UPP Bond 1 Limited Investor Report

For the year ended 31 August 2017

SECTION

INTRODUCTION

Investor report for the year ended 31 August 2017

This annual Investor Report is delivered pursuant to Schedule 9 Part 1 of the Common Terms Agreement ('CTA') and covers the year ended 31 August 2017.

The date of this Investor Report is 13 December 2017. 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, and as updated on 1 December 2014.

1.0

General overview

GENERAL OVERVIEW

UPP Bond 1 Holdings Limited

UPP Bond 1 Holdings Limited announces its results for the year ended 31 August 2017

Audited financial highlights for the year ended 31 August 2017

£'000	Year ended 31 August 2017	Year ended 31 August 2016	Change %
Turnover	62,697	61,309	2.3%
Gross profit	43,736	42,591	2.7%
EBITDA*	40,907	39,652	3.2%
EBITDA margin*	65.2%	64.7%	0.6%

**EBITDA before sinking fund expenditure*

Business highlights

- Occupancy for 2016/17 of 99.9% (2015/16: 99.9%)
- Turnover up by 2.3%, reflecting RPI linked annual term rental income increases
- Operating cash flow for 2016/17 of £36.1m (2015/16: £35.5m)
- Both Historic and Projected Annual Debt Service Coverage Ratios comfortably above lock up triggers
- Strong demand has continued into 2017/18 with all of the seven AssetCos achieving 100% occupancy
- Term rental income predicted to increase by 1.7% compared to 2016

Sean O'Shea
Chief Executive Officer

"The results for UPP Bond 1 Holdings Limited for the financial year ended 31 August 2017 underline the continuing strength of the unique partnerships model developed by UPP. It is clear that investing in on-campus accommodation infrastructure assets offers stable, long-term returns based on accretive RPI linked revenues. The year saw an increase in turnover of 2.3% to £62.7m and as a result EBITDA was up by 3.2% to £40.9m. For the second year in a row, occupancy stood at 99.9% which represents a remarkable achievement in what is becoming an ever more competitive, global higher education market place.

It is particularly pleasing to see confirmation from the Department for Education that the Higher Education Initial Participation Rate – measuring first time entrants between 17-30 years – has reached its highest ever level at 49% and that a record number of 18 year olds are applying to university. This trend is despite the predicted fall in the number of 18-20 year olds as part of the wider birth rate and highlights a continued recognition by young people of the value of a university education, both personally and for society in general. We believe that universities will continue to see the benefits of providing students with the best facilities, as well as those of doing so in bespoke, long-term partnerships with UPP."

Enquiries

UPP	Richard Bienfait	Chief Financial Officer	Tel: 020 7398 7200
	Jon Wakeford	Group Director, Strategy and Communications	

1.1 Summary of the UPP Group business

UPP Group (defined as UPP Group Holdings Limited and its subsidiaries) is the largest provider of on-campus residential and non-residential infrastructure to universities in the United Kingdom and currently has more than 32,000 student rooms in operation or construction with 15 partner 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 universities, 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
- Annual rent increases for the life of the project linked to the Retail Price Index ("RPI")
- UPP benefits from a restrictive covenant regime that limits long term competing university supply in order to maintain project demand dynamics
- UPP establishes 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% 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 £382.1m secured bond listed on the Irish Stock Exchange. The bond was secured 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 and was set up to be the intermediate holding company for the six AssetCos.

This issuance comprised two tranches:

- £307.1m 4.9023% Amortising Fixed Rate Bond due 2040
- £75m 2.7921% 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 £149.7m 1.037% 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 the 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 in 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

2.0

Higher education sector and business developments

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 attaining a tertiary qualification increased considerably over the past decade from 26 per cent in the year 2000 to 43 per cent in 2016, a trend that is expected to continue over the coming decade. Across OECD countries, individuals with a higher education 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; the same age group is projected to increase to 300 million by 2030.[2] 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 play an important role in attracting applicants.

Most higher education systems, including the UK, therefore continue to move in the direction of decentralisation which has changed 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 4.6million.[3] It also appears that students are staying in higher education for longer, with 69 per cent of students graduating within the theoretical duration of their course plus three years.[4]

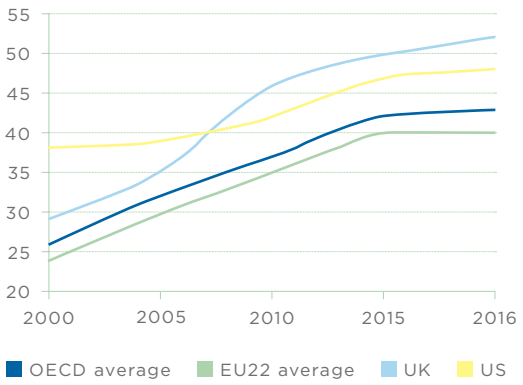
Whilst higher education systems continue to evolve in light of changing patterns of demand – in particular, the requirement for a more diverse range of provision for changing labour markets – the traditional campus model of delivery continues to predominate. The development of higher education courses delivered on-line, has to date proved to be an additional rather than alternative method of provision. Typically, universities have utilised this approach to focus on specific cohorts of students (e.g. part-time students) and to introduce technology enhanced teaching and learning rather than make a radical change to delivery more generally. The development of Massive Open On-line Courses (MOOCs) has therefore not proved to be the disruptive technology some predicted.

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.[5] In terms of global popularity, it remains second only to the US and the number one destination for HE students in Europe.[6] Despite the demographic decline in the 18-24 year cohort – one which is due to begin increasing again from 2021 – the UK sector has continued to attract applicants from 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 higher education by the age of 30 has identified a continuing upward trend. 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. The data also identified that individuals are more likely to participate in higher education for the first time at age 18 than at any other age. The 2015/16 initial participation rate for 18 year olds is the highest in the series at 27 per cent, up by 1.1 percentage points compared to 2014/15.[7]

Figure 2.1 below identifies trends in educational attainment of 25-34 year olds since 2000 and underlines the growth in demand for degree level qualifications. In the UK this has witnessed the proportion of those completing degree level qualifications increase from 29 per cent to 52 per cent.[8]

Figure 2.1 Trends in Educational Attainment



Source: OECD

UK Higher Education 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 to the wider sector. Looking in particular at the economic impact of international students, their tuition fees, on-campus and off-campus expenditure contributed £25.8 billion to the UK economy in 2014-15. Growing enrolment numbers in tertiary education are also positively correlated to strong economic growth and as such the UK will continue to be a major player in the global higher education sector.[9] Most importantly, the impact of the UK HE system is not only measured by its significant economic assets or by students' return on investment but goes beyond those, to creating cultured and engaged global citizens and active participants in society.

2.2 Academic demand

Domestic

Demand for higher education remains robust. In 2005-06, the number of full time students in the UK Higher Education system was 1.4 million. A decade later in 2015-16, there were a recorded 2.3 million students studying in the UK, of which well over 1.7 million were enrolled full time. This increase of more than 300,000 full time students translates into a compound annual growth rate of 2.0 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 (set out in Figure 2.2 below) identified a fall in the overall number of applicants of 4 per cent. Despite this, however, 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.[10] 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 5 per cent, potentially as an initial reaction to the UK Referendum decision to leave the EU.

Historic UCAS applications and acceptances data continues 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. Total annual applications have grown by more than 700,000 since the 2008 cycle, an increase of 32.1 per cent to 2016. Acceptances over the same period have grown by 17.4 per cent with 65,000 more acceptances issued in 2016 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 37.0 per cent over the same period and acceptances have risen by 14.5 per cent - the equivalent of more than 64,000 extra applications each year and approximately 5,000 extra acceptances.[11]

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 which represented a fall of only 1 per cent on the same point in 2016 and marginally higher than the number placed during the 2015 cycle.[12]

1. *OECD (2017) OECD Education at a Glance 2017, OECD Publishing, Paris, http://www.oecd-ilibrary.org/docserver/download/9617041e.pdf*
2. *OECD (2015) Education Indicators in Focus http://www.oecd.org/edu/skills-beyond-school/EDIF%20 31%20(2015)--ENG--Final.pdf*
3. *OECD (2017) OECD Education at a Glance 2017, OECD Publishing, Paris, http://www.oecd-ilibrary.org/docserver/download/9617041e.pdf, Figure C4.a.*
4. *OECD (2016) Education at a Glance http://www.oecd.org/edu/education-at-a-glance-19991487.htm*
5. *The Times Higher Education World University Rankings 2018 https://www.timeshighereducation.com/world-university-rankings/2018/*
6. *Project Atlas (2017) https://www.iie.org/Research-and-Insights/Project-Atlas/Explore-Data*
7. *Department for Education – September 2017 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/648165/HEIPR_PUBLICATION_2015-16.pdf*
8. *OECD (2017), A1.2. Trends in educational attainment of 25-34 year-olds (2000, 2005, 2010, 2015 and 2016), in Education at a Glance 2017, OECD Publishing, Paris. http://dx.doi.org/10.1787/eag-2017-table12-en*
9. *Oxford Economics for Universities UK The Economic Impact of Universities in 2014-15 http://www.universitiesuk.ac.uk/economic-impact*
10. *UCAS: Deadline Applicant Statistics: June 2017 https://www.ucas.com/file/115901/download?token=bzdJIyHR*
11. *Applicants and Acceptances for universities and college 2016 https://www.ucas.com/corporate/data-and-analysis/ucas-undergraduate-releases/ucas-undergraduate-end-cycle-data-resources/applicants-and-acceptances-universities-and-colleges-%E2%80%94-2016*
12. *UCAS: Acceptances: 30 June 2017 https://www.ucas.com/file/125591/download?token=twyb2Mur*

Figure 2.2 Deadline Applicant Statistics: 30 June 2017

App. Domicile	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	% YoY
England	429,100	441,790	456,920	460,740	459,430	437,860	-4.7
Northern Ireland	19,150	20,290	20,300	20,810	21,110	20,290	-3.8
Scotland	42,490	42,930	43,910	48,490	49,470	48,940	-1.1
Wales	23,240	22,660	23,450	23,550	23,740	22,530	-5.1
UK	**513,980**	**527,670**	**544,580**	**553,590**	**553,750**	**529,620**	**-4.4**
EU (excluding UK)	41,480	43,290	45,380	48,930	51,850	49,250	-5.0
Non EU	61,260	64,940	69,060	70,530	69,300	70,830	2.2
Total	**616,720**	**635,900**	**659,020**	**673,050**	**674,900**	**649,700**	**-3.7**

Source: UCAS

International

In 2015-16, the most recent year for which domicile data is available, there were 438,010 EU and international students studying at publicly-funded HE institutions across the UK – 238,280 studying at undergraduate level and more than 199,730 at postgraduate.[13] Over the last two decades, as a global destination for higher education demand for UK institutions has grown exponentially from non-UK domiciled students.

In 2006-07, non-UK domiciled students represented 14.1 per cent of the overall student population. By 2016-17 the figure of non-UK domiciled students had increased to 19.0 per cent. HESA data shows that the tuition fee income generated from overseas (non-EU) students in 2015-16 increased by 6.3 per cent (the equivalent of £175 million) compared with 2014-15 to approximately £3.8 billion. UCAS data identifies further that international applicant numbers (in figure 2.2 above) increased by 2.2 per cent during the 2017 cycle. The table also identifies that since the introduction of the current tuition fee cap in 2012-13, EU applicant numbers had increased year on year until the academic year 2017-18 when uncertainty relating to the UK referendum decision to leave the European Union appears to have impacted on applicant numbers. In real terms EU applicant numbers had increased by 10,370 students over the period, an increase of 25 per cent. However, applicant numbers for 2017-18 decreased by 5.0 per cent, albeit that subsequent data for the UCAS 15 October 2017 deadline suggests this may prove to be a one year effect.

Properly contextualised, the risk that a fall in EU student numbers would impact on academic and residential demand appears low. Currently, only one in twenty full time undergraduates (5 per cent) are from the EU (excluding UK) and just 12 per cent of full time postgraduates. The Minister for Universities and Skills has confirmed that there would be "no immediate changes" for EU nationals and the Department for Business, Energy and Industrial Strategy continue to maintain their position with regard to the continuation of funding for EU students throughout the Article 50 negotiations.

13. HESA (2015-16)

Academic demand indicators for 2018/19

Initial data from UCAS with respect to applicants for the academic year 2018-19 which include 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 7 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 6 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 (+8 per cent), and Wales (+7 per cent), with 2,190 more young people submitting applications, despite a fall in the UK 18 year old population of around 3 per cent this year.

First time applicants to this deadline are up 8 per cent to 56,020 and applicants from the EU saw an increase of 6 per cent to 6,610, reversing much of the fall seen at the equivalent point in the 2017 cycle. Applicant numbers from outside the EU have increased by 12 per cent to 12,860 (+1,350 people).

Whilst those submitting to this deadline represent typically only 10 per cent of total applicant numbers, this still represents an encouraging indicator with respect to continuing demand for the academic year 2018-19.[14]

14. UCAS Applicant Deadline Data 15 October 2017https://www.ucas.com/corporate/news-and-key-documents/news/number-applicants-october-deadline-university-courses-reaches-highest-recorded-ucas-figures-reveal

2.3 The Student Accommodation market

As a corollary of the expansion and widening of participation taking place within the higher education sector since 1992, demand for full-time UK HE programmes and consequently demand for student accommodation from both domestic and international students is continuing to grow and nationally this growth continues to significantly outstrip the supply of new Purpose Built Student Accommodation (PBSA). Based on available sector data, UPP estimate that approximately 980,000 students currently live in Houses of Multiple Occupation (HMOs) or at home.[15] Market analysts go further, suggesting that the number of students living in HMOs is at an all-time high.[16] The fact that demand is rising at a faster rate than supply and wider pressures in this market segment – such as the wider use of Article Four Directives to control the conversion of houses to student accommodation and less favourable Stamp Duty Land Tax rules – may cause more landlords to exit the sector placing greater reliance on the provision of purpose built stock.

On this basis student accommodation remains a strong and attractive sector and the extra protections afforded by the long-term (on-campus) partnership model developed by UPP, continue to provide investors with secure and stable returns. In 2016-17 the number of purpose built bedrooms for students, including those owned and operated by universities, was estimated at more than 550,000. According to research by Cushman and Wakefield, universities are increasingly recognising the benefit of working with the private sector as a means of facilitating innovation on campus, enhancing their facilities, increasing their attractiveness to students and generally improving their commercial position as a means to strategically position themselves more effectively in light of increasing competition.[17]

Affordability is emerging as a key theme in 2017 shaping demand and supply preferences. This is driven by students finding a voice in relation to an increasing debt burden and as outlined in more detail in section 2.5, it has now become a core policy focus for the two main political parties in the UK. In the most recent student accommodation analysis published by CBRE, the affordability of purpose built student accommodation is premised on delivering quality in terms of location, amenity and services in comparison to similar market options.[18] Clearly, the UPP model of on-campus accommodation, providing a full suite of university student experience initiatives, at rent levels set by the university and UPP typically in discussion with the Students' Union, has an implicit strategic advantage under these conditions.

It remains the case that a significant proportion of the UK HE estate (estimated at circa 20-25 per cent) is in need of either complete refurbishment or redevelopment. Universities recognise that high quality facilities continue to play a key role in student decision making. It therefore remains the case that there is a growing economic rationale for institutions undertaking estate transfer transactions, a market segment where UPP is positioned as the clear market leader.[19]

15. Based on data from the Association University Directors of Estate Report 2016 and CBRE Market Assessment November 2016 – updated with information from UPP Research team

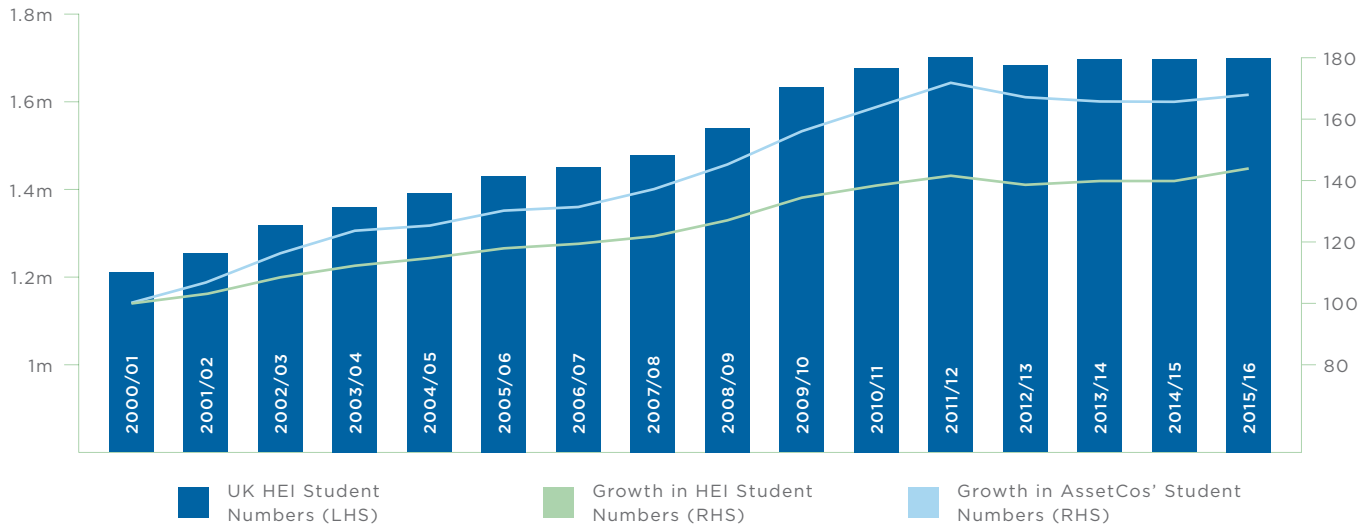
16. CBRE UK Student Accommodation – Accommodation Storylines: Applications, Affordability and appetite from Investors September 2017 p.3

17. Cushman and Wakefield, UK Student Accommodation Report 2016/17, http://www.cushmanwakefield.co.uk/en-gb/research-and-insight/2016/uk-student-accommodation-report/

18. CBRE UK Student Accommodation – Accommodation Storylines: Applications, Affordability and appetite from Investors September 2017 p.5

19. HEFCE Estates Management Statistics 2015-16

Figure 2.3 Full time enrolments from 2000/01 to 2015/16



Source: HESA

2.4 AssetCo Demand

The accommodation operated by AssetCos falling within the ring fence of UPP Bond 1 Limited continue to demonstrate sector leading rates of occupancy. In the financial year 2015/16 levels of occupancy stood at 99.9% and for the academic year 2016/17 occupancy also remained ahead of modelled expectations at 99.9% across the portfolio. At the time of publication all seven of the AssetCos have secured 100% occupancy for 2017/18. Performance for the individual AssetCos comprising the UPP Bond 1 portfolio is detailed in the table below. A detailed outlook for each AssetCo University is provided in Appendix 1.

