 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.

If and when all conditions for retaining tax allowances for the cost of a fixed asset have been met, the deferred tax is reversed.

Deferred tax is recognised when income or expenses from a subsidiary have been recognised and will be assessed for tax in a future period, except where:

- the Group is able to control the reversal of the timing difference; and
- it is probable that the timing difference will not reverse in the foreseeable future.

A deferred tax liability or asset is recognised for the additional tax that will be paid or avoided in respect of assets and liabilities that are recognised in a business combination. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

A deferred tax liability has been recognised on any tangible fixed assets revaluations. The corresponding movements in deferred tax have been recognised in the same component of income as the transaction it relates to.

The Group decided to make the election to be taxed under Regulation 9 in relation to derivative financial instruments and as a result a deferred tax asset has been recognised on the carrying value of any derivative instruments. Any deferred tax movements have been recognised in other comprehensive income, where hedge accounting is applied for the underlying derivative instrument or in the profit and loss account where hedge accounting is not applied.

With effect from 1 March 2018, the ultimate Parent Company of the Group has elected for Real Estate Investment Trust ("REIT") status to apply to the Group Companies. As a result, the Group will no longer pay income tax on profits and gains from qualifying property rental business providing it meets certain conditions. Deferred tax accrued to the date of conversion in respect of assets and liabilities of the qualifying property rental business will no longer be provided for as the relevant temporary differences will no longer be taxable on reversal.

Deferred tax is calculated on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference. Group relief is only accounted for to the extent that a formal policy is in place at the reporting period end. Where no policy is in place, current and deferred tax is measured before benefits which may arise from a formal Group relief policy.

(n) Related party transactions

The Group is a wholly-owned subsidiary of UPP Group Holdings Limited and as such the Company has taken advantage of the terms of FRS 102.33.1A not to disclose related party transactions which are eliminated on consolidation, from the date that the Group was acquired by UPP Bond 1 Holdings Limited.

(o) Defined contribution pension scheme

Contributions to employees' personal pension arrangements during the period are charged to the profit and loss account as incurred. For eligible employees, contributions are made to employees' personal pension schemes, based on a predetermined percentage of individuals' salaries.

(p) Defined-benefit pension scheme

The Group makes contributions to the Nottinghamshire County Council Pension Fund ("NCCPF") in respect of 57 employees at UPP (Nottingham) Limited.

The cost of providing benefits under the defined-benefit plan is determined by using the projected-unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined-benefit obligations) and is based on actuarial advice. When a settlement or a curtailment occurs

the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the income statement during the period in which it occurs.

The net interest element is determined by multiplying the net defined-benefit liability by the discount rate at the start of the period, taking into account any changes in the net defined-benefit liability during the period as a result of contribution and benefit payments. The net interest is recognised in profit or loss as other finance revenue or cost.

Re-measurements, comprising actuarial gains and losses, the effect of the asset ceiling and the return on the net defined-benefit liability (excluding amounts included in net interest) are recognised immediately in other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit and loss in subsequent periods.

The defined net benefit pension asset or liability in the statement of financial position comprises the total for each plan of the present value of the defined-benefit obligation (using a discount rate based on high-quality corporate bonds), less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is limited to the amount that may be recovered either through reduced contributions or agreed refunds from the scheme.

5. Turnover

Turnover represents income, on the basis of accounting policy 4(b), attributed to the provision of student accommodation. All turnover arose within the United Kingdom.

6. Directors' remuneration

The immediate subsidiary undertaking, UPP Bond 1 Limited, paid fees of £7,577 (2017: £5,665) to Intertrust Management Limited in respect of services performed in connection with the management of the affairs of the Group for the period up to 28 February 2018.

All Directors and certain senior employees who have authority and responsibility for planning, directing and controlling the activities of the Group are considered to be key management personnel.

No Directors or other key management personnel of the Group received payment for services performed in relation to the management of the Group other than already mentioned above.

7. Operating profit

The operating profit is stated after charging:

	Unaudited	Unaudited
	Six months ended 28 February 2018	Six months ended 28 February 2017
	£'000	£'000
Depreciation	**1,666**	1,544
Amortisation of goodwill	**1,971**	1,971

8. Interest receivable and similar income

	Unaudited	Unaudited
	Six months ended 28 February 2018	Six months ended 28 February 2017
	£'000	£'000
Bank interest	**95**	123

