Registered number: 06077462

# UPP (ALCUIN) LIMITED

## ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 AUGUST 2018

## COMPANY INFORMATION

| | |
|---|---|
| **Directors** | R Bailey-Watts<br>J Benkel<br>J Wakeford<br>R Bienfait |
| **Company secretary** | J Benkel |
| **Registered number** | 06077462 |
| **Registered office** | 40 Gracechurch Street<br>London<br>EC3V 0BT |
| **Independent auditor** | Grant Thornton UK LLP<br>Chartered Accountants and Statutory Auditor<br>Victoria House<br>199 Avebury Boulevard<br>Milton Keynes<br>MK9 1AU |

UPP (ALCUIN) LIMITED

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## STRATEGIC REPORT
## FOR THE YEAR ENDED 31 AUGUST 2018

### Business Review

The Group and Company's principal activity is the operation of student accommodation and the provision of related facilities management services under the University Partnerships Programme, in partnership with the University of York.

The project comprises 1,039 student residential accommodation bedrooms within the University of York main campus.

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

The level of business, achieving full occupancy 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.

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 impending exit of the United Kingdom from the European Union (EU) continues to cast uncertainty across numerous sectors of the economy. Brexit is due to occur in March 2019 and Brexit negotiations are split into two parts. The first part relating to the past relationship (the "Divorce settlement") and the second related to future trading relationship. The intention is that both the Divorce settlement and a declaration of political intent in relation to the future trading relationship will be agreed before December 2018. The current Government remains committed to continue current funding and immigration arrangements for EU students until 31 December 2020. Whilst there have been some concerns in relation to how these changes might impact EU and International student enrolment post-Brexit, demand modelling by the Higher Education Policy Institute and London Economics suggests any fall in EU numbers will be largely offset by an increase in the population of International students; an estimated net fall in the full time student population of less than 1 per cent.

In 2016/17 Higher Education Statistics Agency (HESA) data, there were over 404,225 full-time international Higher Education (HE) students at UK HE institutions out of a total of nearly 1.8 million full-time students, representing 22 per cent of all full-time HE students. This comprises 284,000 non-EU students and 120,225 EU-domiciled students.

Despite some uncertainty, the Universities and Colleges Admissions Service (UCAS) published data at the 30 June 2018 deadline, indicating that following UK's vote to leave the EU the number of applicants from the EU increased by 2 per cent. The number of non-EU applicants reported a remarkable increase of 6 per cent, the highest number of applicants for this group. This steady growth in international student numbers proves that demand for UK HE courses remains unaffected by the UK's changing political and economic landscape.

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

**Principal risks and uncertainties**

Financial risk management objectives and policies

The Company and Group use various financial instruments including loans, RPI swaps, cash, equity investments 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 Company and Group's operations. All of the Company and Group's financial instruments are of sterling denomination and the Company and Group do not trade in financial instruments or derivatives.

The existence of these financial instruments exposes the Company and 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. These policies have remained unchanged from the previous year.

Interest rate risk

The Company and Group finances its operations through a mixture of retained profits, related party borrowings and fixed rate and inflation linked on-loans from a fellow group undertaking.

Through the use of the fixed rate tranche of the on-loan the Company and Group has mitigated its negative exposure to interest rate fluctuations on that portion of its borrowings. The index-linked tranche of the on-loan has a nominal fixed rate that is linked to RPI (see below).

Inflation risk

Growth in rental income received at UPP (Alcuin) Limited is linked to the movement in RPI and the Company and Group manage the exposure to this index through a mix of inflation linked debt on-lent from the fellow group undertaking and the use of RPI swaps to hedge a portion of the fixed rate on-loan servicing costs.

Liquidity risk

The Company and Group seek 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 17 to the financial statements.

Demand risk

The Company and Group are subjected to risks arising from occupancy voids and lack of nominations by the university partner, 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 Company and Group are in the student market and reduced student numbers could impact upon financial performance. The Company and Group seeks to mitigate this risk by building excellent long term relationships with its university partner and ensuring up to date in-depth market analysis is completed each year to enable the Company to review its strategic position.

