UPP Bond 1 Limited Half Year Summary

For the six months ended 28 February 2017

This Half Year summary is being published by UPP Bond 1 Limited ("The Group Agent")

On behalf of UPP Bond 1 Holdings Limited ("HoldCo"), UPP Bond 1 Issuer Plc ("Issuer"), UPP (Alcuin) Limited, UPP (Broadgate Park) Holdings Limited, UPP (Kent Student Accommodation) Limited, UPP (Nottingham) Limited, UPP (Oxford Brookes) Limited, UPP (Exeter) Limited and UPP (Plymouth Three) Limited ("The AssetCos") (together the "Obligors") pursuant to the Common Terms Agreement ("CTA").

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DISCLAIMER

Forward Looking Statements

Unless otherwise stated, the figures in the summary reflect the position as at 28 February 2017. In addition the Summary contains forward looking statements that reflect the current judgment of the management of the Obligors regarding conditions that it expects to exist in the future. Forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will occur in the future and, accordingly, are not guarantees of future performance. Management's assumptions rely on its operational analysis and expectations for the operating performance of each of Obligor's assets based on their historical operating performance and management expectations as described herein. Factors beyond management's control could cause events to differ from such assumptions and actual results to vary materially from the expectations discussed herein. Investors are cautioned that the assumptions and forecast information included herein are not fact and should not be relied upon as being necessarily indicative of future results and are cautioned not to place undue reliance on such assumptions and forecast information. It should also be noted that the information in this Investor Report has not been reviewed by the Obligors' auditors.

Note on Higher Education Sector

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

THIS REPORT IS NOT INTENDED AS AN OFFER FOR SALE OR SUBSCRIPTION OF, OR SOLICITATION OF ANY OFFER TO BUY OR SUBSCRIBE, ANY SECURITY OF UPP BOND 1 ISSUER PLC OR ANY OTHER MEMBER OF THE UPP GROUP NOR SHOULD IT OR ANY PART OF IT FORM THE BASIS OF, OR BE RELIED ON IN CONNECTION WITH, ANY CONTRACT OR COMMITMENT WHOMSOEVER.

Half Year Summary

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

General overview: UPP Bond 1 Holdings Limited

1.0

UPP Bond 1 Holdings Limited

Results for the six months ended 28 February 2017

Financial highlights for the six months ended 28 February 2017

£'000	Feb 2017	Feb 2016	Change %
Turnover	31,020	30,232	2.6%
Gross profit	21,529	20,728	3.9%
EBITDA*	20,043	19,402	3.3%
EBITDA margin*	64.6%	64.2%	

** EBITDA before sinking fund expenditure*

Business highlights

- Occupancy for 2016/17 of 99.8% (2015/16: 99.9%)
- Turnover of £31.0m up 2.6%
- Consistent EBITDA margins year on year
- Operating cash flow of £30.2m
- Historic and Projected Annual Debt Service Coverage Ratios comfortably above lock up triggers
- Full room nominations at Exeter and Oxford Brookes for 2017/18 academic year meaning 28% of rental receipts have been secured

Sean O'Shea, Group Chief Executive Officer

"We are delighted to report the continued strong performance of UPP Bond 1 Holdings Limited with increases in turnover and EBITDA for the first six months ended 28 February 2017. UPP continue to secure sector leading levels of occupancy, underpinned by demand from UK universities for high quality residential accommodation infrastructure.

UK higher education remains both a significant industrial sector in its own right and a global leading export. Whilst we expect to see overall student numbers flattening over the coming years in line with the birth rate, demand for on-campus residential accommodation will remain strong on the basis of a continuing structural undersupply and demand from students for high quality provision.

UPP are currently in the process of moving to completion on a number of transactions with both existing and new partners and remain confident about our prospects for further strengthening our market leading position."

Enquiries

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

1.1 Summary of the UPP Group business

UPP Group ("UPP Group Holdings Limited and its subsidiaries") is the largest provider of on-campus residential and non-residential accommodation infrastructure to universities in the United Kingdom and currently has c.36,500 student rooms in under management, development or preferred bidder with 16 partner universities, of which 11,673 are rooms operated by the AssetCos.

The key features of UPP Group's cash generative business model, based on bespoke partnerships with the 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 healthy 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 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
- £75.0m 2.7291% 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 both issuances, along with a tranche of unsecured subordinated debt, were utilised to:

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

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

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

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

Clifton campus at Nottingham Trent University, where UPP provides 4,413 students with accommodation.

Higher education sector and trading update

2.0

2.1 The higher education sector

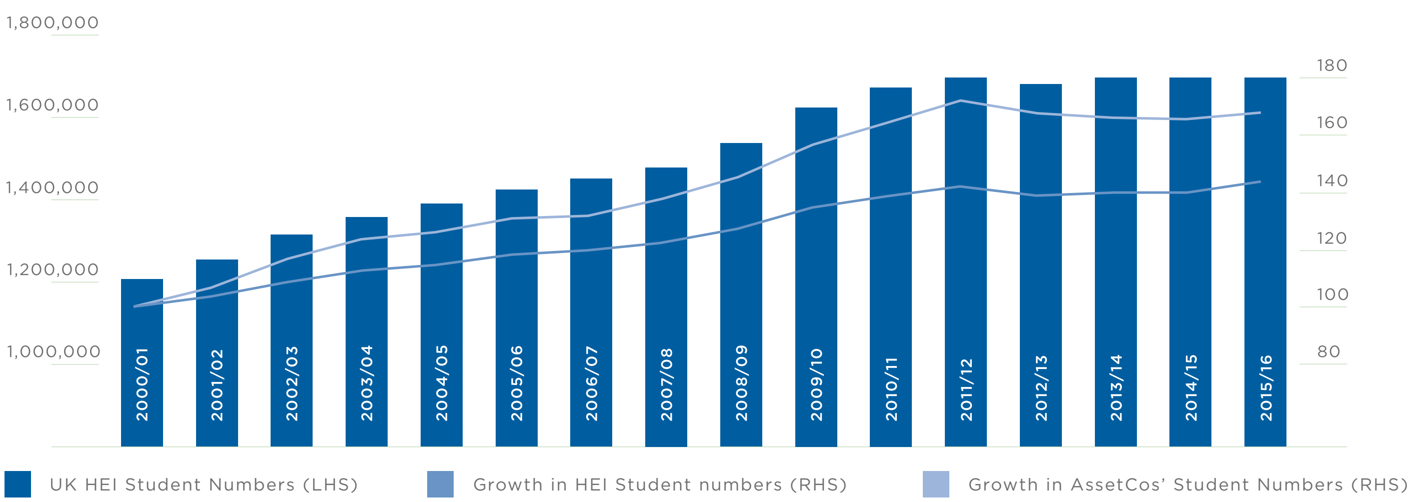
Over the last few decades, OECD countries have seen a massive expansion of higher education, with HE systems worldwide shifting from elite forms of higher education to mass participation. In most countries higher education continues to be a key issue as economic development depends in part on the presence of an educated and skilled workforce and on technological improvements that raise productivity. This growth has seen the number of young people aged 25-34 with a tertiary qualification increasing by nearly 45% between 2005 and 2013 in OECD and G20 countries, a trend that is expected to continue over the coming decade. While, on average, only 14% of the young people in OECD and G20 countries had a tertiary qualification in 2005, more than 45% are expected to have a tertiary qualification in 2030 if the growth of the past decade is sustained.[1] In 2013 there were 137 million 25-34 year olds with a tertiary education by 2030 this figure is projected to increase to 300 million.[2]