9. Interest payable and similar charges

	Unaudited	Unaudited
	Six months ended 28 February 2018	Six months ended 28 February 2017
	£'000	£'000
Financial liabilities measured at amortised cost		
Fixed rate senior secured notes	**7,371**	9,317
Index-linked senior secured notes	**6,643**	3,872
Unsecured loan notes	**8,499**	8,308
	22,513	21,497
Financial liabilities measured at fair value through profit or loss		
Fair value movement on RPI swaps	**87**	4,294
Interest on net defined pension liability *	**-**	-
	22,600	25,791

* Year end adjustment only

10. Tax on loss on ordinary activities

	Unaudited	Unaudited
	Six months ended 28 February 2018	Six months ended 28 February 2017
	£'000	£'000
a) Analysis of tax credit for the year		
Current tax on income for the year	**-**	-
Deferred tax:		
Movement on fair value of swaps	**(941)**	(773)
Total deferred tax	**(941)**	(773)
Total tax credit on losses on ordinary activities	**(941)**	(773)

With effect from 1 March 2018, the ultimate Parent Company of the Group has elected for Real Estate Investment Trust ("REIT") status to apply to the Group Companies. As a result, the Group will no longer pay income tax on profits and gains from qualifying property rental business providing it meets certain conditions. Non-qualifying profits and gains of the Group Companies continue to be subject to income tax as normal.

b) Deferred tax

The deferred tax included in the balance sheet is as follows:

	Unaudited	Unaudited
	28 February 2018	28 February 2017
	£'000	£'000
	Group	Group
The deferred tax liability consists of:		
Fair value of swaps	**-**	3,334
Revaluation of tangible fixed asset	**-**	21,330
	-	24,664

c) Factors that may affect future tax charges

As a result of electing into REIT, the deferred tax accrued to the date of conversion in respect of assets and liabilities of the qualifying property rental business has been released as the relevant temporary differences will no longer be taxable on reversal.

11. Intangible fixed assets

	Goodwill
	£'000
Cost	
At 1 September 2017 and at 28 February 2018	**145,035**
Amortisation	
At 1 September 2017	(15,913)
Charge for the period	(1,971)
At 28 February 2018	**(17,884)**
Net book value	
At 28 February 2018	**127,151**
At 31 August 2017	129,122

Goodwill arose on the acquisition of UPP (Alcuin) Limited, UPP (Broadgate Park) Holdings Limited, UPP (Kent Student Accommodation) Limited, UPP (Nottingham) Limited, UPP (Oxford Brookes) Limited, UPP (Plymouth Three) Limited and UPP (Exeter) Limited by UPP Bond 1 Limited, a subsidiary undertaking, and is the difference between the consideration given and the fair value of the net assets acquired.

Goodwill is amortised on a straight-line basis over the remaining lease period on the principal asset held by each of the subsidiaries which expire between 2048 and 2058. This period of amortisation is greater than 20 years but represents the period over which the subsidiary undertaking acquired will continue to generate operating cash flows.

12. Tangible fixed assets

	Assets for use in operating leases
	£'000
Cost or valuation	
At 1 September 2017 and at 28 February 2018	**554,671**
Depreciation	
At 1 September 2017	(3,142)
Charge during the period	(1,666)
At 28 February 2018	**(4,808)**
Net book value	
At 28 February 2018	**549,863**
At 31 August 2017	551,529

Assets used in operating leases were independently valued by Jones Lang LaSalle ("JLL"), Chartered Surveyors, on an existing-use basis at 31 August 2016 in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. JLL have confirmed that the value as at that date was £554,600,000.

Following an internal review of the assets used in operating leases, the Directors have concluded there is no impairment to the value as determined by JLL in 2016.

The historic cost of tangible assets held at valuation is as follows:

	Unaudited
	Assets for use in operating leases
	£'000
At 28 February 2018	**536,895**
At 31 August 2017	538,561

13. Debtors: amounts falling due within one year

	Unaudited	Unaudited
	28 February 2018	28 February 2017
	£'000	£'000
Trade debtors	**290**	3
VAT receivable	**39**	30
Amounts owed by subsidiary companies	**47**	46
Prepayments and accrued income	**723**	1,551
	1,099	1,630

14. Debtors: amounts falling due after one year

	Unaudited	Unaudited
	28 February 2018	28 February 2017
	£'000	£'000
Derivative financial instruments	**20,704**	18,520

15. Creditors: amounts falling due within one year

	Unaudited	Unaudited
	28 February 2018	28 February 2017
	£'000	£'000
Fixed rate senior secured notes	**5,974**	4,695
Index-linked senior secured notes	**4,916**	4,330
Trade creditors	**588**	1,728
Amounts owed to related parties	**4,032**	2,355
Accruals and deferred income	**17,205**	16,606
	32,715	29,714