AssetCo	Occupancy 2016/17	Occupancy 2017/18
UPP (Alcuin) Limited – University of York	100%	100%
UPP (Broadgate Park) Holdings Limited – University of Nottingham	99%	100%
UPP (Exeter Limited) – University of Exeter	100%	100%
UPP (Kent Student Accommodation) Limited – University of Kent	100%	100%
UPP (Nottingham) Limited – Nottingham Trent University	100%	100%
UPP (Oxford Brookes) Limited – Oxford Brookes University	100%	100%
UPP (Plymouth Three) Limited – Plymouth University	100%	100%

2.5 Market demand for student accommodation as an asset class

In the Investor Report for the financial year end 31 August 2016, it was reported that the market had seen the deployment of significant levels of new investment from recently recapitalised operators and that international investors had remained active, including the likes of Canada Pension Plan Investment Board (CPPIB), the Unite Fund, Letter One and Goldman Sachs. During 2017, the student accommodation market has continued to be dominated by portfolio deals in terms of volume with single asset transactions representing only £5.1bn of deals over the last three years.[20]

The global investment appetite for student accommodation also appears to be growing with 64 per cent of transactions in 2016 completed with funds flowing from foreign investors. In the same year, 68,000 beds were traded in the market with a total value of £4.5bn. In 2017, the same figure is expected to rise to 75,000 beds trading for £5.3bn, a projected increase of 17 per cent year on year.[21] According to Knight Frank's June 2017 rental update, a further 25,000 student bedrooms will be completed for the start of the 2017-18 academic year, with a further 14,000 under construction for 2018-19. Moreover, rental growth has been estimated as averagely increasing by 2.6 per cent for the academic year 2017-18.[22]

Notable activity taking place over the last 12 months has included:

- Unite Group converted to REIT status at the beginning of 2017. GIC and Unite Students bought Aston Student Village (3,067 beds) for £227m in February 2017 and divested a 13 hall, 4,175 bed portfolio of rooms to Brookfield Property Partners to partially finance the Aston Student Village acquisition
- CPPIB acquired Student Castle's five completed halls (2,153 beds) and the Union State Portfolio from Victoria Halls/Blackstone (7,921 beds). These halls are now sold under the Liberty Living brand. In turn, CPPIB has sold three halls (1,519 beds) to Henley, a UK private equity real estate investor. GCP Student Living
- The Real Estate Investment Trust Gravis Capital Partners completed the acquisition of Woburn Place, London WC1 from Unite Group. The residence offering 420 beds to students on a direct let basis secured an acquisition price of £135m the equivalent of £318k per room demonstrating the unique characteristics of the student accommodation

market in the capital. In addition, the company announced that it has entered into an agreement with Prudential Global Investment Management (PGIM) Real Estate Finance to increase the company's existing secured debt facility by a further £40m

- The planned $2 billion trade sale of Campus Living Villages (CLV) was postponed during 2017 following a protracted process to find a buyer. The Company, which consists of four funds of 44,000 rooms around the globe and is open to wholesale investors with a minimum of $20m, is owned by several Australian superannuation and pension funds headlined by Host Plus and REST. In the UK CLV operates more than 13,500 bedrooms of which approximately 9,000 rooms are in partnership style DBFO schemes, with a further 4,500 beds operating on a direct let basis

The financial year 2016-17 has continued to see an increasing number of large scale on-campus reconfigurations and estate transfer projects coming to market. The Group has reached financial close on transactions with the universities of London and Hull and has secured preferred bidder positions in relation to schemes with existing and new partners. The DBFO market in which UPP operates continues to be characterised by significant barriers to entry due to the complexity, level of expertise and available risk capital required to successfully deliver these large infrastructure transactions. Clearly differentiated from property based, direct let provision, the long term partnership model continues to represent a niche market where UPP has established itself as the market leader.[23]

The UK HE sector continues to evolve and whilst far greater certainty has been provided by the introduction of the Higher Education and Research Act, there still remains some uncertainty with regard to Brexit and longer term funding arrangements.

In the case of Brexit, the impact of the referendum decision to leave the EU continues to be the focus of much attention across the Higher Education sector and whilst the current Government remains committed to continuing current funding arrangements for EU students until the completion of the Article 50 negotiations, some uncertainty remains with regard to tuition fees for EU students studying in England. Properly contextualised, however, the risk that a potential fall in EU student numbers would impact on academic and residential demand appears low. Applicant data to UCAS by Domicile identifies, since the introduction

of the current tuition fee cap, EU applicant numbers had increased year on year until the academic year 2017-18 when uncertainty relating to the UK referendum decision to leave the European Union impacted on applicant numbers. In real terms, EU applicant numbers had increased by 10,370 students over the period, an increase of 25 per cent.[24] However, applicant numbers for 2017-18 decreased by 5 per cent, albeit that subsequent data for the UCAS 15 October 2017 deadline suggests this may prove a one year effect.[25] Post-Brexit demand modelling by the Higher Education Policy Institute and London Economics supports the notion that this impact will have a marginal effect on demand overall.[26] Analyses have projected that in an environment where EU students no longer have access to the UK student loan book; where the same students are charged the same fees as international students and assuming the value of sterling depreciates as effect of leaving the EU – that the net impact would be the equivalent of 1.4 per cent decline in full time student numbers.

In terms of longer term funding arrangements the issue of tuition fees has been placed centre stage in terms of the policy focus of the two main political parties. The pledge of the Labour Party to scrap tuition fees has resulted in the Conservative administration refocusing its attention on student debt. In September 2017, a policy announcement confirmed that the Government intended to scrap the planned increase of the tuition fee cap to £9,500 from £9,250 with immediate effect; review the level of interest payments on loans with a view to reducing current rates and; increase the salary threshold at which students begin to repay their loans from £21,000 per year to £25,000. The announcement represents the first step in a potentially wider review of HE funding in England and Wales more generally, with the aim of enforcing greater variability in tuition fees by subject.

Whilst these changes are unlikely to make any significant impact on the UPP business model and its capacity to secure occupancy, it is likely that the immediate freezing of tuition fee increases and the repayment threshold rise will have a positive

The announcement represents the first step in a potentially wider review of HE funding

impact in firming up still further academic and residential demand. A further review of university funding on the basis of capping fees at £7,500, may well improve the longer term outlook on demand, whilst greater fee income variability could make universities more likely to look for delivery of schemes off-balance sheet, with a private partner.

20. *CBRE UK Student Accommodation – Accommodation Storylines: Applications, Affordability and appetite from Investors September 2017 p.7*
21. *Savills UK, Spotlight, UK Student Housing 2017, Savills Research, May 2017, http://pdf.euro.savills.co.uk/uk/spotlight-on/spotlight-uk-student-housing-2017.pdf*
22. *Knight Frank, UK Student Housing Rental Update, June 2017, http://content.knightfrank.com/research/169/documents/en/june2017-4728.pdf*
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24. *www.ucas.com/file/115901/download?token=bzdJIyHR*
25. *www.ucas.com/file/130736/download?token=EDhCX9xV*
26. *HEPI and London Economics The determinants of International Demand for UK Higher Education January 2017*

3.0

Financial highlights

for the year ended 31 August 2017

FINANCIAL HIGHLIGHTS

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

- Occupancy for 2017 at 99.9% (2016: 99.9%)
- Turnover increased to £62.7m which is a 2.3% underlying increase on 2016
- EBITDA before sinking fund of £40.9m (2016: £39.7m)
- Healthy cash balance of £35.6m made up largely of liquidity reserve accounts and short term working capital requirements
- Payments to subordinated debt loan notes of £8.84m (2016: £10.24m)

For the year ended 31 August 2017, the Bond portfolio performed above modelled expectations. The historic ADSCR for the period was 1.37 compared to a lock up ADSCR of 1.15.

As in 2016, the rental income was fixed at the start of the academic year along with a significant proportion of the costs with the main exception being utilities. With occupancy secured at 99.9%, performance for the year surpassed model and budget expectations, with strong operating cash generation of £36.1m.

The Group made a loss for the year of £17.6m (2016: £7.5.m). Of this loss, £19.8m (2016: £19.8m) is attributable to interest on subordinated debt, of which only £8.84m (2016: £10.24m) was paid at the end of the 2016/17 financial year. This result is above modelled projections where the coupon on the subordinated debt is paid over the life of the concession.

Consolidated profit and loss results for the seven AssetCos are presented below for the financial year ended 31 August 2017. These results for 2017 and 2016 include the costs associated with UPP Bond 1 Limited, UPP Bond 1 Holdings Limited and UPP Bond 1 Issuer Plc.

3.1 AssetCo Consolidated profit and loss account for year ended 31 August 2017

	Year ended 31 August 2017	Year ended 31 August 2016	Change %
	£'000	£'000	
Turnover	62,697	61,309	2.3%
Cost of sales	(18,961)	(18,718)	1.3%
Gross profit	43,736	42,591	2.7%
Gross profit margin	69.8%	69.5%	
Operating expenses	(2,829)	(2,939)	(3.7%)
EBITDA before sinking fund expenditure	40,907	39,652	3.2%
EBITDA margin	65.2%	64.7%	
Sinking Fund expenditure	(4,024)	(3,799)	5.9%
EBITDA	36,883	35,853	2.9%

Turnover is defined to include rental receipts from students net of contractual amounts deducted by university partners for taking credit and void risk, upside sharing arrangements, commercial and vacation income derived from other activities at each AssetCo, together with any payments or receipts under the relevant RPI linked swaps. With typically high occupancy, the main driver of turnover growth is the annual RPI linked increase in the rental rate.

For the year ended 31 August 2017 occupancy was 99.9% (2016: 99.9%) showing the strength of demand for the AssetCos. The growth in turnover was 2.3% (2016: 3.5%) which was driven by RPI linked rental income and increases achieved above RPI. Rents for all the AssetCos except Oxford Brookes were set 12 months prior to the start of the academic year, when RPI was 0.78%.

Cost of sales, which is made up of Facilities Management (FM) costs, staff costs and utilities, increased by 1.3% (2016: 1.8%) during the year. FM and staff costs increased during the year due to contractual increases linked to September 2015 RPI, with the exception of Oxford Brookes where both rentals and FM costs are linked to RPI as at the start of the academic year. Internet access costs decreased as the Broadgate Park and Nottingham AssetCos enter the final year of their respective contracts. Utility costs have broadly remained in line with 2016 expenditure levels across all the AssetCos.

Overheads have decreased by 3.7% (2016: increase 23.2%) due to a reduction of one off costs within the Asset Cos. Approved variations include the remainder of costs for the Sandby room conversion of £164k at Nottingham, £72k for drainage works at Kent and £73k for costs associated with the remediation works at Exeter in relation to the ongoing cladding issue. The EBITDA margin before sinking fund expenditure is 65.2% (2016: 64.7%)

Sinking Fund costs are made up 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, it is not necessarily comparable from one year to the next. Accordingly, the amount charged to the Profit and Loss account, while visible, can vary substantially between years and as such the financial performance of the AssetCos is best monitored at the EBITDA before sinking fund expenditure line.

More detailed analysis of the performance of each individual AssetCo is provided in Appendix 1 of this report.

3.2 Forecast financial highlights for the year ended 31 August 2018 for the seven AssetCos

- Occupancy for the year currently standing at 100.0% across all seven sites
- Rental income projected to increase by 1.7%
- Projected ADSCR ratio of 1.34 compared to lock up ratio of 1.15

AssetCo occupancy is secured at 100.0% at the start of the academic year for all seven AssetCos. This demonstrates the strengths of both market conditions and UPP business model. More detail on the developments in the HE sector is provided in Section 2 of this report.

With occupancy confirmed for 2017/18, rental receipts from students net of contractual university fees are expected to be c. £62.6m, an underlying increase of 1.4% on 2016/17.

The projected ADSCR outcome for the year is expected to be 1.34. The business model ensures that costs are predominantly fixed at the start of the year giving predictability to the cash flows. The exception is the cost of utilities which are closely managed and procured in advance where possible to give price certainty.

3.3 Sinking fund and operational performance

FM services are provided by UPP's 100% owned subsidiary, UPP Residential Services Limited (URSL). UPP considers that controlling the FM provider is crucial to the success of the AssetCos. Site staff are incentivised on the performance of the AssetCo, rather than the profit of URSL. This ensures that service levels are not reduced in order to improve the profitability of the FM provider. Rather, services are delivered to the highest level possible in order to ensure the continued attractiveness of the accommodation and to maximise occupancy for future years.

This targeting of high service levels is reflected in the performance of the FM provider. During the period, URSL suffered no deductions for unavailability or poor performance and this reflects the high standards set in previous years.

Lifecycle, or Sinking Fund, expenditure is managed by URSL and was in line with budget for the year. In total, £4.0m (2016: £3.8m) was invested into the AssetCos to maintain the quality of the accommodation. All works were completed on time and within budget. More detail on the expenditure for each AssetCo is provided in Appendix 1 of this report.

As previously notified, a latent defect was identified at the newly built accommodation at the AssetCo at the University of Exeter. During the year the AssetCo successfully reached agreement with the contractor as announced on 17 July 2017 and the remediation works to rectify the latent defect is currently underway and will continue over the next four financial years. It remains the case that the defect identified and the programme established, will not affect the operation of the accommodation which to date has been fully occupied at modelled rents.

4.0

Ratio calculations

As set out in Paragraph 2 of Part 2 of Schedule 9 of the CTA the ratio calculations for the year ended 31 August 2017 are:

4.1 Historic AssetCo DSCR

UPP (Alcuin) Limited	1.40
UPP (Broadgate Park) Holdings Limited	1.36
UPP (Kent Student Accommodation) Limited	1.35
UPP (Nottingham) Limited	1.29
UPP (Oxford Brookes) Limited	1.40
UPP (Plymouth Three) Limited	1.38
UPP (Exeter) Limited	1.41

4.2 Projected AssetCo DSCR

UPP (Alcuin) Limited	1.32
UPP (Broadgate Park) Holdings Limited	1.40
UPP (Kent Student Accommodation) Limited	1.32
UPP (Nottingham) Limited	1.34
UPP (Oxford Brookes) Limited	1.35
UPP (Plymouth Three) Limited	1.35
UPP (Exeter) Limited	1.38

4.3 Historic senior DSCR 1.37

4.4 Projected senior DSCR 1.36

The Historic Senior DSCR and Projected Senior DSCR have been calculated as per the definition in the Common Terms Agreement.

Per Schedule 10 (Monitoring Trigger Events and Lock-up Events), the Historic Senior DSCR and the Projected Senior DSCR exceed 1.15: 1 for the Test Period and therefore:

- Per Part 1 of this Schedule (Monitoring Trigger Events) there is no event that gives rise to a Monitoring Trigger Event
- Per Part 4 of this Schedule (Lock-up Events), the Historic Senior DSCR and Projected Senior DSCR does not give rise to a Lock-up Event under Paragraph 1.1

4.5 Current hedging policy

On 5 March 2013 the Group entered into three Inflation Linked swaps (RPI swaps) to reduce its exposure to inflation on the revenue streams generated by the AssetCo's. These swaps are sized to cover 80% of the anticipated debt service costs on the fixed rate tranche of the Bond, in line with the Hedging Policy outlined in Schedule 13 of the CTA.

Receipts and payments on the RPI swaps are recognised as they are incurred over the life of the arrangement. Changes in fair value of these arrangements have previously not been required to be recognised under UK GAAP unless a company has chosen to or is required to adopt FRS 25 and FRS 26.