As a result of this growth in global demand for higher education, systems continue to change developing a wider diversity of provision to meet the needs of new student populations and to accommodate labour market pattern changes and the need to re-skill adults through lifelong learning. Most higher education systems, including the UK, have undergone a form of decentralisation which has also changed their structure and size. In addition, the growing trend of public-private cost sharing, especially via tuition fees has resulted, in a greater student focus on quality and value for money. Global student mobility continues its dramatic increase, with the number of students enrolled outside of their country of citizenship increasing fivefold over the last four decades to 4.5million.[3] It also appears that students are staying in higher education for longer, with 69% of students graduating within the theoretical duration of their course plus three years.[4]

It is within this context that the UK remains one of the top global destinations for HE. Institutions across the country continue to retain world-class status, with the Times Higher Education World University Rankings for 2016/17 ranking 32 UK institutions in the top 200 and 12 within the top 100. In terms of global popularity it remains second only to the US and the number one destination for HE students in Europe.[6] The UK sector continues to attract applicants from the UK and overseas and whilst, as expected, the rate of applicant growth has slowed in recent years – largely tracking the UK birth rate – overall applicant numbers for 2016/17 have once again increased year on year. According to the Higher Education Statistics Agency full-time enrolments have continued to increase, now standing at 1,697,150 the equivalent of a compound annual growth rate of 2.0% over the last decade.

Higher education in the UK continues to be a significant sector of economic activity in its own right, representing a key driver of growth at national and local level. In 2011/12, the sector generated over £73.1 billion through both direct and secondary outputs, contributed £17.9bn to UK GDP (i.e. 2.8%) and created 757,268 full time equivalent jobs throughout the economy. The off-campus expenditure of all non-UK students attending UK universities is estimated to be £4.9bn and generates a further £7.4bn across the wider economy.[8]

Full time student enrolments from 2000/01 to 2015/16 (UPP Bond 1 v's HEI Sector Indexed)



Source: HESA Headcount

Academic demand: International and Domestic

Demand for higher education in the UK remains healthy and growth in applicant numbers continued for the 2016/17 academic year. As projected this growth has been at a slower rate, flattening overall in line with the UK birth rate. UCAS figures from 30 June 2016 identify that total applicant numbers have risen by more than 58,000 or 9.4% over the course of 2012/13 and 2016/17 application cycles. Domestic applicant numbers grew by nearly 7.7%, the equivalent of 39,770 students over the same period. Student applicants from the EU have shown the strongest rate of growth since the introduction of tuition fees at 25.0%, whilst international applicant numbers have increased by more than 8,000 to just under 70,000 per annum. The total number of applicants for the 2016/17 academic year has increased by just 0.3% year on year, the equivalent of 1,850 students to 674,890.

UCAS data published on 28 September 2016 identified the position with respect to acceptances recorded four weeks following 'A' level results. It identified that almost 522,000 students had been accepted to UK universities through UCAS which represented an increase of 7,000 students on the same point in 2015. Acceptances for study were up across all the countries of the UK, with the number of students beginning university courses with A'levels showing a small decrease on the previous year. UK and EU domiciled acceptances to the 2016/17 entry year at this point were 482,750, an increase of 1.5% or approximately 7,320 compared to the same point in the 2015/16 cycle. Acceptances to the 2016/17 entry year are 18.4% higher than in 2012/13 – the first year of the £9,000 tuition fee cap regime.

As a leading global destination for higher education, UK HE sector has continued to witness enrolment growth from students domiciled in the EU and further afield. In 2015/16, the most recent year for which domestic data is available, there were 438,010 EU and international students studying at publicly-funded HE institutions across the UK – 238,280 studying at UG level and more than 197,000 at postgraduate.

As the table Applicants to UCAS by Domicile (overleaf) identifies, since the introduction of the current tuition fee cap EU applicant numbers had increased year on year to 2016/17. In real terms this had seen an extra 9,000 students apply over the period, an increase of 25% overall. International student numbers had increased by approximately 10,000 since 2012/13 an increase of 23.3% to 52,560 at the 15 January deadline.

1. *OECD (2016) Education at a Glance http://www.oecd.org/edu/education-at-a-glance-19991487.htm*
2. *OECD (2015) Education Indicators in Focus http://www.oecd.org/edu/skills-beyond-school/EDIF%2031%20(2015)--ENG--Final.pdf*
3. *OECD (2014) Education at a Glance*
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 2015/16*
6. *OECD (2013) Education at a Glance*
7. *UCAS 30 June Deadline (Applicants by Domicile)*
8. *Universities UK: Impact of universities on the UK economy 2011/12*

Academic demand indicators for 2017/18

On the 2 February 2017, UCAS published analysis of full-time undergraduate applications considered 'on time' for the 15 January 2017 deadline. This represents the first reliable indicator of demand for UK HE in the 2017/18 academic year.

At this stage in the cycle, UCAS announced that 564,190 people have applied to courses in the UK for 2017/18 – compared to 593,720 at the same point last year. This represents the first year that applicant numbers have fallen following four consecutive years of growth since the increase in tuition fees. Overall, UK applicant figures have decreased by 5% to a total of 469,490 and EU applicant figures decreased by 7% to 42,070. The number of applicants from other overseas countries is 52,630, slightly up compared to the same point in the 2016 cycle. It should be noted that this decline has been predicted for the past five years.