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

	Unaudited	Unaudited
	28 February 2018	28 February 2017
	£'000	£'000
Fixed rate senior secured notes	**286,809**	286,260
Index-linked senior secured notes	**215,889**	216,729
Unsecured loan notes	**183,825**	174,293
	686,523	677,282
Less: included in creditors amounts falling due within one year	**(10,890)**	(9,025)
	675,633	668,257

	Unaudited	Unaudited
	28 February 2018	28 February 2017
	£'000	£'000
Maturity of debt		
Repayable within one year or on demand	**10,890**	9,025
Repayable in more than one year but less than two years	**12,035**	10,890
Repayable in more than two years but less than five years	**39,937**	36,218
Repayable in more than five years	**623,661**	621,149
	686,523	677,282
Less: included in creditors amounts falling due within one year	**(10,890)**	(9,025)
	675,633	668,257

Senior secured notes

On 5 March 2013 one of the Group's subsidiary undertakings, UPP Bond 1 Issuer plc, 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 other subsidiary undertakings 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 per cent per cent, 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 per cent increasing semi-annually by RPI. The notional amount of these notes at issuance was £75,000,000 and repayments are scheduled to commence in August 2038.

On the same day, the Group entered into derivative financial instruments, being RPI swaps. This is to manage the exposure to RPI movements on the underlying portion of revenue streams generated by the Group used to repay the fixed-rate senior secured notes.

On 9 December 2014, UPP Bond 1 Issuer plc issued £149,700,000 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 UPP (Exeter) Limited to enable the Company to repay their previous bank facilities and associated costs.

The index-linked senior secured notes are fully-amortising by 2049 with a real interest rate of 1.037 per cent increasing semi-annually by RPI. The notional amount of these notes at issuance was £149,700,000 with repayments commencing in February 2015.

The senior notes above are secured under a debenture deed. Under the terms of the debenture the finance provider, UPP Bond 1 Issuer plc, has security by way of a first legal mortgage over all estates or interests in the leasehold properties and buildings and fixtures on those properties, as well as security over all other assets of the Group by way of fixed and floating charges.

Unsecured loan notes

UPP Group Limited has provided unsecured loan notes of £146,669,000 (£21,308,000 issued on 9 December 2014) to the Group. These loan notes bear interest at 13.5 per cent and are repayable by 2057. Payment of interest is subject to the Group passing lock-up tests and the availability of cash reserves.

Derivative financial instruments

	Unaudited		
	Cash flow hedge reserve	Profit and loss account	Total
	£'000	£'000	£'000
Fair value of RPI swaps at 1 September 2017	15,520	5,487	21,007
Fair value movement in the period	(216)	(87)	(303)
Fair value of RPI swaps at 28 February 2018	**15,304**	**5,400**	**20,704**
Deferred tax asset on fair value of RPI swaps at 1 September 2017	(2,640)	(941)	(3,581)
Movement in the period	2,640	941	3,581
Deferred tax asset on fair value of RPI swaps at 28 February 2018	**-**	**-**	**-**
Fair value at 1 September 2017, net of deferred tax	12,880	4,546	17,426
Fair value at 28 February 2018, net of deferred tax	**11,230**	**3,956**	**20,704**

17. Provisions for liabilities

	Unaudited		
	Pension liability*	**Deferred tax liability**	**Total**
	£'000	**£'000**	**£'000**
At 1 September 2017	1,654	23,075	24,729
Recognised in other comprehensive income	-	(23,075)	(23,075)
At 28 February 2017	**1,654**	**-**	**1,654**

* Shown net of deferred tax. Total liability £1,990,000 less £336,000 deferred tax.

18. Called up share capital

	Unaudited	Unaudited
	28 February 2018	28 February 2017
	£'000	£'000
Issued, allotted, called up and fully paid		
55,570,408 Ordinary shares of £1 each	**55,570**	55,570

On 15 October 2012 the Company issued one ordinary share of £1 each at par. On 16 January 2013 the Company issued 49,999 ordinary shares of £1 each at par for cash consideration.

On 5 March 2013 the Company issued 32,884,298 ordinary shares of £1 each at par in exchange for the issued share capital in six subsidiary undertakings owned by UPP Group Limited. On the same day the Company also issued 3,914,429 ordinary shares of £1 each at par for cash consideration.

On 9 December 2014 the Company issued 18,721,682 ordinary shares of £1 each at par in exchange for the issued share capital in UPP (Exeter) Limited, owned by UPP Group Limited.

19. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities:

	Unaudited	Unaudited
	Six months ended 28 February 2018	Six months ended 28 February 2017
	£'000	£'000
Operating profit	**15,497**	15,636
Depreciation	**1,666**	1,544
Goodwill amortisation	**1,971**	1,971
Increase in debtors due within one year	**300**	(1,072)
Increase in creditors due within one year	**9,252**	10,021
Net cash inflow from operating activities	**28,686**	28,100

(b) Cash and cash equivalents comprise the following:

	Unaudited	Unaudited
	At 28 February 2018	At 28 February 2017
	£'000	£'000
Cash at bank and in hand	**37,872**	31,975
Short term deposits	**10,985**	14,485
Cash and cash equivalents	**48,857**	46,460

20. 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 Group, which relate to interest, inflation and liquidity risks as well as demand and portfolio risk which arise in the normal course of the Group's business.

Interest rate risk

Through the issue of fixed-rate loan notes the Group 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 Group funds its financing activities through the provision of student accommodation and rental income received on this accommodation. Growth in rental income is linked to the movement in RPI and the Group manages the exposure to this index through a mix of inflation-linked debt and the use of RPI swaps to hedge a portion of the fixed-rate debt servicing costs.

To mitigate the impact of inflation movements on future rental income UPP Bond 1 Issuer Plc, a fellow Group undertaking, has entered into RPI swaps with external counterparties all initially entered into on 5 March 2013, details of which are as follows:

Hedge arrangements with external parties:

- a 27-year RPI swap 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.

These instruments are mirrored with matching derivative instruments on–lent to six subsidiary undertakings ('AssetCos') as follows:

Hedge arrangements with AssetCos:

- a 25 year RPI swap with UPP (Alcuin) Limited commencing in February 2015 and finishing in August 2038
- a 27 year RPI swap with UPP (Broadgate Park) Holdings Limited commencing in February 2015 and finishing in February 2040
- a 27 year RPI swap with UPP (Kent Student Accommodation) Limited commencing in February 2015 and finishing in February 2040
- a 27 year RPI swap with UPP (Nottingham) Limited commencing in February 2015 and finishing in February 2040
- 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 2040

RPI swaps are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

Due to limitations on the application of hedge accounting, volatility has been introduced into the income statement as market value movements are not fully offset by movements in the underlying hedged item within each period and/or hedging items do not meet the qualifying criteria of being separately identifiable and reliably measurable. We note however, that these limitations within Section 12 do not impact the Group's cash flow position. The reasons for entering into RPI swaps remain commercially sound – that is that they are intended to be held to maturity in order to reduce volatility in the Group's cash flows.

Liquidity risk

The Group 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 15 to the financial statements.

Terms and debt repayment schedule

	Unaudited			
	Currency	Effective Interest rate %	Year of maturity	**Book value**
				2018
				£'000
Fixed rate senior secured notes	£	4.9023%	2040	**286,809**
Index-linked senior secured notes (issued 2013)	£	2.9105%	2047	**77,904**
Index-linked senior secured notes (issued 2014)	£	1.0520%	2049	**137,985**
Unsecured loan notes (issued 2013)	£	9.3700%	2056	**159,883**
Unsecured loan notes (issued 2014)	£	11.3800%	2051	**23,942**
				686,523

Demand risk

The Group is subjected to risks arising from occupancy voids and lack of nominations by the university partners which 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.

Portfolio risk

The assets of the Group are in the student market and reduced student numbers could impact upon financial performance. The Group seeks to mitigate this risk by building excellent long-term relationships with its university partners and ensuring up-to-date and in-depth market analysis is completed each year to enable the Group to review its strategic position.

Capital risk management

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

21. Financial instruments

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

	Unaudited	Unaudited
	Carrying amount At 28 February 2018	Carrying amount At 28 February 2017
	£'000	£'000
Financial assets		
Financial assets measured at fair value:		
Derivative financial liabilities – RPI swaps	**20,704**	18,520
Financial liabilities		
Financial liabilities measured at amortised cost:		
Fixed rate senior secured notes	**286,809**	286,260
Index-linked senior secured notes	**215,889**	216,729
Unsecured loan notes	**183,825**	174,293
Trade creditors	**588**	1,728
Other related party loans	**4,032**	2,355
Total financial liabilities measured at amortised cost	**691,143**	681,365

22. Parent undertaking and controlling party

The Group is wholly-owned by UPP Group Limited, a Company itself a wholly-owned subsidiary of UPP Group Holdings Limited.

UPP Group Holdings Limited is controlled by a 60 per cent stake held by PGGM Vermogensbeheer BV ("PGGM"), a Company incorporated in The Netherlands.

It is the Directors' opinion that PGGM is the ultimate controlling party.

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