The new UK GAAP accounting framework (FRS 102) was issued in March 2013 and all companies are now required to account for the fair value of derivatives. If certain criteria are met then a company can choose to adopt Hedge Accounting, with movements in fair value of derivatives being taken through reserves rather than the profit and loss of the company.

For the year ended 31 August 2017 the Group has recognised the fair value of derivatives. In recognising this fair value the Group has considered the contractual rent basis of each of the AssetCos and whether the criteria is met to utilise Hedge Accounting and ascertained that for four out of the six AssetCo's that have entered into Inflation Linked swaps the Hedge Accounting criteria had been met.

The directors of the Group considered that the underlying contractual arrangements with UPP (Kent Student Accommodation) Limited and UPP (Plymouth Three) Limited and their respective university partners did not meet these criteria and therefore Hedge Accounting could not be utilised and any movements in fair value of the Inflation linked swaps will be recognised within the profit & loss account of each AssetCo. We note however, that these limitations within Section 12 of FRS 102 in the application of hedge accounting do not impact the Group's cash flow position. The reasons for entering into RPI swaps remain commercially sound that is they are intended to be held to maturity in order to reduce volatility in the Group's cash flows. Both UPP (Kent Student Accommodation) Limited and UPP (Plymouth Three) Limited will elect to apply the Disregard Regulations as defined within the Tax Deed of Covenant dated 5 March 2013. This election will be undertaken before the tax computations for those AssetCos are required to be filed with HMRC. Under this election any fair value movement in the profit and loss will not be subject to tax.

4.6 Distributions made

In accordance with the terms of the Loan Note Instrument dated 5 March 2013 entered into by UPP Bond 1 Holdings Limited and UPP Group Limited and the terms of the CTA, an amount of £8,836,000 (2016: £10,245,000) was distributed to UPP Group Limited on 31 August 2017.

4.7 REIT process

The issuer commenced a consent process on 9 October 2017 to implement sub debt and tax deed changes within the Bond 1 Group in anticipation of the UPP Group converting to a REIT. Having engaged with Noteholders on the matter, the Issuer tried, but was unable, to extend the time for Noteholders to consider the consent request. The Issuer explained this to Noteholders on 2 November 2017. The consent was not passed at the Noteholder meeting on 8 November 2017. The Issuer is likely to re-issue the consent request in relation to the REIT shortly.

4.8 Confirmation

Per paragraph 3.3.4 of Schedule 9 of the CTA this confirms that;

a) The Investor Report attached herein is accurate in materially all respects

b) No Default, Senior DSCR Enforcement Event, Lock-up Event or Monitoring Trigger Event has occurred and is continuing

c) The Group is in compliance with the Hedging Policy

Signed for and on behalf of UPP Bond 1 Issuer Plc

Julian Benkel
Group Compliance Director
and Company Secretary

5.0

Monitoring Adviser Addendum

£5 billion Multicurrency Programme for the Issuance of Senior Secured Notes (the "Programme")

A. Background

UPP Bond 1 Issuer PLC (the "**Issuer**") has prepared its annual Investor Report for the year ended 31 August 2017 in relation to the Issuer's note programme (the "**Programme**"). Bishopsfield Capital Partners Limited ("Bishopsfield" or "**BCP**"), as Monitoring Adviser, is required under the terms of the Monitoring Services Agreement ("**MSA**") dated 5 March 2013 to prepare an addendum to the annual Investor Report (the "**Monitoring Adviser Addendum**") commenting, inter alia, on whether on the basis of information obtained by the Monitoring Adviser in the performance of the Services, and in accordance with the Monitoring Adviser Standard, it agrees with the matters stated in the Annual Investor Report.
The Monitoring Adviser Addendum is also required to identify:

- MA ("**Monitoring Adviser**") Direction Matters and ISC ("**Issuer Secured Creditor**") Recommendation Matters decided during the year to which the Annual Investor Report relates (see Paragraph C below), and
- any other information which the Monitoring Adviser considers relevant to Holders including any material findings arising from its monitoring obligations described in Paragraph 1.3 (Property Visits) of Schedule 1 (Monitoring Services), Part 1 (Monitoring under Normal Conditions) of the MSA (see Paragraph E below)

This Monitoring Adviser Addendum refers to matters arising during the period from 1 September 2016 through 31 August 2017 unless otherwise stated herein.

B. Executive summary

Bishopsfield has reviewed the Issuer's annual Investor Report. On the basis of the information provided and discussions held with the Issuer's management in the on-going undertaking of the Monitoring Adviser Services, Bishopsfield agrees the matters stated in the Issuer's annual Investor Report.

We note that monitoring was conducted under normal conditions throughout the year to 31 August 2017 (the Transaction Documents would require Bishopsfield to provide certain escalated monitoring should certain triggers be breached).

There are presently three tranches of notes outstanding:

- £307.1 million 4.9023% Amortising Fixed Rate Bond due 2040;
- £75 million 2.7921% Amortising Index Linked Bond due 2047; and
- £149.7 million 1.037% Amortising Index Linked Bond due 2049

Occupancy across the seven AssetCos was 99.0% for the 2016/17 academic year; occupancy was 100% for all AssetCos except at UPP (Broadgate Park) Holdings Limited (at the University of Nottingham) where occupancy of 99.0% was observed.

EBITDA, before Sinking Fund payments, was £40.9 million on turnover of £62.7 million.

One distribution of £8,836,484 was announced in relation to the last academic year and this was paid on 31 August 2017. We note that a Compliance Certificate should have been received in advance of this distribution, but was not received in final form until 5 September 2017. In making this comment, we note that the Issuer endeavoured to supply said Compliance Certificate in a timely manner; however, the initial drafting was not accurate.

As previously reported (see December 2016 Addendum) Bishopsfield visited, during September 2016, the AssetCo properties at Oxford Brookes (Cheney Hall). During October 2017, we visited the AssetCos properties at University of York (Alcuin). These two AssetCos account for approximately 6.6% and 8.9% of rooms within the Bond financing and 7.2% and 11.3% of EBITDA (before sinking fund expenditure), respectively (for the year ended 31 August 2017). The latter of these Site Visits is summarised in Section D of this Monitoring Adviser Addendum.

The Issuer provided the following Compliance Certificates during the twelve months ended 31 August 2017:

- Compliance Certificate dated 16 December 2016 in relation to Audited Financial Statements for the year ended 31 August 2016;
- Compliance Certificate dated 28 April 2017 in relation to unaudited semi-annual Financial Statements for the first half of the financial year ending 31 August 2017 (i.e. for the six months ending 28 February 2017); and
- Compliance Certificate dated 5 September 2017 in relation to a Distribution reported by the Issuer to have been made on 31 August 2017

C. MA Proposal Requests received

The Monitoring Adviser considered three MA Proposal Requests during the year to 31 August 2017, and has considered one subsequently.

1) On 9 December 2016, the Issuer sought consent to appoint HSBC Bank plc as Account Bank and to amend the Account Bank Agreement. Bishopsfield confirmed the categorisation of the MA Proposal Request as an MA Direction Matter and made a recommendation that the Issuer Security Trustee approves the MA Proposal Request on behalf of the Issuer Secured Creditors on the basis that entry into the new Account Bank Agreement and appointment of HSBC were not expected to be materially prejudicial to the Issuer Secured Creditors and reduced the risk that the Securities may suffer an adverse long-term credit rating action. Specifically, we noted:
   - HSBC was higher rated (long-term) relative to the then existing account bank (Barclays) from both rating agencies;
   - HSBC met the definition of Acceptable Bank under the Account Bank Agreement;
   - The Amended and Restated Account Bank Agreement is in a form that it is consistent with the prior Account Bank Agreement, and the amendments have been certified as not being materially prejudicial to the Issuer Secured Creditors; and
   - The Customer Agreement is a service-level agreement related to access and use of HSBCnet which does not prejudice, in our opinion, HSBC's obligations under the Amended and Restated Account Bank Agreement

The conditions to the Monitoring Adviser's Recommendation were subsequently satisfied through provision of a copy of the requested documents.

2) On 15 June 2017, the Issuer sought consent to UPP (Kent Student Accommodation) Limited (as the relevant AssetCo) entering into a JCT Minor Works Contract and certain additional consents in relation to rectifying the drainage system at Woolf College. Bishopsfield confirmed the categorisation of the MA Proposal Request as an MA Direction Matter and made a recommendation that the Issuer Security Trustee approves the MA Proposal Request on behalf of the Issuer Secured Creditors on the basis that the proposed Works (as defined in the relevant MA Proposal Request) are not expected to materially adversely affect the interests of the Issuer Secured Creditors. Specifically, we noted:
   - The Works will be undertaken by Barhale plc and will be monitored by WSP, who will provide regular reporting to UPP and the Monitoring Adviser. Barhale plc appear qualified to undertake the Works
   - Rectifying the drainage system will help ensure that the security available to the Bondholders retains its value and remains fit for purpose
   - The Projected Senior DSCR for the current academic financial year is forecast to remain at a consistent level this year notwithstanding the cost of the Works. Whilst Projected AssetCo DSCR is forecast to be lower than originally forecast as a result of the cost of the Works, we note that the Projected AssetCo DSCR was reported to be 1.37x as at 28 February 2017 – above the level observed (1.31x) when the Operating Budget for the current year was prepared. We also note that some 60% of

the estimated Works cost was included in the Operating Budget for AssetCo for the current 2016/17 financial year

- The Issuer has confirmed that all necessary notifications and consents relative to the Works, including to the University, the students, utility providers and insurance providers, have or will be provided. AssetCo does not envisage any disruption to students
- That appropriate insurance cover is maintained by AssetCo and the Contractor
- The Works will be carried out in accordance with applicable planning conditions, building and fire regulations, health and safety requirements, any authority approvals and other applicable laws and regulations

We note that the conditions to the Monitoring Adviser's Recommendation were subsequently satisfied through provision of a copy of the requested documents and the submission of regular monthly reports. We note that the monthly reports were not always supplied in a timely fashion.

The Works were completed late (16 October 2017 versus 8 August 2017) and cost materially more than was projected by the Issuer in the MA Proposal Request. The budget was for about £183,000, whereas the final project cost exceeded £315,000 (including VAT). Had the final cost been presented at the time of the MA Proposal Request, and had the entire budgeted cost been accrued during the 2016/17 financial year (as was contemplated at the time of the MA Proposal Request), this may have impacted our MA Recommendation as the Projected AssetCo DSCR would have fallen to 1.17x. We note, however, that the Issuer and the relevant AssetCo decided, whilst the works were being completed, to budget for a significant portion of the increased costs in the 2017/18 financial year reflecting when the relevant works were being undertaken. We also note that the actual CFADS generated by the AssetCo was commensurately higher than forecast, more than offsetting increased costs. We have discussed with management our observations on reporting and budget management in relation to this consent and have been assured that the process will benefit from heightened management scrutiny and oversight in the future.

3) On 8 June 2017, the Issuer sought consent to UPP (Exeter) Limited (as the relevant "AssetCo") to enter into a Settlement and Remediation Deed and certain additional documents and consents in relation to remedying certain Latent Defects. Bishopsfield confirmed the categorisation of the MA Proposal Request as an MA Direction Matter and made a recommendation that the Issuer Security Trustee approves the MA Proposal Request on behalf of the Issuer Secured Creditors on the basis that the proposed Works (as defined in the relevant MA Proposal Request) are not expected to materially adversely affect the interests of the Issuer Secured Creditors. Specifically, we noted:

- The Remediation Works will be undertaken by Balfour Beatty entirely at Balfour Beatty's cost. Bailey Partnership will independently monitor the Remediation Works and provide regular reporting to UPP Exeter, the Monitoring Adviser and the University.
- Remedying the Latent Defects will help ensure that the security available to the Bondholders retains its value and remains fit for purpose, remedying certain risks related to the properties whilst also retaining their marketability to students in the longer term.
- The University is evidently marketing the rooms, notwithstanding the Remediation Works, with incentives available to students in respect of disruption caused. As we understand it, the University understands the necessity for the Remediation Works and is co-operating with AssetCo and Balfour Beatty.

- The forecast ADSCR for AssetCo and ParentCo are projected to remain at consistent levels through the current and prospective five-year period (as detailed in Schedule 3 of the MA Proposal Request). We asked UPP to conduct certain stress scenarios to the cash flows: debt service to Bondholders was sustainable under each of the scenarios.
- Both Moody's and Standard & Poor's, in commentary in relation to the Notes, reference the Remediation Works and neither highlighted that entering into the Settlement and Remediation Deed was likely to trigger a negative rating action.
- If, following execution of the Settlement and Remediation Deed, Balfour Beatty were to be unable to continue to fulfil its contractual commitments, we anticipate that the AssetCo would pursue contractual remedies, whilst arranging for the Remediation Works to continue through another contractor. Under such scenarios, the AssetCo might find itself entering into lock-up or even default. The terms of the Notes contemplate enhanced rights for the Issuer Secured Creditors under such circumstances through which a plan would likely be developed to resolve the situation arising. In addition, it has been agreed in the MA Proposal Request (see paragraph 1.6 (i)) that, to the extent liabilities arise to AssetCo as a consequence of the Remediation Works not being completed or AssetCo failing to perform its obligations in respect of the Remediation Works, there will be a consequential, limited lock-up on equity distributions.

- The Issuer has confirmed that all necessary notifications and consents relative to the Remediation Works, including to the University, the students and its insurance providers, have been or will be provided
- That the Issuer and AssetCo have provided, in response to our request, several confirmations, addressed to the Issuer Secured Creditors within the MA Proposal Request. These include that:
  - It is not anticipated that the Remediation Works will have a material adverse impact on students, considering the compensation package being offered to students;
  - Appropriate insurance cover is maintained by AssetCo and the Contractor; and
  - The Remediation Works will be carried out in accordance with applicable planning conditions, building and fire regulations, health and safety requirements, any authority approvals and other applicable laws and regulations
- UPP Group Limited provided a letter of support dated 7 June 2017; this letter emphasizes, in our opinion, UPP's intent to provide management support to its subsidiary UPP (Exeter) Limited to 'resolve the remediation of defects and manage the financial consequence arising, including the use of the Bond group's cash flows if Balfour Beatty failed to perform'

We note that the conditions to the Monitoring Adviser's Recommendation are being subsequently satisfied through provision of a copy of the requested documents and the submission of monthly reports. We have now agreed a template for the monthly reports that should facilitate timely submission as well enabling us to monitor progress towards completion.

Bishopsfield visited the site during September 2017 to familiarise itself with the Remediation Works. It was evident that the works are progressing, although some minor delays have been reported. AssetCo management have indicated that the delays are not considered material at the present time. We continue to monitor the works through the monthly reporting protocol established.

4) On 9 October 2017, ParentCo sought various consents related to UPP Group's contemplated REIT conversion. Bishopsfield confirmed the categorisation of the MA Proposal Request as an ISC Direction Matter and made a conditional recommendation that the Issuer Security Trustee approves the MA Proposal Request on behalf of the Issuer Secured Creditors on the basis that the proposed Works (as defined in the relevant MA Proposal Request) are not expected to materially adversely affect the interests of the Issuer Secured Creditors.

We note that ParentCo announced on 3 November 2017, its intention not to proceed with the MA Proposal Request or the concurrent related Proposal Request.