The largest group of applicants are 18 year olds from the UK. In contrast to figures for older age groups, applicant numbers from this group are similar to last year at 272,330, despite a fall of 1% in the 18 year old population. In England, the proportion of 18 year olds in the population who apply to university has risen to a record 37%, but the increase is smaller than in recent years.[9] For the UPP Bond 1 Limited portfolio this continues to represent a positive trend given that AssetCo accommodation is used to house first year students with a guarantee of a residential place.

9. *UCAS Undergraduate applicant releases for 2017 cycle – published 2 February 2017*

UCAS: Applicants for all courses by domicile group (15 January deadline)

Applicant Domicile	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
England	383,840	394,330	408,300	411,420	408,990	385,870
Northern Ireland	18,290	19590	19,550	20,040	20,400	19,479
Scotland	39,170	39950	41,080	45,100	45,420	44,530
Wales	20,880	20440	21,010	21,000	21,130	19,620
UK	**461,180**	**474,310**	**489,940**	**497,550**	**495,940**	**469,490**
EU (excluding UK)	36,210	37990	39,780	42,720	45,220	42,070
Not EU	42,640	46510	50,290	52,020	52,560	52,630
Total	**540,020**	**558,820**	**580,000**	**592,290**	**593,720**	**564,190**

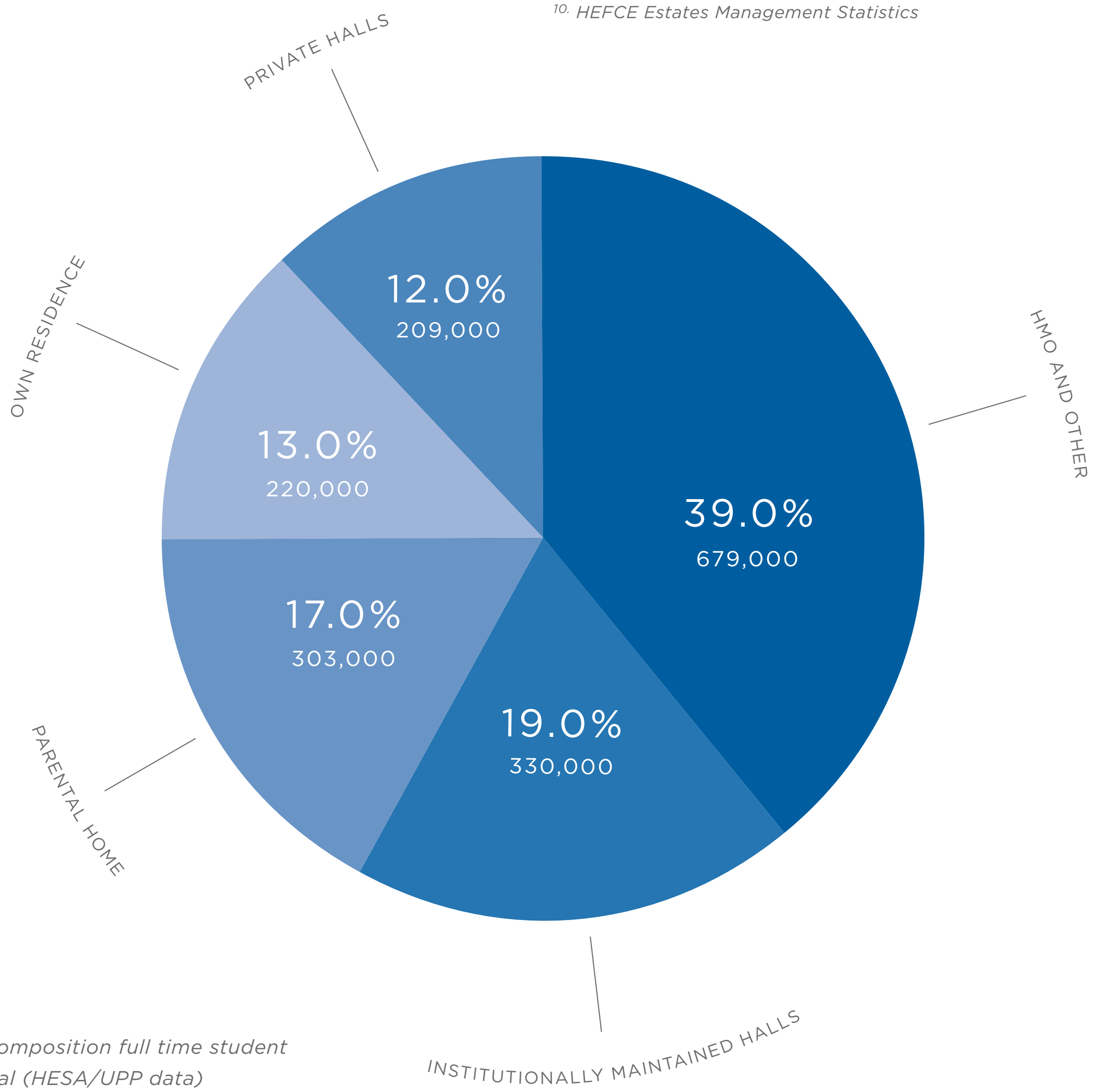
Student accommodation demand

There continues to exist a structural undersupply of purpose-built student accommodation relative to the full time student population. This situation has been exacerbated over the last fifteen years by new accommodation supply failing to keep pace with the growth in student number. Significant planning disincentives remain in place for private sector landlords seeking to convert properties for use as HMO stock and for those seeking to provide purpose built accommodation in many city markets on a direct let basis. In the case of the former, Article Four Directives which bring the conversion of residential properties for student letting under the Town and Country Planning Act remain in place. In the case of the latter, Local Authorities will often not consider planning applications without the tacit support of a specific institution.

Student enrolment has grown at more than twice the rate of accommodation supply, with the privately rented sector continuing to face tougher regulations. In 2016/17, there were an estimated 980,000 students in the UK living in houses of multiple occupation and or living with their parents. A significant proportion of these students would prefer to live on campus given sufficient supply, the right product and at the right price. The UPP portfolio represents 6.8% of total purpose built student accommodation in the UK.

The UK HE estate is also in need of considerable investment, currently carrying a backlog maintenance requirement of some £5 billion. Given that approximately 25% of the estate is in need of either complete refurbishment or redevelopment, there also remains a growing economic rationale for estate transfer transactions, as universities seek to do more with less, and differently.[10]

[10] *HEFCE Estates Management Statistics*



Market composition full time student residential (HESA/UPP data)

2.2 Trading Update

The demand dynamics identified in Section 2.0 have been reflected in the performance of the AssetCos in the current year with occupancy of 99.8% being achieved. With costs largely in line with modelled expectations, annual debt service cover ratios for each AssetCo are comfortably in excess of any potential trigger events.