[27.] *Moody's Investors Service Credit Opinion dated 4 April 2017 and S&P Global Ratings Transaction Update dated 24 March 2017*

D. Monitoring services performed[28]

1. REGULAR UPDATES

1.1. Management meetings

In addition to the 9 November 2016 Management Meeting that we discussed in our previous Monitoring Adviser Addendum, three further Management Meetings have been conducted:

On 28 February 2017 Bishopsfield met with Management. Discussions focused on:

- Existing and anticipated MA Proposal Requests (see Section C above for additional details)
  - NTU Sandby Hall; management updated us on progress of the enhancement works that were the subject an MA Proposal Request during summer 2016 (BCP Ref. UPP 11). These works were completed during the Christmas vacation
  - Kent sewerage; management provided an update on the likely timing of the MA Proposal request and the necessary remedial works (BCP Ref. UPP 13)
  - Exeter latent defects; management provided an update on the likely timing of the MA Proposal request and the necessary remedial works. (BCP Ref. UPP 14)
  - Project Refresh; management introduced the project to accelerate lifecycle works at certain accommodation buildings; the objective is to offer a more consistent product across particular residences / colleges. Certain such works were being prioritised and management alerted that these will likely have an impact on certain AssetCo budgets
- Financial performance
  - Management discussed the financial performance of the Group and the AssetCos. This was as described in the six-monthly Investor Report

Bishopsfield met with Management on 6 June 2017. Discussions focussed on:

- Market environment; management commented:
  - A recent Cambridge Research study into student accommodation demand highlighted key demand drivers as being:

University Selection	Accommodation Selection
Course	Affordability
Employment prospects	Cleanliness
Location	En-suite

  - All properties in the UPP Bond Structure are evidencing increased demand except for Plymouth which has seen demand fall by some 0.2%. Management commented that this is not seen as a concern given that Plymouth evidences the highest students to bed ratio of the seven universities
  - Post-graduate demand is stable
  - Affordability remains the key topic
- Policy changes; this meeting took place in the final run-up to the General Election and so the potential for a change of government was discussed. Management commented that any reduction in student tuition fees will likely cause demand to increase at a time when demand is already at record levels. Management also discussed the Higher Education & Research Act ("HERA"), Discussion focused on 'Pathway' to exit (plans for what happens if a University fails) and the Teaching Excellence Framework ("TEF") (introduction of Gold, Silver and Bronze standards, shift in focus of tertiary education performance benchmarking from research to tuition)

28. *Each heading follows the relevant heading in Schedule 1, Part 1 of the MSA*

- BREXIT. UPP referenced a recent HEPI analysis indicating that under certain scenarios EU student demand might potentially fall by some 26,000. However the same report identifies that this would be at least partially offset by an increase of 14,500 non EU applicants
- Lettings; management commented that almost all rooms are fully let with demand observed to be increasing at all sites
- Existing and anticipated MA Proposal Requests (see Section C above for additional details)
  - NTU Sandby Hall; management confirmed that the final investor report would be submitted imminently (received on 5 September 2017) (BCP Ref. UPP 11)
  - Kent sewerage; management commented that the relevant MA Proposal Request would be submitted imminently and that works were expected to commence in late June (BCP Ref. UPP 13)
  - Exeter Latent Defect remediation; management commented that the relevant MA Proposal Request would be submitted imminently and that works were expected to commence in late June (BCP Ref. UPP 14)
  - REIT proposals; management provided an update on the project (UPP Ref. UPP 15)
- Management introduced Project Refresh; the project contemplates enhancing certain properties to make them more marketable through accelerating sinking fund works so that student satisfaction will also increase (as a result of all accommodation décor and furnishings being of a similar age). The project was subject to shareholder approval which was anticipated during June 2017. If approved, UPP contemplated starting work on the NTU Peverell accommodation that summer with work projected to take place over the coming three years. Current rough budgets indicate a cost of circa £2 million funded 75% by the relevant AssetCo through enhanced rental income and 25% by shareholders

Bishopsfield met with Management on 21 November 2017. Discussions focussed on:

- University Accommodation: Competitive Landscape
  - Demand for and supply of student accommodation; management discussed the competitive landscape and robust student demand witnessed this year
  - Changes envisaged across the Higher Education sector and the impact on UPP; management updated us on changes to government policy, subsequent to the summer 2017 general election
  - Impact of Brexit
- Economic environment: how is this impacting UPP?
  - Management will be monitoring the impact of higher inflation figures over the coming months
- AssetCos Financial Review
  - Management commented on the robust performance of individual AssetCos. Summarised financial information was provided to support the discussion
- Timing of Sinking Fund Budget Review
  - Management undertake the budgeting process for Sinking Fund expenditure a few months later than the operating budget process
  - BCP anticipate reviewing the 2017/18 Sinking Fund budget during January 2018
- Project Refresh
  - Management commented that Project Refresh works have started at NTU. Whilst some enhancement works scheduled for 2016/17 will occur through 2017/18, the work is reported to have been well received by students
- Status of Proposal Requests/subsequent implementation; discussion focused on:
  - Exeter Settlement Agreement and related latent defect works
  - REIT conversion

1.2. FM Provider

FM services are provided by URSL. URSL has provided the information that Bishopsfield has requested largely in a timely manner; the information related primarily to the University of York Property Visit conducted during August 2016, the MA Proposal Requests received and certain questions/clarifications arising during the Operating Budget review.

1.3. Property Visits

1.3.1. University of York

BCP conducted a Site Visit to the University of York accommodation during October 2017. Prior to financial close a comprehensive report was produced by WSP and dated October 2012 (the "WSP Report"; following discussions with UPP Group management we elected to rely on the aforementioned WSP report, together with a Life Cycle Report produced by URSL.

BCP met local staff and were accompanied by members of UPP's head office staff. Staff demonstrated knowledge and awareness of both local and national UPP practices and procedures. We examined the condition of the properties in conjunction with the comments made in the Closing WSP report in this instance and in connection with any major capital expenditure (exceeding £500,000), planned maintenance and lifecycle expenditure over the next 12 months, material disputes, breaches and deductions, litigations and claims and other matters that were brought to our attention. We were satisfied with the current condition subject to subsequent clarifications of certain matters identified.

We discussed AssetCo planned maintenance and lifecycle expenditure over the coming 12 months, material disputes, breaches and deductions, litigations and claims and various other matters arising and are satisfied with the current condition.

1.3.2. Nottingham Trent University

Bishopsfield visited certain properties at Nottingham Trent University in September 2017. The primary focus of the visit was, as was required under the terms of the consent request approved during summer 2016 (BCP Ref. UPP 11), to visit Sandby Hall. It was evident to us during the visit that the works have been completed and that the revised business-model being employed for the rooms was evidencing strong demand, whilst the décor and furnishing appeared in reasonable condition given the increased resident turnover experienced. We will discuss the impact of the revised business model with UPP over the coming periods to understand the impact on Lifecycle expenditure.

Whilst visiting Nottingham Trent University, we also visited selected other accommodation to observe initial progress on Project Refresh; the visits will provide useful context for budget reviews and any consent requests required.

1.3.3. University of Exeter

Bishopsfield conducted a Site Visit to UPP's accommodation at the University of Exeter during September 2017. This Site Visit was scheduled to view the Remediation Works in progress. We visited some of the rooms where pod-related work was due to commence and viewed several buildings where cladding-related works are on-going.

1.4 CASH MANAGEMENT AND OPERATING BUDGET

1.4.1 Collections

The Monitoring Adviser is required to review ParentCo's Bi-Annual Cash Management Report.

Based upon the summary information presented, Bishopsfield is comfortable that the relevant payments are being made in a timely manner and in accordance with the relevant On-Loan Agreement and other Transaction Documents (except as noted above in relation to the late submission of a Compliance Certificate).

1.4.2 Operating Budget

The Monitoring Adviser is required to review the Operating Budget of ParentCo and each AssetCo at least annually. Bishopsfield reviewed the Operating Budgets for the twelve months commencing 1 September 2017 and found the reviewed Operating Budgets to be reasonable based upon the information available to us at such time and:

- The performance and financial condition of the business of each applicable AssetCo and the Group
- Historic expenditure of the relevant AssetCo or the Group
- The debt service requirements of each AssetCo to the Issuer, and
- Compliance with the terms of the relevant On-Loan, if applicable

2. SINKING FUND REVIEW

The Monitoring Adviser is required to review the Lifecycle Report provided against the sufficiency of the each AssetCo's sinking fund reserves held in the relevant Sinking Fund Reserve Account to meet Projected Lifecycle Maintenance Costs.

Lifecycle Reports can be prepared by the FM Provider (URSL) or an independent and suitably qualified property consultant. The Lifecycle Reports reviewed to date have been prepared by URSL.

The Lifecycle Report should report on lifecycle maintenance costs projected to be required over the following 60 months to maintain the condition of each Relevant Property in good working order, of a quality consistent with those of alternative accommodation available in respect of the relevant University and consistent good industry practice. URSL has provided ten-year projections. Following the Bishopsfield's review of the Lifecycle Report presented in January/February 2017, using a Test Date of 31 August 2016 for calculations of the Sinking Fund Required Amounts, we can confirm that all Sinking Fund Reserve Accounts had excess funds available as at 31 August 2016 relative to the Sinking Fund Required Amounts.

The Monitoring Adviser has reviewed the projected expenditure identified by URSL and believe that it is reasonable given the information available to us about the condition and plans for each asset.

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6.0

AssetCo summaries

Appendix 1

UPP (Alcuin) Limited, University of York

Profit and loss, year ended 31 August		2017	2016
	Note	£'000	£'000
Revenue	1.1	**6,191**	6,107
Cost of sales	1.2	**(1,285)**	(1,318)
Overheads	1.3	**(264)**	(314)
EBITDA before sinking fund		**4,642**	4,474
Sinking fund		**(205)**	(485)
EBITDA		**4,437**	3,989
Depreciation		**(174)**	(149)
Amortisation		**(94)**	(94)
Profit/(loss) before financing costs		**4,169**	3,746
Interest income		**49**	41
Bond note interest & uplift on Index-linked loan notes	1.4	**(2,807)**	(2,594)
Subordinated debt interest	1.4	**(1,402)**	(1,371)
Profit/(loss) before tax		**9**	(178)
Tax		**-**	-
Profit/(loss) for the year		9	(178)

York

740 ROOMS FEBRUARY 2001 **NB**
304 ROOMS SEPTEMBER 2007 **ET**

ET – Estate Transfer
NB – New Build

UPP (Alcuin) Limited, University of York

Balance sheet		2017	2016
	Note	£'000	£'000
Fixed assets	1.5	**67,031**	67,299
Current assets		**3,380**	3,915
Current liabilities, excluding senior debt		**(2,009)**	(1,991)
Senior debt and other long term liabilities			
Fixed rate debt	1.4	**(37,375)**	(38,178)
Index linked debt	1.4	**(12,438)**	(11,982)
Subordinated debt	1.4	**(10,991)**	(11,474)
Derivative financial instruments		**2,600**	4,158
Deferred tax		**(3,514)**	(4,250)
Net assets / (liabilities)		**6,685**	7,497
Share capital		**440**	440
Revaluation reserve		**22,860**	22,496
Profit and loss account		**(18,773)**	(18,849)
Cash flow hedge reserve		**2,158**	3,410
Shareholders' funds		**6,685**	7,497

Notes

1.1 The increase in turnover to £6.2m (2016: £6.1m) is the result of rental indexation with occupancy stable at 100% across both years.

1.2 Cost of sales has remained constant at £1.3m (2016: £1.3m).

1.3 Overheads have decreased to £264k (2016: £314k).

1.4 Interest is paid on fixed rate debt, index linked debt and subordinated debt balances.

1.5 The tangible assets are held at a value of £63.3m (2016: £63.4m). The remainder of the balance is made up of goodwill which is amortised over the life of the project.

UPP (Alcuin) Limited, University of York

Historic Senior Debt Service Cover Ratio (DSCR)

	2017
	£'000
EBITDA after sinking fund per P&L	**4,437**
Add:	
Sinking fund expenditure	**205**
Interest receivable	**24**
Deduct:	
Sinking fund deposit	**(621)**
Total movement	**(393)**
Total cash available for debt service	**4,045**
Debt service	
Interest	**2,287**
Fixed rate debt principal repayment	**599**
Total debt service	**2,886**
Annual Debt Service Cover Ratio (ADSCR) calculations	
ADSCR – default	**1.05**
ADSCR – lock up	**1.15**
ADSCR – actual	**1.40**
Headroom over default	**1,014**
Headroom over lock up	**725**

The Historic Senior Debt Service Cover Ratio has been calculated as per the definition in the Common Terms Agreement.

UPP (Alcuin) Limited, University of York

Key metrics

Area	Metric	2017	2016
Site operations	Occupancy	**100%**	100%
Finance	EBITDA*	**£4.6m**	£4.5m
	ADSCR	**1.40**	1.38
Health and safety	Accident frequency rate	**0.00**	0.08
Environment	Tonnes of CO^2 emissions	**1,189**	1,367
FM performance	Performance deductions	**None**	None
	Availability deductions	**None**	None

**EBITDA before sinking fund expenditure*

Sinking Fund

The sinking fund spend for the year was £205k (2016: £485k), with the movement between years relating to the replacement cycle of the assets. Annual spend is not directly comparable year on year.

Outlook for the new financial year

The company has secured occupancy of 100% for 2017/18 which is above budgeted expectations. Rents for the academic year 2018/19 will be set during Q2 of 2017/18.

University outlook

The University of York is a world class institution and ranked within the top 150 institutions in the world according to The Times Higher Education World University Rankings 2018. The most recent Research Excellence Framework recognised more than 80% of its submitted material judged to be of "world leading" or "internationally excellent" quality and was in the top 10 for the impact of its research. Within the UK, it was ranked 16 in The Sunday Times Good University Guide 2018.

It has seen strong enrolment growth with the full-time student population having grown by almost 5,000 students in the years between 2005/06 and 2015/16 to 15,210 (+45%) and has a student to bed ratio of 2.2:1. The University remains one of the most popular HE institutions in the UK and is a member of the Russell Group of institutions.

The University continues to deliver new facilities as part of its £750 million campus expansion with the latest developments including an interdisciplinary teaching facility that houses biomedicine programmes and a new building for the Environment Department. The creation of new colleges, teaching and learning space, laboratories, research facilities and a sport village with a velodrome and pool has supported the recent strong growth in the student population.

For information on the University of York's strategy (2014-2020):

http://www.york.ac.uk/about/mission-strategies/universitystrategy2014-2020/

UPP (Broadgate Park) Holdings Limited, University of Nottingham

Profit and loss, year ended 31 August		**2017**	2016
	Note	**£'000**	£'000
Revenue	1.1	**11,613**	11,472
Cost of sales	1.2	**(3,597)**	(3,596)
Overheads	1.3	**(610)**	(654)
EBITDA before sinking fund		**7,406**	7,223
Sinking fund		**(741)**	(585)
EBITDA		**6,665**	6,638
Depreciation		**(782)**	(816)
Profit/(loss) before financing costs		**5,883**	5,821
Interest income		**77**	76
Bond note interest & uplift on Index-linked loan notes	1.4	**(4,869)**	(4,541)
Subordinated debt interest	1.4	**(3,873)**	(3,579)
Profit/(loss) before tax		**(2,782)**	(2,223)
Tax		**-**	-
Profit/(loss) for the year		**(2,782)**	(2,223)

Nottingham

1,120 ROOMS MAY 2003 **ET**
1,109 ROOMS SEPTEMBER 2003 **NB**

ET – Estate Transfer
NB – New Build

UPP (Broadgate Park) Holdings Limited, University of Nottingham

Balance sheet		2017	2016
	Note	£'000	£'000
Fixed assets	1.5	**93,118**	93,900
Current assets		**3,837**	6,311
Current liabilities, excluding senior debt		**(1,827)**	(1,674)
Senior debt and other long term liabilities			
Fixed rate debt	1.4	**(70,348)**	(70,991)
Index linked debt	1.4	**(18,793)**	(18,115)
Subordinated debt	1.4	**(39,845)**	(40,508)
Derivative financial instruments		**5,304**	8,864
Deferred tax		**(902)**	(1,596)
Net assets/(liabilities)		**(29,456)**	(23,809)
Share capital		**22,881**	22,881
Revaluation reserve		**6,480**	6,538
Profit and loss account		**(63,221)**	(60,496)
Cash flow hedge reserve		**4,403**	7,269
Shareholders' funds/(deficit)		**(29,456)**	(23,809)

Notes

1.1 Turnover has increased to £11.6m (2016: £11.5m) due to rental increases and short term lettings including those in the vacation period.

1.2 Cost of sales has remained constant at £3.6m (2016: £3.6m).

1.3 Overheads decreased to £610k (2016: £654k).

1.4 Interest is paid on fixed rate debt, index linked debt and subordinated debt balances.

1.5 The tangible assets are held at a value of £93.1m (2016: £93.9m).

UPP (Broadgate Park) Holdings Limited, University of Nottingham

Historic Senior Debt Service Cover Ratio (DSCR)

	2017
	£'000
EBITDA after sinking fund per P&L	**6,665**
Add:	
Sinking fund expenditure	**741**
Interest receivable	**40**
Deduct:	
Sinking fund deposit	**(855)**
Total movement	**(74)**
Total cash available for debt service	**6,591**
Debt service	
Interest	**4,087**
Fixed rate debt principal repayment	**747**
Total debt service	**4,834**
Annual Debt Service Cover Ratio (ADSCR) calculations	
ADSCR – default	**1.05**
ADSCR – lock up	**1.15**
ADSCR – actual	**1.36**
Headroom over default	**1,515**
Headroom over lock up	**1,031**

The Historic Senior Debt Service Cover Ratio has been calculated as per the definition in the Common Terms Agreement.

UPP (Broadgate Park) Holdings Limited, University of Nottingham

Key metrics

Area	Metric	2017	2016
Site operations	Occupancy	**99.0%**	99.6%
Finance	EBITDA*	**£7.4m**	£7.2m
	ADSCR	**1.36**	1.38
Health and safety	Accident frequency rate	**0.00**	0.00
Environment	Tonnes of CO^2 emissions	**3,087**	3,349
FM performance	Performance deductions	**None**	None
	Availability deductions	**None**	None

**EBITDA before sinking fund expenditure*

Sinking fund

Sinking fund expenditure for the year was £741k (2016: £585k). The movement between years relates to the replacement cycle of the assets. Levels of annual spend are not directly comparable year on year.

Major works during the year included bedroom, bathroom and kitchen refurbishments, as well power and lighting upgrades.

Outlook for the new financial year

The company has secured occupancy of 100.0% for 2017/18 which is above budgeted expectations, but UPP continues to work with the University to increase occupancy over the remainder of the academic year via short term bookings. Rents for the academic year 2018/19 will be set during Q2 of 2017/18.

University outlook

The University of Nottingham continues to be one of the most popular destinations for students in the UK and has risen seven places over the last two years to be ranked 18 in the UK by The Sunday Times Good University Guide 2018. The Guide also shortlisted the University for its 'University of the Year' award for a second successive year, and was also placed within the top 150 institutions in the world according to The Times Higher Education World University Rankings for 2018. The most recent Research Excellence Framework saw more than 80% of its submitted material judged to be of "world leading" or "internationally excellent" quality, and based on its Research Power score the University was ranked seventh.