Strong demand for residential accommodation is expected to continue into the forthcoming academic year and in the early stages in the annual letting cycle, applications for rooms are marginally ahead of the same point in the previous year.

As at 20 April 2017, the AssetCos have secured 3,327 signed Residences Agreements for the academic year 2017/18 compared to 3,172 at the same date last year. Full reservation requests have been received and agreed ahead of the academic year 2017/18 at the University of Exeter and Oxford Brookes University, representing 28% of AssetCo accommodation. In the case of Oxford Brookes, the University benefits from a controlled rent mechanism which is directly linked to the prevailing rate of RPI as at the start of the academic year.

A small number of discounts targeted at particular cohorts of returning students have been budgeted at the University of Nottingham for 2017/18. These discounts amount to circa £200,000, about 1.8% of total rents of circa £12m. In previous years there have also been discounts offered at Nottingham Trent University, however, due to strong occupancy predicted, these will not be offered in 2017/18.

Rents for the academic year 2017/18 have now been confirmed at six out of the seven AssetCos. Against a background of RPI at 1.77%, plus some requirement to recover energy overspends from previous years, average rent increases across all room types will be in the region of 2.6%.

University of Exeter where UPP provides over 2,500 students with accommodation.

Financial highlights

of the six months ended 28 February 2017

3.0

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

- Occupancy of 99.8% achieved across the seven AssetCos
- Turnover of £31.0m, up 2.6% on a like for like basis
- EBITDA before sinking fund of £20.0m
- Increase in EBITDA before sinking fund of 3.3%
- Healthy cash balance of £46.4m made up largely of liquidity reserve accounts and amounts payable to the holder of subordinated loan notes

For the period from 1 September 2016 through to 28 February 2017, the Bond portfolio has performed in line with expectations. The historic ADSCR of 1.38 for the 12 month period to 28 February 2017 was comfortably above lock up triggers set at 1.15.

Occupancy for the 2016/17 academic year has been secured at 99.8% across the portfolio; as such rental receipts are now fixed for the year as are the majority of costs with the exception of utilities. As a result performance was above modelled expectations.

3.1 AssetCo Consolidated Profit and Loss Account for the six months ended 28 February 2017

	Feb 2017	Feb 2016	Change %
	£'000	£'000	
Turnover	31,020	30,232	2.6%
Cost of sales	(9,491)	(9,504)	0.1%
Gross profit	21,529	20,728	3.9%
Gross profit margin	69.4%	68.6%	
Overheads	(1,461)	(1,306)	(11.9%)
EBITDA before sinking fund expenditure	20,068	19,422	3.3%
EBITDA margin	64.7%	64.2%	
Sinking Fund expenditure	(892)	(867)	(2.9%)
EBITDA	19,176	18,555	3.3%

** Excludes £25,000 of audit and tax fees relating to Bond trading companies*

Financial highlights are:

- Turnover up 2.6%, primarily due to RPI linked rental increases and the additional 20 rooms at the Oxford Brookes University site
- Occupancy for 2016/17 of 99.8% (2015/16: 99.9%). Rooms are available for short let at UPP (Broadgate Park) Limited so occupancy is likely to improve
- Strong gross and EBITDA margins in line with expectations
- Strong operating cash flow period to February 2017 of £30.0m (Feb 2016: £29.3m)

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

Turnover increased by 2.6% on a like for like basis primarily due to contractual rental increases which are above the underlying RPI increases for the relevant period of 1.09%, plus the impact of 6 months of rental income on the 20 new rooms completed in September 2016 at our site with Oxford Brookes University. For the six months to 28 February 2017, occupancy was 99.8% across the portfolio which is in excess of modelled expectations. Turnover for the period is £31.0m.

Cost of sales is made up of facilities management costs, staff costs, utilities and internet access costs which are in line with the previous year at £9.5m (2016: £9.5m). Facilities management costs and staff costs are subject to RPI increases year on year; however this has been offset by a contractual reduction in internet access costs.

Overheads have increased by 11.9% to £1.5m (2016: £1.3m) primarily due an increase in costs at UPP (Nottingham) Limited relating to the conversion of rooms at Sandby Halls. These are one off costs and were included in the operating budget.

In total EBITDA before sinking fund increased by 3.3% to £20.0m (Feb 2016: £19.4m).

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

3.2 Update on Latent Defect at Exeter accommodation

As previously notified, a latent defect relating to external panel detailing around the buildings was identified at the newly built accommodation at the AssetCo at the University of Exeter. Discussions are continuing with the contractor in relation to the rectification of these defects. Following full consultation with the University of Exeter, an agreement in principle has been reached and a programme established for completion of the works. This is expected to be finalised imminently. Further notification will be made once a formal agreement has been reached.

3.3 Change in Account Bank

On 1 March 2017 UPP Bond 1 Limited terminated Barclays Bank plc in its capacity as Account Bank and appointed HSBC Bank plc as substitute Account Bank. All operations as set out under the Account Bank Agreement were successfully transferred on that date.

Ratio calculations

4.0

As set out in Paragraph 2 of Part 2 of Schedule 9 of the CTA the ratio calculations as at 28 February 2017 are:

4.1 Historic Senior DSCR (for the 12 months to 28 February 2017)

£'000	**Consolidated**
Turnover	62,092
Cost of sales	(18,687)
Overheads	(3,057)
EBITDA pre sinking fund	**40,348**
Sinking fund	(4,926)
EBITDA	**35,422**
CAFDS adjustment[1]	842
CAFDS	36,264
Debt service	26,254
Historic Senior DSCR	**1.38**

4.2 Projected Senior DSCR (for the 12 months to 28 February 2018)

£'000	**Consolidated**
Turnover	62,612
Cost of sales	(18,986)
Overheads	(2,795)
EBITDA pre sinking fund	**40,831**
Sinking fund	(3,397)
EBITDA	**37,434**
CAFDS adjustment[1]	(720)
CAFDS	36,714
Debt service	27,488
Projected Senior DSCR	**1.34**