The University is a member of the Russell Group of institutions and produces the most sought after graduates in the UK according to employer surveys and was awarded University of the Year for Graduate Employment by The Sunday Times Good University Guide. For the academic year 2016/17, it attracted 51,185 applications - its main scheme application to acceptance ratio was 7.7:1. The University has strong residential demand illustrated by its student to bed ratio of 2.7:1. This is particularly true of the Broadgate Park residences which are located at the West Gate of the University's main Park Campus and provide the only self-catered accommodation available to students.

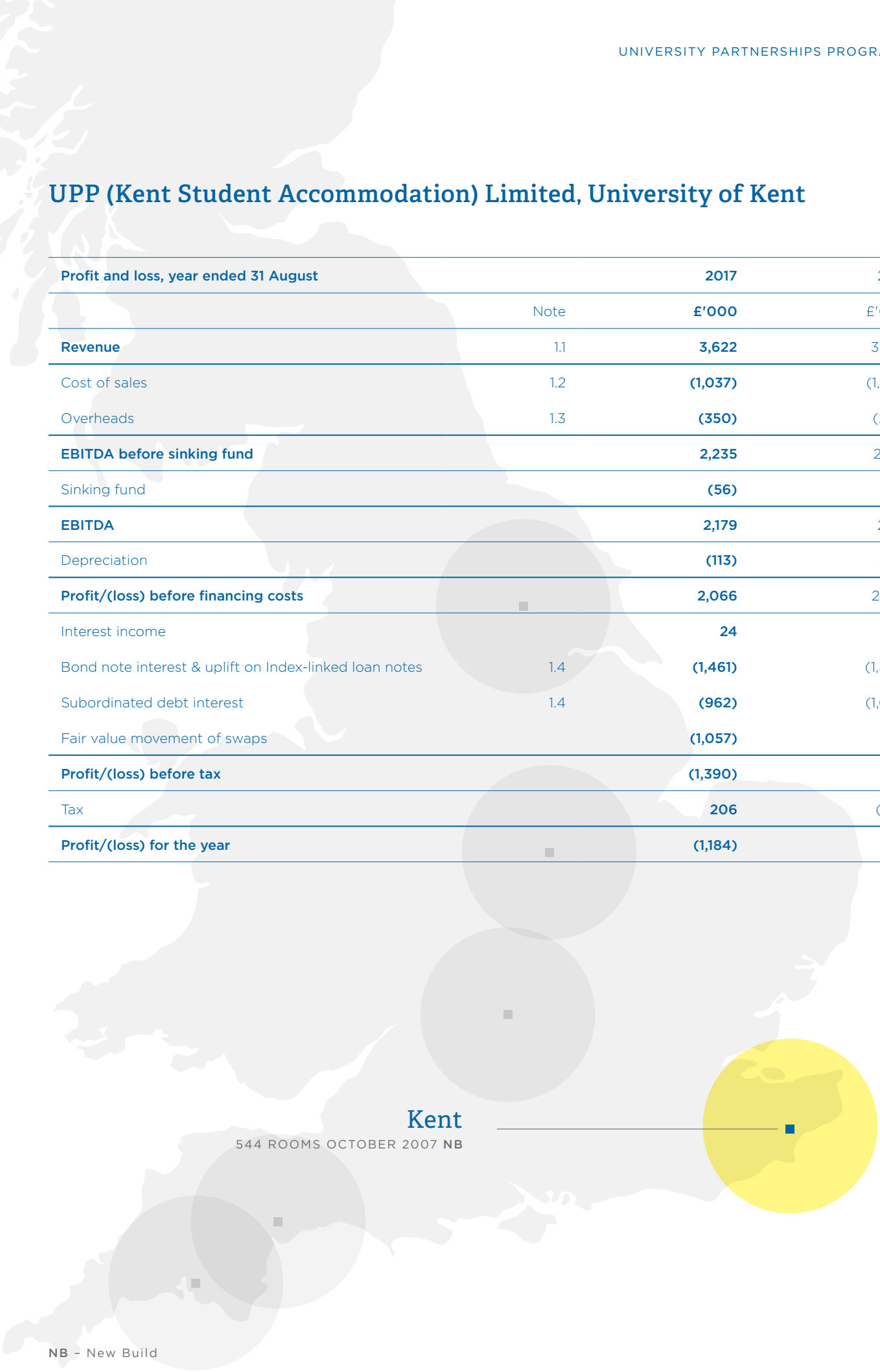
The University has added sports facilities, research laboratories, teaching space and student accommodation in recent years. It is building an £40 million sports complex and new facilities for synthetic biology and sustainable chemistry. The building programme also included the extension and refurbishment of the specialist library for engineering and science, which doubled in size and officially opened this year. The University also launched a £200 million research fund the day after it received a gold rating in the Teaching Excellence Framework (TEF).

For information on the University of Nottingham's strategy (Global Strategy 2020):

http://www.nottingham.ac.uk/about/documents/uon-global-strategy-2020.pdf

UPP (Kent Student Accommodation) Limited, University of Kent

Profit and loss, year ended 31 August		2017	2016
	Note	£'000	£'000
Revenue	1.1	**3,622**	3,503
Cost of sales	1.2	**(1,037)**	(1,019)
Overheads	1.3	**(350)**	(227)
EBITDA before sinking fund		**2,235**	2,257
Sinking fund		**(56)**	(82)
EBITDA		**2,179**	2,175
Depreciation		**(113)**	(99)
Profit/(loss) before financing costs		**2,066**	2,076
Interest income		**24**	27
Bond note interest & uplift on Index-linked loan notes	1.4	**(1,461)**	(1,374)
Subordinated debt interest	1.4	**(962)**	(1,010)
Fair value movement of swaps		**(1,057)**	926
Profit/(loss) before tax		**(1,390)**	645
Tax		**206**	(132)
Profit/(loss) for the year		**(1,184)**	513



NB – New Build

UPP (Kent Student Accommodation) Limited, University of Kent

Balance sheet		2017	2016
	Note	£'000	£'000
Fixed assets	1.5	**34,287**	34,400
Current assets		**1,175**	1,485
Current liabilities, excluding senior debt		**(309)**	(167)
Senior debt and other long term liabilities			
Fixed rate debt	1.4	**(21,183)**	(21,492)
Index linked debt	1.4	**(5,367)**	(5,167)
Subordinated debt	1.4	**(10,919)**	(11,041)
Derivative financial instruments		**1,588**	2,645
Deferred tax		**(5,326)**	(5,842)
Net assets/(liabilities)		**(6,052)**	(5,178)
Share capital		**1,381**	1,381
Revaluation reserve		**2,810**	2,525
Profit and loss account		**(10,246)**	(9,084)
Shareholders' funds		**(6,055)**	(5,178)

Notes

1.1 The increase in turnover to £3.6m (2016: £3.5m) is the result of rental indexation and maintaining 100% occupancy.

1.2 Cost of sales has remained constant at £1.0m (2016: £1.0m).

1.3 Overheads have increased to £350k (2016: £227k).

1.4 Interest is paid on fixed rate debt, index linked debt and subordinated debt balances.

1.5 Tangible assets are held at a value of £34.3m (2016: £34.4m).

UPP (Kent Student Accommodation) Limited, University of Kent

Historic Senior Debt Service Cover Ratio (DSCR)

	2017
	£'000
EBITDA after sinking fund per P&L	**2,179**
Add:	
Sinking fund expenditure	**56**
Interest receivable	**12**
Deduct:	
Sinking fund deposit	**(127)**
Total movement	**(60)**
Total cash available for debt service	**2,120**
Debt service	
Interest	**1,229**
Fixed rate debt principal repayment	**343**
Total debt service	**1,572**
Annual Debt Service Cover Ratio (ADSCR) calculations	
ADSCR – default	**1.05**
ADSCR – lock up	**1.15**
ADSCR – actual	**1.35**
Headroom over default	**469**
Headroom over lock up	**312**

The Historic Senior Debt Service Cover Ratio has been calculated as per the definition in the Common Terms Agreement.

UPP (Kent Student Accommodation) Limited, University of Kent

Key metrics

Area	Metric	2017	2016
Site operations	Occupancy	**100%**	100%
Finance	EBITDA*	**£2.2m**	£2.2m
	ADSCR	**1.35**	1.39
Health and safety	Accident frequency rate	**0.00**	2.69
Environment	Tonnes of CO^2 emissions	**632**	723
FM performance	Performance deductions	**None**	None
	Availability deductions	**None**	None

•EBITDA before sinking fund expenditure

Sinking Fund

The sinking fund expenditure for the year was £56k (2016: £82k), the movement between years relates to the variable replacement cycle of the assets. Annual spend is not directly comparable year on year.

Outlook for the new financial year

The Company has secured occupancy of 100% for 2017/18 which is above modelled expectations. Rents for the academic year 2018/19 will be set during Q2 of 2017/18.

University outlook

The University of Kent is ranked 31 in The Sunday Times Good University Guide 2018. This position is supported by a strong performance in the Research Excellence Framework (REF), excellent graduate employment prospects, and a high completion rate. The most recent REF saw the University ranked 30 in the UK based on its Research Power score.

The University is one of a select group of institutions in the UK that operates a college system, a feature that contributed to a gold award in the new Teaching Excellence Framework. Its campus, built on 300 acres of park land overlooking the historic City of Canterbury, continues to attract a healthy and growing level of academic applications - demonstrating a compound annual growth rate of c.5% between 2008/09 and 2016/17. In 2016/17, it had a main scheme application to acceptance ratio of 6.9:1.

The Canterbury campus houses over 4,300 students in rooms, flats and houses and residential demand remains strong with a student to bed ratio of 2.3:1. The local housing market is characterised by a lack of private rented supply for students, a restrictive planning environment and only two direct let operators of purpose built student accommodation.

For information on the University of Kent's strategy (2015-20):

http://www.kent.ac.uk/about/plan/index.html

UPP (Nottingham) Limited, Nottingham Trent University

Profit and loss, year ended 31 August		2017	2016
	Note	£'000	£'000
Revenue	1.1	**13,991**	13,715
Cost of sales	1.2	**(5,511)**	(5,508)
Overheads	1.3	**(505)**	(637)
EBITDA before sinking fund		**7,976**	7,570
Sinking fund		**(909)**	(950)
EBITDA		**7,067**	6,619
Depreciation		**(831)**	(798)
Amortisation		**(9)**	(9)
Profit/(loss) before financing costs		**6,227**	5,812
Interest income		**89**	82
Bond note interest & uplift on Index-linked loan notes	1.4	**(5,248)**	(4,872)
Subordinated debt interest	1.4	**(3,454)**	(3,785)
Pension finance costs	1.4	**(46)**	(48)
Profit/(loss) before tax		**(2,432)**	(2,812)
Tax	1.5	**(7)**	(12)
Profit/(loss) for the year		**(2,439)**	(2,824)

Nottingham Trent

2,327 ROOMS APRIL 2002 **ET**
446 ROOMS SEPTEMBER 2003 **NB**

ET – Estate Transfer
NB – New Build

UPP (Nottingham) Limited, Nottingham Trent University

Balance sheet		2017	2016
	Note	£'000	£'000
Fixed assets	1.6	**96,934**	97,773
Current assets		**7,463**	8,488
Current liabilities, excluding senior debt		**(5,241)**	(5,314)
Senior debt and other long term liabilities			
Fixed rate debt	1.4	**(74,801)**	(75,368)
Index linked debt	1.4	**(21,160)**	(20,397)
Subordinated debt	1.4	**(45,130)**	(44,717)
Pension liability	1.5	**(1,990)**	(2,172)
Derivative financial instruments		**5,487**	9,038
Deferred tax		**(933)**	(1,627)
Net assets/(liabilities)		**(39,371)**	(34,296)
Share capital		**5,597**	5,597
Revaluation reserve		**6,943**	7,007
Profit and loss account		**(56,465)**	(54,311)
Cash flow hedge reserve		**4,554**	7,411
Shareholders' funds/(deficit)		**(39,371)**	(34,296)

Notes

1.1 The increase in turnover to £14.0m (2016: £13.7m) is the result of rental indexation and the company maintaining 100% occupancy.

1.2 Cost of sales has remained consistent at £5.5m (2016: £5.5m).

1.3 Overheads have decreased to £505k (2016: £637k).

1.4 Interest is paid on fixed rate debt, index linked debt and subordinated debt balances.

1.5 The company operates a defined benefit pension scheme for employees transferred from the University. The long term liability represents the difference between the present value of the future liability and the fair value of the scheme assets, offset by the available deferred tax asset. This is based on an actuarial valuation provided to the AssetCo.

1.6 The tangible assets are at a value of £96.7m (2016: £97.5m). The remainder of the balance is made up of goodwill which is amortised over the life of the project.

UPP (Nottingham) Limited, Nottingham Trent University

Historic Senior Debt Service Cover Ratio (DSCR)

	2017
	£'000
EBITDA after sinking fund per P&L	**7,067**
Add:	
Sinking fund expenditure	**909**
Interest receivable	**46**
Deduct:	
Sinking fund deposit	**(1,531)**
Total movement	**(576)**
Total cash available for debt service	**6,491**
Debt service	
Interest	**4,371**
Fixed rate debt principal repayment	**680**
Total debt service	**5,051**
Annual Debt Service Cover Ratio (ADSCR) calculations	
ADSCR – default	**1.05**
ADSCR – lock up	**1.15**
ADSCR – actual	**1.29**
Headroom over default	**1,187**
Headroom over lock up	**682**

The Historic Senior Debt Service Cover Ratio has been calculated as per the definition in the Common Terms Agreement.

UPP (Nottingham) Limited, Nottingham Trent University

Key metrics

Area	Metric	2017	2016
Site operations	Occupancy	**100%**	100%
Finance	EBITDA*	**£8.0m**	£7.6m
	ADSCR	**1.29**	1.33
Health and safety	Accident frequency rate	**0.00**	0.54
Environment	Tonnes of CO^2 emissions	**2,851**	3,113
FM performance	Performance deductions	**None**	None
	Availability deductions	**None**	None

**EBITDA before sinking fund expenditure*

Sinking fund

The sinking fund spend for the year was £909k (2016: £950k).The movement between years relates to the replacement cycle of the assets. Annual spend is not comparable year on year.

Outlook for the new financial year

The company has secured occupancy of 100% for 2017/18 which is above modelled expectations. Rents for the academic year 2018/19 will be set during Q2 of 2017/18.

University outlook

Nottingham Trent University has risen in The Sunday Times Good University Guide 2018 from 57 to 47 and was announced as the 'Modern University of the Year' by the Guide. This success followed Nottingham Trent University's gold award in the Teaching Excellence Framework.

Even with a competitive private operator market in existence across the City, Nottingham Trent University can still boast a student to bed ratio of 3.5:1. For the academic year 2016/17, the University attracted around 38,990 applications – its main scheme application to acceptance ratio was 6.0:1. It is best known for its leading fashion and other creative arts courses; however, the focus of the University is also on providing valuable employment skills. It is one of the few UK universities that offer every student a work placement opportunity.

The University has invested more than £420 million in redeveloping its three campuses since 2003, including the Newton and Arkwright buildings and new Students Union on the City Campus; and new Pavilion Building and residences at the Clifton Campus.

For information on Nottingham Trent University's strategy (2015-2020):

http://www.ntu.ac.uk/strategy/

UPP (Oxford Brookes) Limited, Oxford Brookes University

Profit and loss, year ended 31 August		**2017**	2016
	Note	**£'000**	£'000
Revenue	1.1	**4,425**	4,271
Cost of sales	1.2	**(948)**	(897)
Overheads	1.3	**(222)**	(226)
EBITDA before sinking fund		**3,255**	3,147
Sinking fund		**(326)**	(212)
EBITDA		**2,929**	2,936
Depreciation		**(351)**	(303)
Profit/(loss) before financing costs		**2,578**	2,632
Interest income		**35**	28
Bond note interest & uplift on Index-linked loan notes	1.4	**(2,061)**	(1,922)
Subordinated debt interest	1.4	**(1,167)**	(1,262)
Profit/(loss) before tax		**(615)**	(524)
Tax		**-**	-
Profit/(loss) for the year		**(615)**	(524)

Oxford Brookes

771 ROOMS SEPTEMBER 2002, **NB**

NB – New Build

UPP (Oxford Brookes) Limited, Oxford Brookes University

Balance sheet		2017	2016
	Note	£'000	£'000
Fixed assets	1.5	**42,849**	43,200
Current assets		**1,777**	2,550
Current liabilities, excluding senior debt		**(588)**	(438)
Senior debt and other long term liabilities			
Fixed rate debt	1.4	**(28,811)**	(29,310)
Index linked debt	1.4	**(8,399)**	(8,089)
Subordinated debt	1.4	**(14,919)**	(15,392)
Derivative financial instruments		**2,129**	3,518
Deferred tax		**(1,362)**	(1,855)
Net assets/(liabilities)		**(7,325)**	(5,816)
Share capital		**1,206**	1,206
Revaluation reserve		**11,642**	11,524
Profit and loss account		**(21,940)**	(21,431)
Cash flow hedge reserve		**1,767**	2,885
Shareholders' funds		**(7,325)**	(5,816)

Notes

1.1 The increase in turnover to £4.4m (2016: £4.3m) is the result of indexation and the pass through of increased FM costs to rents and maintaining a nomination of 100% of the rooms from the University.