4.3 Historic AssetCo DSCR

UPP (Alcuin) Limited	1.37
UPP (Broadgate Park) Holdings Limited	1.36
UPP (Kent Student Accommodation) Limited	1.37
UPP (Nottingham) Limited	1.34
UPP (Oxford Brookes) Limited	1.39
UPP (Plymouth Three) Limited	1.36
UPP (Exeter) Limited	1.46

4.4 Projected AssetCo DSCR

UPP (Alcuin) Limited	1.35
UPP (Broadgate Park) Holdings Limited	1.32
UPP (Kent Student Accommodation) Limited	1.37
UPP (Nottingham) Limited	1.27
UPP (Oxford Brookes) Limited	1.41
UPP (Plymouth Three) Limited	1.33
UPP (Exeter) Limited	1.36

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

Compliance Certificate

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

c.c. Bishopsfield Capital Partners Limited as Monitoring Adviser

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

Date: 28 April 2017

Dear Sirs

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

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

1. We refer to the Common terms Agreement. This is a Compliance Certificate is delivered by the Issuer and the Group Agent pursuant to:
   (a) Paragraph 7.3 of Part 1 of Schedule 6; and
   (b) Paragraph 2 of Part 1 of Schedule 7
2. We confirm that the ratios (together the "Ratios") are as detailed in the tables below:

Historic Ratios	Historic for Relevant Calculation Period/Date	
	Applicable Ratio	Actual Ratio
UPP (Alcuin) Limited	1.15	1.37
UPP (Broadgate Park) Holdings Limited	1.15	1.36
UPP (Kent Student Accommodation) Limited	1.15	1.37
UPP (Nottingham) Limited	1.15	1.34
UPP (Oxford Brookes) Limited	1.15	1.39
UPP (Plymouth Three) Limited	1.15	1.36
UPP (Exeter) Limited	1.15	1.46
Senior DSCR	1.15	1.38

Projected Ratios	Projected for Relevant Calculation Period/Date	
	Applicable Ratio	Actual Ratio
UPP (Alcuin) Limited	1.15	1.35
UPP (Broadgate Park) Holdings Limited	1.15	1.32
UPP (Kent Student Accommodation) Limited	1.15	1.37
UPP (Nottingham) Limited	1.15	1.27
UPP (Oxford Brookes) Limited	1.15	1.41
UPP (Plymouth Three) Limited	1.15	1.33
UPP (Exeter) Limited	1.15	1.36
Senior DSCR	1.15	1.34

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

4. We confirm that all forward-looking financial ratio calculations and projections:
   (a) have been made on the basis of assumptions made in good faith and arrived at after due and careful consideration;
   (b) are consistent and updated by reference to the most recently available financial information required to be produced by the AssetCos under Schedule 8 (Covenants of AssetCos) to the Common Terms Agreement and delivered together with this Compliance Certificate; and
   (c) are consistent with the Accounting Standards (insofar as such Accounting Standards reasonably apply to such calculations and projections).

5. We set out below the computation of the following Ratios set out in Paragraph 2 above for your information:
   (a) Historic AssetCo DSCR means, in respect of any AssetCo as at 28 February 2017 (“ the Test Date”), the ratio of:
      i. the aggregated Net Cash Flow in respect of such AssetCo for the 12 months (“the Test Period”): ended on 28 February 2017 to
      ii. the AssetCo Debt Service Requirement in respect of such AssetCo for the Test Period.ended on 28 February 2017.

   (b) Historic Senior DSCR means, as at the Test Date, the ratio of:
      i. the aggregated Net Cash Flow in respect of all AssetCos for the Test Period ended on 28 February 2017: to
      ii. the aggregated AssetCo Debt Service Requirement in respect of all AssetCos for the Test Period ended on 28 February 2017.

   (c) Projected AssetCo DSCR means, in respect of any AssetCo as at the Test Date , the ratio of:
      i. the aggregated Net Cash Flow in respect of such AssetCo projected for the Test Period following 28 February 2017; to
      ii. the AssetCo Debt Service Requirement of such AssetCo projected for the Test Period immediately following such 28 February 2017.

   (d) Projected Senior DSCR means, as at the Test Date, the ratio of:
      i. the aggregated Net Cash Flow in respect of all AssetCos projected for the Test Period immediately following 28 February 2017; to
      ii. the aggregated AssetCos Debt Service Requirement in respect of all AssetCos projected for the Test Period immediately following such 28 February 2017.

6. We also confirm that:
   (a) to the best of the knowledge and belief of the signatories to this Compliance Certificate having made all due enquiries, no Default has occurred and is continuing other than as previously notified or waived;
   (b) to the best of the knowledge and belief of the signatories to this Compliance Certificate having made all due enquiries, no Monitoring Trigger Event has occurred and is continuing other than as previously notified or waived,
   (c) to the best of the knowledge and belief of the signatories to this Compliance Certificate having made all due enquiries, no Lock-Up Event has occurred and is continuing other than as previously notified or waived;
   (d) to the best of the knowledge and belief of the signatories to this Compliance Certificate having made all due enquiries, the Group is in compliance with the Hedging Policy; and
   (e) this Compliance Certificate is accurate in all material respects.

Yours faithfully,

Richard Bienfait
Group Chief Financial Officer

For and on behalf of UPP Bond 1 Issuer PLC

Julian Benkel
Group Compliance Director and Company Secretary

For and on behalf of UPP Bond 1 Limited

Transition to new UK GAAP, FRS 102

5.0

A new accounting framework was introduced in the UK in March 2013 with mandatory adoption for companies with accounting periods beginning on or after 1 January 2015. As the UPP companies have a financial year ended 31 August, the first period of adoption was 31 August 2016, with a requirement to restate the previous financial year (31 August 2015) in line with the new framework for the comparative period. UPP has chosen to adopt FRS 102. Prior to this UPP reported under UK GAAP and was not required to report under FRS 25 and 26, the standards relating to the disclosure and measurement of financial instruments.

The audit of the AssetCo's and UPP Bond 1 companies was completed in November 2016. The audit of the remaining companies within the wider UPP Group was completed in March 2017. As part of the finalisation of the wider UPP Group audit an alternative accounting policy was adopted in respect of the basis of fair value measurement of the derivative financial instruments. These instruments were measured on a transfer basis rather than a marked to market or so called settlement basis. In the opinion of the directors, the transfer basis method of valuation better reflects the economic relationship between the swaps and the hedged items in relation to hedge effectiveness. This change in accounting policy has had an impact on the prior period position as recorded at 29 February 2016 and the comparative figures included within the attached unaudited financial statements have been restated to reflect this impact. The basis of this revised valuation methodology plus a summary of the financial impact on the prior period results are included within note 2 and 3 of the attached unaudited financial statements.