1.2 Cost of sales increased to £948k (2016: £897k).

1.3 Overheads have decreased to £222k (2016: £226k).

1.4 Interest is paid on fixed rate debt, index linked debt and subordinated debt balances.

1.5 The tangible assets are held at a value of £42.8m (2016: £43.2m).

UPP (Oxford Brookes) Limited, Oxford Brookes University

Historic Senior Debt Service Cover Ratio (DSCR)

	2017
	£'000
EBITDA after sinking fund per P&L	**2,929**
Add:	
Sinking fund expenditure	**326**
Interest receivable	**16**
Deduct:	
Sinking fund deposit	**(133)**
Total movement	**209**
Total cash available for debt service	**3,138**
Debt service	
Interest	**1,707**
Fixed rate debt principal repayment	**539**
Total debt service	**2,246**
Annual Debt Service Cover Ratio (ADSCR) calculations	
ADSCR – default	**1.05**
ADSCR – lock up	**1.15**
ADSCR – actual	**1.40**
Headroom over default	**780**
Headroom over lock up	**555**

The Historic Senior Debt Service Cover Ratio has been calculated as per the definition in the Common Terms Agreement.

UPP (Oxford Brookes) Limited, Oxford Brookes University

Key metrics

Area	Metric	2017	2016
Site operations	Occupancy	**100%**	100%
Finance	EBITDA*	**£3.3m**	£3.1m
	ADSCR	**1.40**	1.38
Health and safety	Accident frequency rate	**0.00**	0.71
Environment	Tonnes of CO^2 emissions	**899**	949
FM performance	Performance deductions	**None**	None
	Availability deductions	**None**	None

**EBITDA before sinking fund expenditure*

Sinking fund

Sinking fund expenditure for the year was £326k (2016: £212k). The movement between years relates to the replacement cycle of the assets. Annual spend is not directly comparable year on year.

Outlook for the new financial year

The Company has secured occupancy of 100% for 2017/18 which is in line with modelled expectations. Rents for 2018/19 will be set in October 2018 as part of the controlled rent.

University outlook

Oxford Brookes University remains one of the most popular new universities in the UK. Oxford Brookes is the UK's only representative in QS's ranking of the top 50 universities in the world that are under 50. The Sunday Times Good University Guide ranked it 84 overall for 2017. For the academic year 2016/17, the University attracted around 27,695 applications – its main scheme application to acceptance ratio was 6.8:1.

Being one of the key UK HE destinations, the City Council have placed strict controls on the number of students each university is permitted to house in the private rented sector within Oxford. Providing sufficient purpose built accommodation to facilitate this, Oxford Brookes continues to present a healthy student to bed ratio of 1.8:1.

Over recent years, the University has made significant investment in its physical infrastructure with the development of the award winning £132 million John Henry Brookes Building at the Headington Campus which opened in February 2014. The University is also now two years into its ten year £220 million development programme with a £30 million new home for the Business School opening on Headington Campus for 2017/18 academic year along with a new bio-imaging unit. The development programme will also see largescale refurbishment to many of their buildings as well as some further new build at their Headington and Harcourt Hill campuses.

For more information on Oxford Brookes University's strategy (2015-20):

https://www.brookes.ac.uk/about-brookes/strategy/strategy-2020/

UPP (Plymouth Three) Limited, Plymouth University

Profit and loss, year ended 31 August		2017	2016
	Note	£'000	£'000
Revenue	1.1	**8,808**	8,569
Cost of sales	1.2	**(2,535)**	(2,561)
Overheads	1.3	**(355)**	(391)
EBITDA before sinking fund		**5,919**	5,617
Sinking fund		**(846)**	(588)
EBITDA		**5,073**	5,029
Depreciation		**(314)**	(276)
Amortisation		**(37)**	(38)
Profit/(loss) before financing costs		**4,722**	4,715
Interest income		**60**	67
Bond note interest & uplift on Index-linked loan notes	1.4	**(3,691)**	(3,442)
Subordinated debt	1.4	**(2,513)**	(2,704)
Fair value movement of swaps		**(2,576)**	2,249
Profit/(loss) before tax		**(3,998)**	884
Tax		**503**	(320)
Profit/(loss) for the year		**(3,496)**	564

Plymouth

PHASE 1-3: 1,276 ROOMS 1998-2004 **ET**, **NB**
PHASE 4: 488 ROOMS DECEMBER 2006 **ET**, **NB**

ET – Estate Transfer
NB – New Build

UPP (Plymouth Three) Limited, Plymouth University

Balance sheet		2017	2016
	Note	£'000	£'000
Fixed assets	1.5	**88,516**	88,867
Current assets		**3,996**	4,800
Current liabilities, excluding senior debt		**(1,037)**	(635)
Senior debt and other long term liabilities			
Fixed rate debt	1.4	**(52,578)**	(53,276)
Index linked debt	1.4	**(14,733)**	(14,199)
Subordinated debt	1.4	**(32,320)**	(32,288)
Derivative financial instruments		**3,899**	6,475
Deferred tax		**(4,430)**	(5,481)
Net assets/(liabilities)		**(8,686)**	(5,737)
Share capital		**2,034**	2,034
Revaluation reserve		**21,735**	21,279
Profit and loss account		**(32,455)**	(29,049)
Shareholders' funds		**(8,686)**	(5,737)

Notes

1.1 The increase in turnover to £8.8m (2016: £8.6m) is the result of rental indexation and maintaining 100% occupancy.

1.2 Cost of sales has decreased to £2.5m (2016: £2.6m).

1.3 Overheads have decreased to £355k (2016: £391k).

1.4 Interest is paid on fixed rate debt, index linked debt and subordinated debt balances.

1.5 The tangible assets are held at a value of £86.9m (2016: £87.3m). The remainder of the balance is made up of goodwill which is amortised over the life of the project.

UPP (Plymouth Three) Limited, Plymouth University

Historic Senior Debt Service Cover Ratio (DSCR)

	2017
	£'000
EBITDA after sinking fund per P&L	**5,073**
Add:	
Sinking fund expenditure	**846**
Interest receivable	**36**
Deduct:	
Sinking fund deposit	**(627)**
Total movement	**255**
Total cash available for debt service	**5,327**
Debt service	
Interest	**3,078**
Fixed rate debt principal repayment	**780**
Total debt service	**3,857**
Annual Debt Service Cover Ratio (ADSCR) calculations	
ADSCR – default	**1.05**
ADSCR – lock up	**1.15**
ADSCR – actual	**1.38**
Headroom over default	**1,277**
Headroom over lock up	**891**

The Historic Senior Debt Service Cover Ratio has been calculated as per the definition in the Common Terms Agreement.

UPP (Plymouth Three) Limited, Plymouth University

Key metrics

Area	Metric	2017	2016
Site operations	Occupancy	**100%**	100%
Finance	EBITDA	**£5.9m**	£5.6m
	ADSCR	**1.38**	1.36
Health and safety	Accident frequency rate	**0.00**	0.97
Environment	Tonnes of CO^2 emissions	**2,180**	2,022
FM performance	Performance deductions	**None**	None
	Availability deductions	**None**	None

Sinking fund

The sinking fund expenditure for the year was £588k (2015: £599k). The movement between years relates to the replacement cycle of the assets. Levels of annual spend are comparable year on year.

Outlook for the new financial year

The company has secured occupancy of 100% for 2017/18 which is above modelled expectations. Rents for the academic year 2018/19 will be set during Q2 of 2017/18.

University outlook

Plymouth University was ranked 86 by The Sunday Times Good University Guide 2018.

The University has both national and international appeal with a main scheme application to acceptance ratio of 4.8:1 for 2016/17. It has exceptionally strong residential demand characteristics with a student to bed ratio of 4.6:1.

It plays a central role in the economy of the south west and was the first university to be awarded Regional Growth Fund money to promote the expansion and development of small businesses. The University is the largest provider of nursing, midwifery and health professional training across the region and is the only post-92 institution with its own medical school which was opened for the academic year 2013/14. The University is opening the £17m Derriford research facility for 2017/18 academic year which brings together medical, dental and biomedical research into one facility. The University is also opening a new school of nursing in Exeter, adding to its provision in Plymouth and Truro.

For Plymouth University's latest strategy (2020):

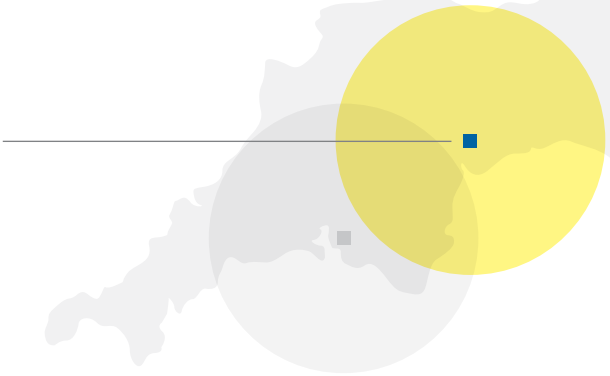
https://www.plymouth.ac.uk/your-university/about-us/strategy-2

UPP (Exeter) Limited, University of Exeter

Profit and loss, year ended 31 August		2017	2016
	Note	£'000	£'000
Revenue	1.1	**14,046**	13,672
Cost of sales	1.2	**(4,048)**	(3,819)
Overheads	1.3	**(475)**	(446)
EBITDA before sinking fund		**9,522**	9,406
Sinking fund		**(941)**	(896)
EBITDA		**8,582**	8,511
Depreciation		**(549)**	(493)
Profit/(loss) before financing costs		**8,033**	8,017
Interest income		**49**	63
Bank debt interest	1.4	**(6,238)**	(3,519)
Subordinated debt	1.4	**(2,949)**	(2,846)
Profit/(loss) before tax		**(1,105)**	1,715
Tax		**-**	-
Profit/(loss) for the year		**(1,105)**	1,715

Exeter

2,569 ROOMS 2009-2012 ET, NB



ET – Estate Transfer
NB – New Build

UPP (Exeter) Limited, University of Exeter

Balance sheet		2017	2016
	Note	£'000	£'000
Fixed assets	1.5	**134,351**	134,900
Current assets		**6,930**	7,927
Current liabilities, excluding senior debt		**(1,778)**	(1,049)
Senior debt and other long term liabilities			
Index linked debt	1.4	**(137,385)**	(137,092)
Subordinated debt	1.4	**(22,524)**	(23,988)
Deferred tax		**(6,609)**	(7,427)
Net assets/(liabilities)		**(27,016)**	(26,729)
Share capital		**650**	650
Revaluation reserve		**16,329**	15,606
Profit and loss account		**(43,995)**	(42,985)
Shareholders' funds		**(27,016)**	(26,729)

Notes

1.1 The increase in turnover to £14.0m (2016: £13.7m) is the result of rental indexation and maintaining 100% occupancy.

1.2 Cost of sales has increased to £4.0m (2016: £3.8m).

1.3 Overheads have increased to £475k (2016: £446k).

1.4 Interest is paid on fixed rate debt, index linked debt and subordinated debt balances.

1.5 The tangible assets are held at the value of £134.3m (2016: £134.9m).

UPP (Exeter) Limited, University of Exeter

Historic Senior Debt Service Cover Ratio (DSCR)

	2017
	£'000
EBITDA after sinking fund per P&L	**8,582**
Add:	
Sinking fund expenditure	**941**
Interest receivable	**5**
Deduct:	
Sinking fund deposit	**(1,128)**
Total movement	**(182)**
Total cash available for debt service	**8,399**
Debt service	
Interest	**1,522**
Fixed rate debt principal repayment	**4,422**
Total debt service	**5,944**
Annual Debt Service Cover Ratio (ADSCR) calculations	
ADSCR – default	**1.05**
ADSCR – lock up	**1.15**
ADSCR – actual	**1.41**
Headroom over default	**2,158**
Headroom over lock up	**1,564**

The Historic Senior Debt Service Cover Ratio has been calculated as per the definition in the Common Terms Agreement.

UPP (Exeter) Limited, University of Exeter

Key metrics

Area	Metric	2017	2016
Site operations	Occupancy	**100%**	100%
Finance	EBITDA	**£9.5m**	£9.4m
	ADSCR	**1.41**	1.45
Health and safety	Accident frequency rate	**1.23**	0.68
Environment	Tonnes of CO^2 emissions	**2,243**	2,505
FM performance	Performance deductions	**None**	None
	Availability deductions	**None**	None

Sinking fund

The sinking fund expenditure for the year was £941k (2016: £896k). The movement between years relates to the replacement cycle of the assets. Levels of annual spend are comparable year on year.

Outlook for the new financial year

The company has secured occupancy of 100% for 2017/18 which is above modelled expectations. Rents for the academic year 2018/19 will be set during Q2 of 2017/18.

University outlook

The University of Exeter is one of the most popular universities in the UK. It was ranked 14 in The Sunday Times Good University Guide 2018 and is within the top 150 institutions in the world, according to The Times Higher Education World University Rankings 2018. It is a member of the Russell Group of institutions further reinforcing its world class reputation.

The University has seen very strong enrolment growth with a compound annual growth rate of 6.3% between 2005/06 and 2015/16, when it has 20,515 full time students enrolled. For 2015/16, it had an application to acceptance ratio of 7.5:1 with applications having grown by 77% between 2008/09 and 2016/17. The University experiences a high residential demand and has a student to bed ratio of 2.9:1.

The University has been one of the leading beneficiaries of a more competitive HE sector and underpinning this has been an investment of more than £400 million over the last five years, in teaching, research, social and residential facilities at its Streatham Campus. The University received a gold award in this years Teaching Excellence Framework assessment

For information on the University of Exeter's strategy (2015):

http://www.exeter.ac.uk/media/universityofexeter/webteam/shared/contentimages/strategicplan/Strategic_Plan_2015.pdf

7.0

UPP Bond 1 Holdings Limited

Appendix 2: Consolidated financial statements for the year ended 31 August 2017

SECTION

Directors	J Benkel R Bienfait S O'Shea Intertrust Directors 1 Limited
–	–
Secretary	J Benkel
–	–
Auditor	Grant Thornton UK LLP Victoria House 199 Avebury Boulevard Milton Keynes MK9 1AU
–	–
Registered office	40 Gracechurch Street London EC3V 0BT

Directors' report for the year ended 31 August 2017

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

Principal activity of the business

The Group's principal activity is of a holding Company for its subsidiary undertakings. The subsidiary undertakings principal activity is the operation of student accommodation and the provision of related facilities management services for seven AssetCos; consisting of 11,693 rooms (2016: 11,693) achieving 99.9% occupancy for the 2016/17 financial year.

Financial risk management objectives and policies

The Group's financial risk management objectives and policies are considered to be of strategic significance and are therefore detailed in the Strategic Report.

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.

Dividend

The directors do not propose the payment of a dividend (2016: £Nil).

Directors and their interests

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

J Benkel
R Bienfait (Appointed 23/11/2016)
S O'Shea
Intertrust Directors Limited

At 31 August 2017 none of the directors had any beneficial interests in the shares of the Company or in any of the Group Companies.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that year.

In preparing these financial statements, the directors are required to:

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

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

The directors confirm that:

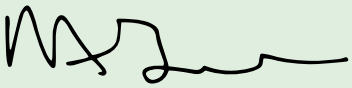
- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company and Group's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

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

Independent Auditor

The auditor, Grant Thornton UK LLP, have expressed their willingness to continue in office as auditor. Pursuant to Section 487 of the Companies Act 2006, Grant Thornton UK LLP was duly appointed by the shareholder of the Company and the Group and shall, subject to any resolution to the contrary, be deemed to be re-appointed as auditor for the next financial year.

On behalf of the Board



R Bienfait
Director
8 December 2017

Strategic report for the year ended 31 August 2017

Results and review of the business

The Group incorporated wholly owned subsidiaries UPP Bond 1 Issuer plc and UPP Bond 1 Limited on 16 October 2012. The Group commenced trading on 5 March 2013 when it acquired the entire issued share capital in UPP (Alcuin) Limited, UPP (Broadgate Park) Holdings Limited, UPP (Kent Student Accommodation) Limited, UPP (Nottingham) Limited, UPP (Oxford Brookes) Limited and UPP (Plymouth Three) Limited. On 9 December 2014 UPP Bond 1 Limited acquired the entire issued share capital in UPP (Exeter) Limited.

The principal activity of these subsidiary undertakings is the operation and management of 11,693 student accommodation rooms (2016: 11,693) owned by the companies listed above.

Both the level of business and the year-end financial position were in accordance with the directors' expectations. The directors anticipate that the future level of activity will be in accordance with their expectations and consider that the project will yield returns in line with current forecasts.

During the year the Group also successfully reached agreement with the contractor that built the accommodation at one of its subsidiary undertakings, UPP (Exeter) Limited, in relation to a latent defect identified in its newly built accommodation during the year ended 31 August 2015. A programme of remediation works to rectify the latent defect is currently underway and will continue over the next four financial years, with no financial impact on the performance of the subsidiary undertaking.

During the year the Directors have adopted a new policy of measuring fair value of derivative financial instruments on a 'transfer basis' rather than 'marked to market' or so called 'settlement basis'. A transfer value basis measures an instrument on a notional trade between two equal parties, as opposed to the Group and an independent third party. The transfer basis method of valuation better reflects the economic relationship between the swaps and the hedged items in relation to hedge effectiveness (see also note 3 for further details on the transfer value measurement basis). The adoption of this new policy has given rise to a prior year adjustment.

The robust characteristics of this market remain; with strong levels of student demand resulting from greater institutional autonomy and a recognition of the importance of high quality facilities as a central element of improving the experience of students.

The impact of the referendum decision to leave the European Union (EU) continues to be the focus of much attention across the Higher Education sector and whilst the current Government remains committed to continue current funding arrangements for EU students until the completion of the Article 50 negotiations, some uncertainty remains with regard to tuition fees for EU students studying in England. Properly contextualised, the risk that a potential fall in EU student numbers would impact on academic and residential demand appears low.

Applicant data to UCAS by Domicile identifies, since the introduction of the current tuition fee cap EU applicant numbers had increased year

on year until the academic year 2017/18 when uncertainty relating to the UK referendum decision to leave the European Union impacted on applicant numbers. In real terms EU applicant numbers had increased by 10,370 students over the period, an increase of 25%. However, applicant numbers for 2017/18 decreased by 5.0%, albeit that subsequent data for the UCAS 15 October 2017 deadline suggests this may prove a one year effect.

Currently, HESA data identifies that only one in twenty full time undergraduates (5%) are from the EU (excluding UK) and just 12% of full time postgraduates. It also identifies that enrolment from the EU has continued to increase, from 124,575 in 2014/15 to 127,440 in 2015/16, despite this recruitment proving both more costly and less enticing than international students. The Minister for Universities and Skills has confirmed that there would be "no immediate changes" for EU nationals. DBEIS also reaffirmed the continuation of funding for EU students beginning in 2016/17, 2017/18 and 2018/19.

The Board remain cognisant of the attendant risks relating to this process and will continue to actively manage these where they arise.

The Group's loss for the year attributable to shareholders and reported in the financial statements is £17,524,000 (2016: £7,492,000).

Key performance indicators

The Group's principal activity is the provision of student accommodation, through seven of its subsidiary undertakings.

The following are considered by the directors to be indicators of average performance of these subsidiary undertakings that are not necessarily evident from the financial statements:

	2016/17	2015/16
Average Applications: Acceptance ratio	**5.76:1**	5.69:1

The indicators above are directly related to the performance of the relevant university partners of these subsidiary undertakings and any changes in these statistics may potentially affect the performance of that company.

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

	2016/17	2015/16
Average occupancy across the facilities	**99.9%**	99.9%

The target occupancy levels across the facilities is 98-99%, as such the directors are satisfied that the movements noted above are within tolerable limits.

Financial risk management objectives and policies

The Group uses various financial instruments including loans, derivative financial instruments, cash and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. All of the Group's financial instruments are of sterling denomination and the Group does not trade in financial instruments or derivatives.

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

Interest rate risk

The Group finances its operations through a mixture of equity, related party borrowings and fixed rate and index-linked secured senior notes. Through the issue of fixed rate notes the Group has mitigated its exposure to interest rate fluctuations on that portion of its borrowings. The index-linked 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.

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and debt servicing and to invest cash assets safely and profitably.
The maturity of borrowings is set out in note 19 to the financial statements.

Principal risk and uncertainties

Demand risk

The Group is subjected to risks arising from occupancy voids and no nominations by the university partners which can lead to uncertain revenues. This risk is managed by maintaining 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 each of its university partners and ensuring up to date in depth market analysis is completed each year to enable the Group to review its strategic position.

On behalf of the Board

R Bienfait
Director
8 December 2017

Independent auditor's report to the members of UPP Bond 1 Holdings Limited

Opinion

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

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 August 2017 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006

Basis for opinion

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

Who we are reporting to

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

Conclusions relating to going concern

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

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

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matter on which we are required to report under the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Laura Brierley
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants

Milton Keynes

8 December 2017

Group income statement for the year ended 31 August 2017

	Notes	**Year ended 31 August 2017**	Restated Year ended 31 August 2016
		£'000	£'000
Turnover	5	**62,697**	61,309
Cost of sales		**(18,961)**	(18,718)
Gross profit		**43,736**	42,591
Operating expenses		**(13,955)**	(14,258)
Operating profit	7	**29,781**	28,333
Interest receivable & similar income	10	**180**	185
Interest payable & similar charges	11	**(48,186)**	(35,544)
Loss on ordinary activities before taxation		**(18,225)**	(7,026)
Tax credit /(charge) on loss on ordinary activities	12	**701**	(466)
Loss for the financial year		**(17,524)**	(7,492)
Loss for the year attributable to:			
Owners of the parent		**(17,524)**	(7,492)

The above results all relate to continuing operations.

The change in accounting policy relating to the 2016 restated figures is detailed in Note 2.

The notes attached form part of these financial statements.

Group statement of comprehensive income for the year ended 31 August 2017

		Year ended 31 August 2017	Restated Year ended 31 August 2016
		£'000	£'000
Loss for the financial year		**(17,524)**	(7,492)
Fair value movements on RPI swaps	19	**(10,059)**	8,660
Deferred tax on fair value of RPI swaps	20	**1,965**	(1,220)
Deferred tax on revaluation of principal asset	20	**2,327**	220
Gain/(loss) on revaluation of principal asset		**-**	9,571
Re-measurement gain/(loss) recognised on defined benefit pension scheme	24	**266**	(822)
Movement on deferred tax relating to pension liability	24	**(48)**	147
Total other comprehensive income		**(5,549)**	16,556
Total comprehensive income for the period		**(23,073)**	9,064
Total comprehensive income attributable to:			
Owners of the parent		**(23,073)**	9,064

The change in accounting policy relating to the 2016 restated figures is detailed in Note 2.

The notes attached form part of these financial statements.

Group statement of changes in equity for the year ended 31 August 2017

Group

Attributable to owners of the parent

	Share capital	Revaluation reserve	Cash flow hedge reserve	Other reserve	Profit & loss account	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 September 2015 (as previously stated)	55,570	4,692	7,611	(21,462)	(36,309)	10,102
Prior year adjustment	-	-	5,924	-	19,805	25,729
At 1 September 2015 (restated)	55,570	4,692	13,535	(21,462)	(16,504)	35,831
Loss for the financial period	-	-	-	-	(7,492)	(7,492)
Other comprehensive income	-	9,791	7,440	-	(676)	16,555
Balance at 31 August 2016	**55,570**	**14,483**	**20,975**	**(21,462)**	**(24,672)**	**44,894**
At 1 September 2016 (as previously stated)	55,570	14,483	9,652	(21,462)	(46,443)	11,800
Prior year adjustment	-	-	11,323	-	21,771	33,094
At 1 September 2016 (restated)	55,570	14,483	20,975	(21,462)	(24,672)	44,894
Loss for the financial period	-	-	-	-	(17,524)	(17,524)
Transfer from profit & loss account	-	(501)	-	-	501	-
Other comprehensive income	-	2,327	(8,094)	-	218	(5,549)
Balance at 31 August 2017	**55,570**	**16,309**	**12,881**	**(21,462)**	**(41,477)**	**21,821**

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. The transfer for 2017 was £501k.

The change in accounting policy relating to the 2016 restated figures is detailed in Note 2.

The notes attached form part of these financial statements.

Company statement of changes in equity for the year ended 31 August 2017

Company

Attributable to owners of the parent

	Share capital	Profit & loss account	Total equity
	£'000	£'000	£'000
At 1 September 2015	55,570	5	55,575
Profit for the financial period	-	3	3
Balance at 31 August 2016	**55,570**	**8**	**55,578**
At 1 September 2016	55,570	8	55,578
Profit for the financial period	-	3	3
Balance at 31 August 2017	**55,570**	**11**	**55,581**

The notes attached form part of these financial statements.

Group statement of financial position as at 31 August 2017

	Notes	31 August 2017 £'000	Restated 31 August 2016 £'000
Fixed assets			
Intangible assets	13	**129,122**	133,064
Tangible assets	14	**551,529**	554,643
		680,651	687,707
Current assets			
Debtors: amounts falling due within one year	16	**799**	558
Debtors: amounts falling due after one year	17	**21,007**	34,699
Cash at bank and in hand		**35,629**	42,936
		57,435	78,193
Creditors: amounts falling due within one year	18	**(20,892)**	(18,261)
Net current assets		**36,543**	59,932
Total assets less current liabilities		**717,194**	747,639

Group statement of financial position as at 31 August 2017 (continued)

	Notes	31 August 2017 £'000	Restated 31 August 2016 £'000
Creditors: amounts falling due after more than one year	19	**(670,646)**	(672,891)
Provisions for liabilities	20	**(22,737)**	(27,682)
Net assets excluding pension liability		**23,811**	47,066
Defined benefit pension liability	24	**(1,990)**	(2,172)
Net assets		**21,821**	44,894
Share capital and reserves			
Called up share capital	21	**55,570**	55,570
Revaluation reserve		**16,309**	14,483
Cash flow hedge reserve		**12,881**	20,975
Other reserve		**(21,462)**	(21,462)
Profit and loss account		**(41,477)**	(24,672)
		21,821	44,894

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

R Bienfait
Director
8 December 2017
Registered No: 08253967

The change in accounting policy relating to the 2016 restated figures is detailed in Note 2.

The notes attached form part of these financial statements.

Company statement of financial position as at 31 August 2017

	Notes	**31 August 2017** £'000	31 August 2016 £'000
Fixed assets			
Investments	15	**55,570**	55,570
		55,570	55,570
Current assets			
Debtors: amounts falling due after one year	17	**175,338**	176,237
		175,338	176,237
Total assets less current liabilities		**230,908**	231,807
Creditors: amounts falling due after more than one year	19	**(175,327)**	(176,229)
Net assets		**55,581**	55,578
Share capital and reserves			
Called up share capital	21	**55,570**	55,570
Profit and loss account		**11**	8
		55,581	55,578

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

R Bienfait

Director

8 December 2017

Registered No: 08253967

The notes attached form part of these financial statements.

Group statement of cash flows for the year ended 31 August 2017

	Notes	**Year ended 31 August 2017 £'000**	Year ended 31 August 2016 £'000
Net cash inflow from operating activities	23(a)	**37,950**	37,899
Investing activities			
Interest received	10	**180**	163
Interest paid	11	**(37,326)**	(27,027)
Net cash flow from investing activities		**(37,146)**	(26,864)
Financing activities			
Cash outflow from repayment of fixed rate debt		**(3,689)**	(3,067)
Cash outflow from repayment of index-linked debt		**(4,422)**	(4,283)
Net cash flow from financing activities		**(8,111)**	(7,350)
(Decrease)/increase in cash and cash equivalents		**(7,307)**	3,685
Cash and cash equivalents at 1 September 2016		**42,936**	39,251
Cash and cash equivalents at 31 August 2017	23(b)	**35,629**	42,936

The notes attached form part of these financial statements.

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

1. Company information

UPP Bond 1 Holdings Limited is a limited liability company incorporated in England. The registered office is 40 Gracechurch Street, London, EC3V 0BT.

2. Basis of preparation

These annual 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 Group has chosen to adopt Section 11 and 12 of FRS 102 in respect of financial instruments as available under Section 11 of FRS 102.

The Group has chosen to apply transitional relief under Section 35.10 (i) Service concession arrangements – Accounting by operators and as a result it shall account for all its tangible assets which meet the definition of service concession arrangements under Section 34 and were entered

into before the date of transition, using the same accounting policies being applied at the date of transition to FRS 102. This transitional relief applies to all of the Group's principal assets as at 31 August 2017. All of the Group's principal assets meet the definition of service concession arrangements under Section 34.

The Company has taken advantage of the disclosure exemption allowed under FRS 102 not to comply with Section 7 Statement of Cash Flows and it has not presented its own Statement of Cash Flows in these financial statements.

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

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies (see note 3).

Change in accounting policy

The Directors have adopted a new policy of measuring fair value of derivative financial instruments on a 'transfer basis' rather than 'marked to market' or so called 'settlement basis'. A transfer value basis measures an instrument on a notional trade between two equal parties, as opposed to the Group and an independent third party. The transfer basis method of valuation better reflects the economic relationship between the swaps and the hedged items in relation to hedge effectiveness (see also note 3 for further details on the transfer value measurement basis).

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

	Total comprehensive income	Total equity
	Year ended 31 August 2016 £'000	Year ended 31 August 2016 £'000
As previously stated	1,699	11,800
Income statement		
Fair value movements on RPI swaps	2,193	-
Deferred tax on fair value of RPI swaps	(225)	-
Statement of comprehensive income		
Fair value movements on RPI swaps	6,006	40,358
Deferred tax on fair value of RPI swaps	(609)	(7,264)
Total restatement	7,365	33,094
Restated	9,064	44,894

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.

Basis of consolidation

The statutory consolidated financial statements consolidate the financial statements of UPP Bond 1 Holdings Limited and its subsidiaries prepared to 31 August each year 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 as 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.

No statement of comprehensive income is presented for UPP Bond 1 Holdings Limited as permitted by section 408 of the Companies Act 2006. The profit dealt with in the company for the financial year was £3,000 (2016: £3,000).

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 on-going 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 (Note 14)

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, as well as the long term occupancy rates.

Valuation of RPI swaps (Note 19)

UPP Bond 1 Issuer Plc, one of the Group companies, entered into derivative financial instruments, being RPI swaps, to manage the Group's exposure to RPI.

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 13.

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 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 re-valued amount where the impairment loss of a re-valued asset is a revaluation decrease.

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

Defined benefit pension scheme (Note 24)

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 (Note 14)

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 due to the Group taking the key demand risk and therefore the assets are treated as tangible fixed assets.

Classification of index-linked financial instruments (Note 19)

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.*
IT equipment *– straight line over 5 years*

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 movement in fair value is recognised in other comprehensive income and accumulated in equity in a 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

Rent receivable is recognised on straight line basis of the amount receivable in respect of the accounting period. Amounts received in advance are included within deferred income.

(c) Intangible 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

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 expected 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 cash flows, such as the 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

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) 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.

(k) 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 of 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.

(l) 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.

(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.

(ii) 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 is recognised on any tangible fixed assets revaluations. The corresponding movements in deferred tax are recognised in the same component of income as the transaction it relates to.

The Group has 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 is recognised on the carrying value of any derivative instruments. Any deferred tax asset movements are recognised in other comprehensive income, where hedge accounting is applied for the underlying derivative instrument or in the income statement where hedge accounting is not applied.

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.

(o) Defined contribution pension scheme

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations.

The contributions are recognised as an expense in the Group income statement when they fall due. Amounts not paid are shown in accruals as a liability in the Group statement of financial position. The assets of the plan are held separately from the Group in independently administered funds.

(p) Defined benefit pension plan

The Group operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the Group statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the Group statement of financial position date less the fair value of plan assets at the balance sheet date (if any) out of which the obligations are to be settled.

The defined benefit obligation is calculated using the projected unit credit method. Annually the company engages independent actuaries

to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Group's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 're-measurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

a) the increase in net pension benefit liability arising from employee service during the period;

and

b) the cost of plan introductions, benefit changes, curtailments and settlements.

(q) Defined contribution pension scheme

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in income statement as a 'finance expense'.

(r) Interest income

Interest income is recognised in the Group income statement using the effective interest method.

5. Turnover

An analysis of turnover by class of business is as follows:

	2017	2016
	£'000	£'000
Provision of student accommodation	**62,697**	61,309

All turnover arose within the United Kingdom.

6. Directors' remuneration

The immediate subsidiary undertaking, UPP Bond 1 Limited, paid fees of £11,000 (2016: £11,000) to Intertrust Directors 1 Limited in respect of services performed in connection with the management of the affairs of the Group for the year ended 31 August 2017. An amount of £3,000 (2016: £3,000) related to the services provided to the Company during the year.

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

Other than the Directors there no other key management personnel in this company.

7. Operating profit

The operating profit is stated after charging:

	Year ended 31 August 2017	Year ended 31 August 2016
	£'000	£'000
Depreciation	**3,114**	2,936
Amortisation of goodwill	**3,942**	4,543

8. Auditors' remuneration

	Year ended 31 August 2017	Year ended 31 August 2016
	£'000	£'000
Fees payable to the Group's auditor and its associates for the audit of the Company's annual financial statements	**4**	4
Fees payable to the Group's auditor and its associates for the audit of the subsidiaries' annual financial statements	**135**	123
Taxation compliance services	**56**	55
	191	178

9. Employees

Staff costs were as follows:

	Year ended 31 August 2017	Year ended 31 August 2016
	£'000	£'000
Wages and salaries	**5,362**	5,319
Social security costs	**374**	371
Pension costs	**258**	254
	5,994	5,944

The average monthly number of employees, including the directors, during the year was as follows:

	No.	No.
Site managers	**11**	11
Administration, maintenance and cleaning	**311**	288
	322	299

10. Interest receivable and similar income

	Year ended 31 August 2017	Year ended 31 August 2016
	£'000	£'000
Bank interest receivable	**180**	185

11. Interest payable and similar charges

	Year ended 31 August 2017	Restated Year ended 31 August 2016
	£'000	£'000
Financial liabilities measured at amortised cost		
Fixed rate senior secured notes	**14,955**	15,148
Index-linked senior secured notes	**11,418**	7,118
Unsecured loan notes	**18,180**	16,454
	44,553	38,720
Financial liabilities measured at fair value		
Fair value movement on RPI swaps	**3,633**	(3,176)
	48,186	35,544

Included within index-linked senior secured notes is £7,331k (2016 - £3,096k) that relates to the index-linked uplift on the outstanding loan.