By way of a summary, material changes between UK GAAP and FRS 102 identified in the financial reporting of the UPP Bond group are:

- **Presentation of Principal Asset**
  A typical UPP partnership arrangement is likely to be classified as a service concession arrangement under FRS 102 section 34, giving rise to the principal asset being reflected as an intangible asset, subject to annual impairment. However, transitional relief is available for arrangements in place at 1 September 2014 and therefore there has been no change to the classification of the principal asset within the UPP Bond group.

- **Recognition of fair value of derivative instruments**
  As stated above the UPP Bond group has previously not been required to account for the fair value of its derivative instruments, primarily the RPI swaps entered into in March 2013. Under FRS 102 sections 11 & 12 these fair values are now required to be accounted for as a financial liability or asset as applicable.

  Where the criteria for hedge accounting are met the movement in these fair values is taken to a hedge reserve and not reflected in the Income Statement (previously the Profit & Loss account). Where the criteria for hedge accounting are not met, the movement in these fair values are reflected through the Income Statement.

- **Recognition of deferred tax**
  A deferred tax asset or liability is recognised in respect of the fair value of the derivative instruments and a deferred tax liability in respect of the revaluation uplift to the principal asset.

- **Recognition of debt at amortised cost**
  Under FRS 102, basic financial instruments are measured at amortised cost using the effective interest method, with interest expense recognised on the basis of the effective interest method. All of the secured senior notes and unsecured loan notes have been assessed to be fall within the criterion of being classified as basic.

The financial impact of the last three changes was detailed in the audited financial statements for the year ended 31 August 2016. Judgements and key sources of estimation uncertainty are detailed in note 3 of the attached unaudited financial statements.

UPP Bond 1 Holdings Limited

Unaudited consolidated financial statements
For the six months ended 28 February 2017

APPENDIX 1

Basis of reporting

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

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

View from lake at Wentworth College, University of York, where UPP provides great homes and study spaces for more than 1040 students on campus.

Group income statement for the six months ended 28 February 2017

	Notes	**Unaudited** **Six months ended 28 February 2017** **£'000**	*Restated* Unaudited Six months ended 29 February 2016 £'000
Turnover	5	**31,020**	30,232
Cost of sales		**(9,491)**	(9,504)
Gross profit		**21,529**	20,728
Operating expenses		**(5,893)**	(5,267)
Operating profit	7	**15,636**	15,461
Interest receivable and similar income	8	**123**	65
Interest payable and similar charges	9	**(25,791)**	(17,235)
Loss on ordinary activities before taxation		**(10,032)**	(1,709)
Tax credit/(charge) on loss on ordinary activities	10	**773**	(471)
Loss for the financial period		**(9,259)**	(2,180)

The above results all relate to continuing operations.

Group statement of comprehensive income for the six months ended 28 February 2017

	Unaudited	*Restated* Unaudited
	Six months ended 28 February 2017	Six months ended 29 February 2016
	£'000	£'000
Loss for the financial period	**(9,259)**	(2,180)
Fair value movements on RPI swaps	**(11,884)**	9,202
Deferred tax on fair value of RPI swaps	**2,139**	(1,318)
Deferred tax on revaluation of principal asset	**500**	258
Re-measurement (loss)/gain recognised on defined benefit pension scheme*	**-**	-
Movement on deferred tax relating to pension liability*	**-**	-
Total other comprehensive income	**(9,245)**	8,142
Total comprehensive income for the period	**(18,504)**	5,962

*Year end adjustment only

Group statement of changes in equity for the six months ended 28 February 2017

Attributable to owners of the parent

	Share capital	Re-valuation reserve	Other reserve	Cash flow hedge reserve	Profit & loss account	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 September 2015 (restated)	55,570	4,627	(17,111)	13,535	(17,414)	39,207
Loss for the financial period	-	-	-	-	(2,180)	(2,180)
Other comprehensive income	-	258	-	7,884	-	8,142
Balance at 29 February 2016	55,570	4,885	(17,111)	21,419	(19,594)	45,169
At 1 March 2016 (restated)	55,570	4,885	(17,111)	21,419	(19,594)	45,169
Loss for the financial period	-	-	-	-	(5,078)	(5,078)
Other comprehensive income	-	9,598	(4,351)	(471)	-	4,776
At 31 August 2016	55,570	14,483	(21,462)	20,948	(24,672)	44,867
At 1 September 2016	55,570	14,483	(21,462)	20,975	(24,672)	44,894
Loss for the financial period	-	-	-	-	(9,259)	(9,259)
Other comprehensive income	-	500	-	(9,745)	-	(9,245)
Balance at 28 February 2017	**55,570**	**14,983**	**(21,462)**	**11,230**	**(33,931)**	**26,390**

Other reserve

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

Group statement of financial position as at 28 February 2017

Company registration number: 08253967

	Notes	**Unaudited 28 February 2017 £'000**	*Restated* Unaudited 29 February 2016 £'000
Fixed assets			
Intangible assets	11	**131,094**	135,969
Tangible assets	12	**553,099**	546,572
		684,193	682,541
Current assets			
Debtors: amounts falling due within one year	13	**1,630**	1,350
Debtors: amounts falling due after one year	14	**18,520**	35,342
Cash at bank and in hand		**46,460**	44,362
		66,610	81,054
Creditors: amounts falling due within one year	15	**(29,714)**	(26,217)
Net current liabilities		**36,896**	54,837
Total assets less current liabilities		**721,089**	737,378
Creditors: amounts falling due after more than one year	16	**(668,257)**	(667,319)
Net assets excluding pension liability		**52,832**	70,059
Provisions for liabilities	17	**(26,442)**	(24,890)
Net assets		**26,390**	45,169
Share capital and reserves			
Called up share capital	18	**55,570**	**55,570**
Revaluation reserve		**14,983**	**4,885**
Other reserve		**(21,462)**	**(17,111)**
Cash flow hedge reserve		**11,230**	**21,419**
Profit and loss account		**(33,931)**	**(19,594)**
		26,390	**45,169**

Group statement of cash flowsfor the six months ended 28 February 2017

		Unaudited	Unaudited
		Six months ended 28 February 2017	Six months ended 29 February 2016
	Notes	**£'000**	£'000
Net cash flow from operating activities	19(a)	**28,100**	27,620
Investing activities			
Interest received		**123**	65
Interest paid		**(19,408)**	(17,870)
Net cash flow from investing activities		**(19,285)**	(17,805)
Financing activities			
Cash outflow from repayment of fixed rate debt		**(3,111)**	(2,565)
Cash outflow from repayment of index linked debt		**(2,180)**	(2,139)
Net cash flow from financing activities		**(5,291)**	(4,704)
Increase in cash and cash equivalents		**3,524**	5,111
Cash and cash equivalents at 1 September 2016		**42,936**	39,251
Cash and cash equivalents at 28 February 2017	19(b)	**46,460**	44,362

Notes to the unaudited consolidated financial statements for the six months ended 28 February 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 interim financial statements have been prepared in accordance with The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS 102'), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for all derivative instruments and revaluation of fixed assets as specified in the accounting policies below.