The change in accounting policy relating to the 2016 restated figures is detailed in Note 2.

12. Tax on loss on ordinary activities

	Year ended 31 August 2017	Year ended 31 August 2016
	£'000	£'000
a) Analysis of tax charge for the year		
Current tax on income for the year	**-**	-
Deferred tax:		
Current year	**(711)**	636
Rate difference	**3**	(183)
Current year – defined pension scheme relief	**(16)**	(15)
Rate difference – defined pension scheme relief	**24**	28
Total deferred tax	**(701)**	466
Total tax charge on losses on ordinary activities	**(701)**	466

(b) Factors affecting total tax charge for the year

The tax assessed for the year is higher (2016: higher) than the standard rate of corporation tax in the UK 19.58% (2016: 20%). The differences are explained below:

	Year ended 31 August 2017	Year ended 31 August 2016
	£'000	£'000
Loss on ordinary activities before tax	**(17,524)**	(7,492)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.58% (2016: 20%)	**(3,431)**	(1,498)
Effects of:		
Disallowable expenses	**4,477**	4,955
Group relief claimed	**(48)**	(52)
Rate change	**26**	(156)
Non-taxable income	**(2,761)**	(3,590)
Movement in deferred tax not recognised	**(1,036)**	(125)
Total tax charge for the year (note 12a)	**(701)**	(466)

(c) Deferred tax

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

Group	31 August 2017	Restated 31 August 2016
	£'000	£'000
	Group	Group
Included in provisions for liabilities	22,737	27,682
	22,737	27,682

Deferred tax	31 August 2017	Restated 31 August 2016
	£'000	£'000
	Group	Group
The deferred tax liability consists of:		
Accelerated capital allowances	6,784	7,181
Derivative financial instruments	2,965	6,246
Property revaluations	20,110	21,827
Losses to be relieved against future trading profits	(6,784)	(7,181)
Defined benefit pension scheme	(338)	(391)
Total deferred tax liability	22,737	27,682

Deferred tax liability	31 August 2017	Restated 31 August 2016
	£'000	£'000
	Group	Group
At 1 September	27,682	26,363
Charged to income statement	(701)	466
Movement in other comprehensive income	(4,244)	853
At 31 August	22,737	27,682

The change in accounting policy relating to the 2016 restated figures is detailed in Note 2.

(d) Factors that may affect future tax charges

The deferred tax has been recognised at a rate of 17% which was substantively enacted in Finance Bill 2015.

There was a reduction in the corporation tax rate from 20% rate to 19% from 1 April 2017 and then to 18% from 1 April 2020.

13. Intangible fixed assets

	Goodwill
	£'000
Cost	
At 1 September 2016 and at 31 August 2017	**145,035**
Amortisation	
At 1 September 2016	(11,971)
Charge for the period	(3,942)
At 31 August 2017	**(15,913)**
Net book value	
At 31 August 2017	**129,122**
At 31 August 2016	133,064

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.

14. Tangible fixed assets

	Assets for use in operating leases	IT Equipment	Total Tangible fixed assets
	Group	Group	Group
	£'000	£'000	£'000
Cost or valuation			
At 1 September 2016	554,600	71	554,671
Revaluation	-	-	-
At 31 August 2017	**554,600**	**71**	**554,671**
Depreciation			
At 1 September 2016	-	(28)	(28)
Charge during the year	(3,100)	(14)	(3,114)
At 31 August 2017	**(3,100)**	**(42)**	**(3,142)**
Net book value			
At 31 August 2017	**551,500**	**29**	**551,529**
At 31 August 2016	554,600	**43**	554,643

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

At 31 August 2017	**538,561**
At 31 August 2016	541,174

Fixed assets include finance costs up to the date of completion of £16,771,000 (2016: £16,771,000)

Assets used in operating leases were independently valued by Jones Lang LaSalle ("JLL"), Chartered Surveyors, on an existing use basis at 31 August 2016. 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 critical assumptions made in relation to the valuation are set out below:

	2017	2016
Discount rates	**8.40% – 9.25%**	8.40% – 9.25%
Occupancy rates	**98% – 99%**	98% – 99%
Long term annual rental growth	**3%**	3%

15. Investments

	Interest in subsidiary undertakings
	£'000
Company	
At 1 September 2016 and 31 August 2017	**55,570**

The company ultimately owns 100% of the issued ordinary share capital in the companies listed below. All of these companies are registered in England and Wales.

Subsidiary undertaking	Nature of business
UPP (Alcuin) Limited	Provision of student accommodation
UPP (Broadgate Park) Holdings Limited	Provision of student accommodation
UPP (Kent Student Accommodation) Limited	Provision of student accommodation
UPP (Nottingham) Limited	Provision of student accommodation
UPP (Oxford Brookes) Limited	Provision of student accommodation
UPP (Plymouth Three) Limited	Provision of student accommodation
UPP (Exeter) Limited	Provision of student accommodation
UPP Bond 1 Issuer plc	Financing company
UPP Bond 1 Limited	Treasury management company

The fixed asset investment value above represents the carrying value of the company's investment in its subsidiary undertakings.

16. Debtors: amounts falling due within one year

	31 August 2017	31 August 2017	31 August 2016	31 August 2016
	£'000	£'000	£'000	£'000
	Group	Company	Group	Company
Trade debtors	479	-	110	-
VAT receivable	42	-	17	-
Amounts owed to related parties	55	-	47	-
Prepayments and accrued income	223	-	384	-
	799	-	558	-

17. Debtors: amounts falling due after one year

	31 August 2017	31 August 2017	Restated 31 August 2016	31 August 2016
	£'000	£'000	£'000	£'000
	Group	Company	Group	Company
Amounts owed by subsidiary companies	-	175,338	-	176,237
Derivative financial instruments	21,007	-	34,699	-
	21,007	175,338	34,699	176,237

Amounts owed by subsidiary companies relate to the unsecured loan notes with UPP Bond 1 Limited. These loan notes bear interest at 13.75% and are repayable by 2057. Payment of interest is subject to the Group passing lock up tests and availability of cash reserves.

The change in accounting policy relating to the 2016 restated figures is detailed in Note 2.

18. Creditors: amounts falling due within one year

	31 August 2017	31 August 2017	31 August 2016	31 August 2016
	£'000	£'000	£'000	£'000
	Group	Company	Group	Company
Senior secured notes	8,915	-	7,592	-
Trade creditors	675	-	505	-
Amounts owed to related parties	5,814	-	5,283	-
Accruals and deferred income	5,488	-	4,881	-
	20,892	-	18,261	-

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

	31 August 2017	31 August 2017	31 August 2016	31 August 2016
	£'000	£'000	£'000	£'000
	Group	Company	Group	Company
Fixed rate senior secured notes	285,962	-	289,212	-
Index-linked senior secured notes	218,273	-	215,041	-
Unsecured loan notes	175,326	175,327	176,230	176,229
	679,561	175,327	680,483	176,229
Less: included in creditors amounts falling due within one year	(8,915)	-	(7,592)	-
	670,646	175,327	672,891	176,229
Maturity of debt				
Repayable within one year or on demand	8,915	-	7,592	-
Repayable in more than one year but less than two years	10,359	-	9,242	-
Repayable in more than two years but less than five years	36,228	-	34,801	-
Repayable in more than five years	624,059	175,327	628,848	176,229
	679,561	175,327	680,483	176,229
Less: included in creditors amounts falling due within one year	(8,915)	-	(7,592)	-
	670,646	175,327	672,891	176,229

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%, with repayments commencing on 30 August 2013.

The index-linked senior secured notes are fully amortising by 2047 with a real interest rate of 2.7291% increasing semi-annually by RPI. The notional amount of these notes at issuance was £75,000,000 and 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% 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% and are repayable by 2057. Payment of interest is subject to the Group passing lock up tests and availability of cash reserves.

Derivative financial instruments

	Cash flow hedge reserve	Profit & loss account	Total
	£'000	£'000	£'000
Fair value of RPI SWAPs at 1 September 2016 (restated)	25,579	9,120	34,699
Fair value movement in the year	(10,059)	(3,633)	(13,692)
Fair value of RPI SWAPs at 31 August 2017	**15,520**	**5,487**	**21,007**
Deferred tax asset on fair value of RPI SWAPs at 1 September 2016 (restated)	(4,605)	(1,642)	(6,247)
Movement in the year	1,965	701	2,666
Deferred tax liability/(asset) on fair value of RPI SWAPs at 31 August 2017	**(2,640)**	**(941)**	**(3,581)**
Fair value at 31 August 2017, net of deferred tax	**12,880**	**4,546**	**17,426**
Fair value at 1 September 2016, net of deferred tax (restated)	20,974	7,478	28,452

20. Provisions for liabilities

Deferred tax	31 August 2017	Restated 31 August 2016
	£'000	£'000
	Group	Group
The deferred tax liability consists of:		
Accelerated capital allowances	**6,784**	7,181
Fair value of RPI swap	**2,965**	6,246
Property revaluations	**20,110**	21,827
Losses to be relieved against future trading profits	**(6,784)**	(7,181)
Defined benefit pension scheme	**(338)**	(391)
Total deferred tax liability	**22,737**	27,682

The change in accounting policy relating to the 2016 restated figures is detailed in Note 2.

21. Called up share capital

	31 August 2017	31 August 2016
	£'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 1 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.

22. Reserves

Revaluation reserve

The reserve is used to record the surplus or deficit arising on valuation of the principal asset of the Group as well as the deferred tax liability arising on any chargeable gains if the associated property were to be sold at the balance sheet date.

Cash flow hedge reserve

Other reserves comprise of cash flow hedge reserve which includes the fair value movements on the derivatives financial instruments and the deferred tax associated with these.

Other reserve

Other reserve relates to deferred tax liability on fair value adjustments arising on business combinations prior to transition to FRS 102 on 1 September 2014.

Profit and loss account

The reserve consists of current and prior year profit and loss.

23. Notes to the statement of cash flows

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

	Year ended 31 August 2017	Year ended 31 August 2016
	£'000	£'000
Operating profit	**29,781**	28,333
Depreciation	**3,114**	2,936
Goodwill amortisation	**3,942**	4,543
Pension costs	**46**	26
(Increase)/decrease in debtors due within one year	**(241)**	133
Increase in creditors due within one year	**1,308**	1,928
Net cash inflow from operating activities	**37,950**	37,899

(b) Cash and cash equivalents comprise of the following:

	At 31 August 2017	At 31 August 2016
	£'000	£'000
Cash at bank and in hand	**20,054**	28,519
Short term deposits	**15,575**	14,417
Cash and cash equivalents	**35,629**	42,936

24. Pension commitments

Defined contribution scheme

The Group operates a defined contribution retirement benefit scheme for all qualifying employees. The total cost charged to income statement of £24,000 (2016: £32,000) represents a pre determined amount of the employee's salary paid into the scheme. As at 31 August 2017 £Nil (2016: £Nil) contributions remained outstanding.

Defined benefit scheme

Retirement benefits for 56 Group employees are provided by a defined benefit scheme which is funded by contributions by the employee and the Group. Payments are made to Nottinghamshire County Council Pension Fund ("NCCPF"). This is an independently administered scheme and contracted out of the State Earnings Related Pension Scheme.

Contributions are set every three years as a result of the actuarial valuation, the latest being carried out at 31 March 2019 setting out contributions for the period from 1 April 2020 to 31 March 2023.

The material assumptions used by the Actuary at 31 August 2017 were:

	2017	2016
Rate of inflation	**3.6%**	3.1%
Rate of increase in salaries	**4.2%**	4.0%
Rate of increase in pensions	**2.7%**	2.2%
Discount rate for liabilities	**2.5%**	2.1%

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement at age of 65 are:

	31 August 2017	31 August 2016
	Years	Years
Retiring today		
Males	**22.6**	22.1
Females	**25.5**	25.3
Retiring in 20 years		
Males	**24.8**	24.4
Females	**27.9**	27.7

Amounts recognised in the income statement are as follows:

	31 August 2017	31 August 2016
	£'000	£'000
Service cost	**100**	79
Net interest on the defined liability	**45**	47
Administrative expenses	**1**	1
	146	127

Amount taken to other comprehensive income is as follows:

	31 August 2017	31 August 2016
	£'000	£'000
Return of scheme assets in excess of interest	**336**	267
Other actuarial gains/(losses) on assets	**14**	
Change in demographic assumptions	**(21)**	
Experience gain/(loss) on defined benefit obligation	**(77)**	
Change in financial assumptions	**14**	(1,089)
Re-measurement of the net assets/(defined liability)	**266**	(822)

The amount included in the statement of financial position arising from the Company's obligations in respect of its defined benefit scheme is as follows:

	31 August 2017	31 August 2016
	£'000	£'000
Present value of the defined benefit obligation	**(5,188)**	(4,970)
Fair value of scheme assets	**3,198**	2,798
Net defined benefit liability	**(1,990)**	(2,172)

Defined benefit obligation reconciliation is as follows:

	31 August 2017	31 August 2016
	£'000	£'000
At 1 September	**4,970**	3,818
Current service cost	**100**	79
Interest cost	**104**	142
Change in financial assumptions	**(14)**	1,089
Estimated benefits paid net of transfers in	**(85)**	(174)
Change in demographic assumptions	**21**	-
Experience loss / (gain) on defined benefit obligation	**77**	-
Contributions by scheme participants	**15**	16
At 31 August	**5,188**	4,970

Reconciliation of fair value of the scheme assets is as follows:

	31 August 2017	31 August 2016
	£'000	£'000
At 1 September	**2,798**	2,542
Interest on assets	**59**	95
Actuarial gains/losses	**14**	-
Return on assets less interest	**336**	267
Employer contributions	**61**	53
Employee contributions	**16**	16
Administration expenses	**(1)**	(1)
Benefits paid	**(85)**	(174)
At 31 August	**3,198**	2,798

The actual return on scheme assets was £266,000 (2016: £822,000 loss).

The Company expects to contribute £84,000 to its Defined Benefit Pension Scheme in 2017.

The estimated asset allocation of the scheme as at 31 August 2017 is as follows:

	31 August 2017		31 August 2016	
	%	£'000	%	£'000
Equities	**66**	**2,115**	69	1,926
Government bonds	**3**	**102**	4	105
Other bonds	**12**	**385**	7	190
Property	**12**	**373**	12	338
Cash	**2**	**67**	4	119
Other	**4**	**156**	5	120
Total fair value of scheme assets (bid value)	**100**	**3,198**	100	2,798
Present value of scheme liabilities		**(5,188)**		(4,970)
Net deficit		**1,990**		2,172

25. 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 and the Group's ability to service the fixed rate tranche of the bond debt 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:

External hedge arrangements

- 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 external 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 AssetCos. This is to manage the exposure of the Group to RPI movements from loan receipts from AssetCos where revenue streams are sensitive to inflation rate risk.

Hedge arrangements with AssetCos

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

The notional amounts swapped for each year have been determined with reference to a percentage of the debt servicing costs of the fixed rate tranche of the relevant AssetCo on-loan agreement with Bond 1 Issuer Plc.

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 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 19 to the financial statements.

Terms and debt repayment schedule:

	Currency	Effective interest rate (%)	Year of maturity	**Book value**
				2016 £'000
Fixed rate senior secured notes	£	4.9023%	2040	**285,962**
Index-linked senior secured notes (issued 2013)	£	2.9105%	2047	**80,887**
Index-linked senior secured notes (issued 2014)	£	1.0520%	2049	**137,386**
Unsecured loan notes (issued 2013)	£	9.3700%	2056	**152,803**
Unsecured loan notes (issued 2014)	£	11.3800%	2051	**22,523**
				679,561

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 in depth market analysis is completed each year to enable the Group to review its strategic position.

26. Financial instruments

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

	Carrying amount At 31 August 2017	Restated Carrying amount At 31 August 2016
	£'000	£'000
Financial asset		
Financial assets measured at amortised cost:		
Trade debtors	**479**	110
Other related party loans	**55**	47
Total financial liabilities measured at amortised cost	**534**	157
Financial assets measured at fair value		
Derivative financial assets	**21,007**	34,699
Financial liabilities		
Financial liabilities measured at amortised cost:		
Fixed rate senior secured noted	**285,962**	289,212
Index-linked senior secured notes	**218,273**	215,042
Unsecured loan notes	**175,326**	176,230
Trade creditors	**675**	505
Other related party loans	**5,814**	5,283
Total financial liabilities measured at amortised cost	**686,050**	686,272

27. 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% 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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