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

Basis of consolidation

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

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

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

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

Change in accounting policy

Directors have adopted a new policy of measuring fair value of derivative financial instruments on a 'transfer basis' rather than 'marked to market' or so called 'settlement basis'. A transfer value basis measures an instrument on a notional trade between two equal parties, as opposed to the Group and an independent third party. The transfer basis method of valuation better reflects the economic relationship between the swaps and the hedged items in relation to hedge effectiveness (see also 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
	Six months ended 29 February 2016	As at 29 February 2016
	£'000	£'000
As previously stated	**1,720**	**15,012**
Income statement		
Fair value movements on RPI swaps	1,220	-
Deferred tax on fair value of RPI swaps	(101)	-
Statement of comprehensive income		
Fair value movements on RPI swaps	3,396	36,776
Deferred tax on fair value of RPI swaps	(273)	(6,619)
Total restatement	4,242	30,157
Restated	**5,962**	**45,169**

Going concern

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

3. Judgements and key sources of estimation uncertainty

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

Estimates and assumptions are reviewed on an 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

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

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 10.

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.

Deferred taxation

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

Defined benefit pension scheme

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

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

Presentation of the principal asset

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

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

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

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

Classification of index-linked financial instruments

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

Hedge accounting for inflation swaps

The Group has chosen to apply hedge accounting for all hedging instruments which are in a qualifying hedging relationship under FRS 102 Section 12. Significant judgement is exercised in concluding that future inflationary increases or decreases in rent receivable from university partners are separately identifiable and reliably measurable components of the rental income which ensures the inflation component of rental income and the related RPI swaps are in a hedging relationship which meets the qualifying criteria for hedge accounting under Section 12 of FRS 102.

4. Principal accounting policies

(a) Tangible fixed assets

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

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

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

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

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

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

(b) Turnover

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

(c) Intangible assets

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

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

(d) Valuation of investments

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

(e) Debtors

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

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

(f) Cash and cash equivalents

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

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

(g) Interest bearing loans and borrowings

Loans, secured and unsecured notes

Fixed rate senior secured notes, index-linked senior secured notes and subordinated loan notes are initially measured at transaction price, net of transaction costs. They are then subsequently measured at amortised cost using the effective interest method.

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

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

(h) Creditors

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

(i) Derivative instruments

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

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

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

(j) Finance costs

Financing costs, comprising interest payable on loans and subordinated loan notes and the costs incurred in connection with the arrangement of borrowings are recognised in the income statement using the effective interest method. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument unless the capital instrument is subsequently carried at fair value in which case the initial issue costs are expensed in the profit and loss account.

Financing costs also include losses or gains arising on any ineffective portion of fair value changes 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.

(k) Borrowing costs

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

(l) Hedge accounting

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

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

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

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

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

(m) Taxation

i) Current tax

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that 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 movements are recognised in other comprehensive income, where hedge accounting is applied for the underlying derivative instrument or in the profit and loss account where hedge accounting is not applied.

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

(n) Related party transactions

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

(o) Defined contribution pension scheme

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

(p) Defined benefit pension scheme

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

The cost of providing benefits under the defined benefit plan is determined by using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligations) and is based on actuarial advice. When a settlement or a curtailment occurs the change in the present value of the scheme liabilities and the fair value of the plan assets reflects the gain or loss which is recognised in the income statement during the period in which it occurs.

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

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

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

5. Turnover

Turnover represents income, on the basis of accounting policy 4(b), attributed to the provision of student accommodation.

All turnover arose within the United Kingdom.

6. Directors' remuneration

The immediate subsidiary undertaking, UPP Bond 1 Limited, paid fees of £5,665 (2016: £5,665) to Intertrust Directors 1 Limited in respect of services performed in connection with the management of the affairs of the group for the period up to 28 February 2017.

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

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

7. Operating profit

The operating profit is stated after charging:

	Unaudited	Unaudited
	Six months ended 28 February 2017	Six months ended 29 February 2016
	£'000	£'000
Depreciation	**1,544**	1,436
Amortisation of goodwill	**1,970**	1,638

8. Interest receivable and similar income

	Unaudited	Unaudited
	Six months ended 28 February 2017	Six months ended 29 February 2016
	£'000	£'000
Bank interest	**123**	65

9. Interest payable and similar charges

	Unaudited	*Restated* Unaudited
	Six months ended 28 February 2017	Six months ended 29 February 2016
	£'000	£'000
Financial liabilities measured at amortised cost		
Fixed rate senior secured notes	**9,317**	9,127
Index-linked senior secured notes	**3,872**	3,754
Unsecured loan notes	**8,308**	7,630
	21,497	20,511
Financial liabilities measured at fair value through profit or loss		
Fair value movement on RPI swaps	**4,294**	(3,276)
Interest on net defined pension liability *	**-**	-
	25,791	17,235

* Year end adjustment only

10. Tax on loss on ordinary activities

	Unaudited	*Restated* Unaudited
	Six months ended 28 February 2017	Six months ended 29 February 2016
	£'000	£'000
a) Analysis of tax credit for the year		
Current tax on income for the year	**-**	-
Deferred tax:		
Movement on fair value of swaps	**(773)**	471
Total deferred tax	**(773)**	471
Total tax (credit) / charge on losses on ordinary activities	**(773)**	471

b) Deferred tax

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

	28 February 2017	*Restated* 29 February 2016
	£'000	£'000
	Group	Group
The deferred tax liability consists of:		
Fair value of swaps	**3,334**	6,361
Revaluation of tangible fixed asset	**21,330**	17,507
	24,664	23,868

c) Factors that may affect future tax charges

The deferred tax has been recognised at a rate of 18% which was substantively enacted in Finance Bill 2015.

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

11. Intangible fixed assets

	Goodwill
	£'000
Cost	
At 1 September 2016 and at 28 February 2017	**145,035**
Amortisation	
At 1 September 2016	(11,971)
Charge for the period	(1,970)
At 28 February 2017	**(13,941)**
Net book value	
At 28 February 2017	**131,094**
At 31 August 2016	133,004

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

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

12. Tangible fixed assets

	Assets for use in operating leases
	£'000
Cost or valuation	
At 1 September 2016 and at 28 February 2017	**554,671**
Depreciation	
At 1 September 2016	(28)
Charge during the period	(1,544)
At 28 February 2017	**(1,572)**
Net book value	
At 28 February 2017	**553,099**
At 31 August 2016	554,643

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

Following an internal review of the assets used in operating leases, the directors have decided to revalue the assets to the value as determined by JLL in 2016.

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

	Assets for use in operating leases
	£'000
At 28 February 2017	**539,630**
At 31 August 2016	541,174

13. Debtors: amounts falling due within one year

	Unaudited	Unaudited
	28 February 2017	29 February 2016
	£'000	£'000
Trade debtors	**3**	-
VAT receivable	**30**	28
Amounts owed by subsidiary companies	**46**	40
Prepayments and accrued income	**1,551**	1,282
	1,630	1,350

14. Debtors: amounts falling due after one year

	Unaudited	*Restated* Unaudited
	28 February 2017	29 February 2016
	£'000	£'000
Derivative financial instruments	**18,520**	35,342
	18,520	35,342

15. Creditors: amounts falling due within one year

	Unaudited	Unaudited
	28 February 2017	29 February 2016
	£'000	£'000
Fixed rate senior secured notes	4,695	3,613
Index-linked senior secured notes	4,330	4,131
Trade creditors	1,728	2,016
Amounts owed to related parties	2,355	2,355
Accruals and deferred income	16,606	14,104
	29,714	26,218

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

	Unaudited	Unaudited
	28 February 2017	29 February 2016
	£'000	£'000
Fixed rate senior secured notes	286,260	289,178
Index-linked senior secured notes	216,729	217,076
Unsecured loan notes	174,293	168,809
	677,282	675,063
Less: included in creditors amounts falling due within one year	(9,025)	(7,744)
	668,257	667,319

	Unaudited	Unaudited
	28 February 2017	28 February 2016
	£'000	£'000
Maturity of debt		
Repayable within one year or on demand	**9,025**	7,744
Repayable in more than one year but less than two years	**10,890**	9,025
Repayable in more than two years but less than five years	**36,218**	33,189
Repayable in more than five years	**621,149**	625,105
	677,282	675,063
Less: included in creditors amounts falling due within one year	**(9,025)**	(7,744)
	668,257	667,319

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 period	(11,884)	(4,295)	(16,179)
Fair value of RPI swaps at 28 February 2017	**13,695**	**4,825**	**18,520**
Deferred tax asset on fair value of RPI swaps at 1 September 2016 (restated)	(4,604)	(1,642)	(6,246)
Movement in the period	2,139	773	2.912
Deferred tax asset on fair value of RPI SWAPs at 28 February 2017	**(2,465)**	**(869)**	**(3,334)**
Fair value at 1 September 2016 (restated), net of deferred tax	20,975	7,478	28,453
Fair value at 28 February 2017, net of deferred tax	**11,230**	**3,956**	**15,186**

17. Provisions for liabilities

	Pension liability*	Deferred tax liability	Total
	£'000	£'000	£'000
At 1 September 2016 (restated)	1,778	27,303	29,081
Recognised in other comprehensive income	-	(2,639)	(2,639)
At 28 February 2017	**1,778**	**24,664**	**26,442**

*Shown net of deferred tax. Total liability £2,172,000 less £394,000 deferred tax.

18. Called up share capital

	28 February 2017	29 February 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.

19. Notes to the statement of cash flows

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

	Unaudited Six months ended 28 February 2017	Unaudited Six months ended 29 February 2016
	£'000	£'000
Operating profit	**15,636**	15,461
Depreciation	**1,544**	1,436
Goodwill amortisation	**1,971**	1,638
Increase in debtors due within one year	**(1,072)**	(924)
Increase in creditors due within one year	**10,021**	10,009
Net cash inflow from operating activities	**28,100**	27,620

(b) Cash and cash equivalents comprise the following:

	At 28 February 2017	At 29 February 2016
	£'000	£'000
Cash at bank and in hand	**31,975**	30,407
Short term deposits	**14,485**	13,955
Cash and cash equivalents	**46,460**	44,362

20. Financial risk management

The use of financial instruments is managed under policies and procedures approved by the Board. These are designed to reduce the financial risks faced by the Group, which relate to interest, inflation and liquidity risks as well as demand and portfolio risk which arise in the normal course of the Group's business.

Interest rate risk

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

Inflation rate risk

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

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

Hedge arrangements with external parties:

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

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

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

Hedge arrangements with AssetCos:

- a 25 year RPI swap with UPP (Alcuin) Limited commencing in February 2015 and finishing in August 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

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 15 to the financial statements.

Terms and debt repayment schedule

	Currency	Effective Interest rate %	Year of maturity	**Book value**
				2017
				£'000
Fixed rate senior secured notes	£	4.9023%	2040	**286,260**
Index-linked senior secured notes (issued 2013)	£	2.9105%	2047	**79,150**
Index-linked senior secured notes (issued 2014)	£	1.0520%	2049	**137,579**
Unsecured loan notes (issued 2013)	£	9.3700%	2056	**150,351**
Unsecured loan notes (issued 2014)	£	11.3800%	2051	**23,942**
				677,282

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.

Capital risk management

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

21. Financial instruments

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

	Carrying amount At 28 February 2017	*Restated* Carrying amount At 29 February 2016
	£'000	£'000
Financial assets		
Financial assets measured at fair value:		
Derivative financial liabilities – RPI swaps	**18,520**	35,342
Financial liabilities		
Financial liabilities measured at amortised cost:		
Fixed rate senior secured notes	**286,260**	289,178
Index-linked senior secured notes	**216,729**	217,076
Unsecured loan notes	**174,293**	168,808
Trade creditors	**1,728**	2,016
Other related party loans	**2,355**	2,355
Total financial liabilities measured at amortised cost	**681,365**	679,433

22. Parent undertaking and controlling party

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

UPP Group Holdings Limited is controlled by a 60% 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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