**Financial key performance indicators**

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

| | 2017/18 | 2016/17 |
|---|---|---|
| Average Applications : Acceptance ratio | 5.6:1 | 5.7:1 |
| Average core demand pool (no. of students) | 13,670 | 12,765 |

The indicators above are directly related to performance of the university partner of the Company and Group and any changes in these statistics may potentially affect the performance of the Company and Group and in turn, the economic viability of this Company.

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

| | 2017/18 | 2016/17 |
|---|---|---|
| Average occupancy across the facilities | 100.0% | 100.0% |

The target occupancy level is 98-99%. As such the directors are satisfied that the the occupancy noted above is within tolerable limits for the recovery of credit extended to the Company and Group. In addition, the Company and Group met its on-loan obligations in the period.

The Group has to adhere to financial covenants on the associated senior debt financial instruments, such as debt service cover ratio. All of the financial covenants have been met during the financial year.

This report was approved by the board on 7 December 2018 and signed on its behalf.

**R Bienfait**
Director

## DIRECTORS' REPORT
## FOR THE YEAR ENDED 31 AUGUST 2018

The directors present their report and the consolidated financial statements for the year ended 31 August 2018.

### Directors' responsibilities statement

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments 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 consolidated 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 and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the consolidated financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Financial risk management objectives and policies

The Company's financial risk management objectives and policies are considered to be of strategic significance and are therefore detailed in the Strategic Report on page 2.

### Going concern

The directors have reviewed the Company's projected profits and cash flows which they have prepared on the basis of a detailed analysis of the Company's finances, contracts and likely future demand trends. The Company has a net current liability position and has received confirmation from its immediate parent undertaking, UPP Bond 1 Limited, that it will provide the necessary financial support to ensure it can meet its liabilities as they fall due. Accordingly the financial statements have been prepared on a going concern basis.

### Results and dividends

The profit for the year, after taxation, amounted to £170k *(2017 - £9k)*.

The directors are unable to propose the payment of dividend (2017: £nil).

## DIRECTORS' REPORT (CONTINUED)
## FOR THE YEAR ENDED 31 AUGUST 2018

### Directors

The directors who served during the year were:

R Bailey-Watts
J Benkel
J Wakeford
R Bienfait

### Future developments

Occupancy for the 2018/19 financial year has been secured at 100% which has exceeded the directors' expectations.

### Disclosure of information to auditor

The directors confirm that:

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

The directors are reponsbile for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislaion in other jurisdictions.

### Post balance sheet events

There have been no significant events affecting the Group since the year end.

### Auditor

Under section 487(2) of the Companies Act 2006, Grant Thornton UK LLP will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board on 7 December 2018 and signed on its behalf.

**R Bienfait**
Director

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UPP (ALCUIN) LIMITED

### Opinion

We have audited the financial statements of UPP (Alcuin) Limited (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 August 2018, which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated 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 2018 and of the Group's profit 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 Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council'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.

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.

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UPP (ALCUIN) LIMITED (CONTINUED)

### Other information

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

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

We have nothing to report in this regard.

### Opinion 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.

### Matters on which we are required to report by the Compsnies 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 and 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.

## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF UPP (ALCUIN) LIMITED (CONTINUED)

### Responsibilities of directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement on page 4, 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. The description forms part of our Auditor's Report.

Laura Brierley

Laura Brierley (Senior Statutory Auditor)

for and on behalf of
**Grant Thornton UK LLP**

Chartered Accountants
Statutory Auditor

Milton Keynes

7 December 2018

## CONSOLIDATED PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED 31 AUGUST 2018

| | Note | 2018 £000 | 2017 £000 |
|---|---|---|---|
| Turnover | 4 | **6,396** | *6,191* |
| Cost of sales | | **(1,441)** | *(1,285)* |
| **Gross profit** | | **4,955** | *4,906* |
| Administrative expenses | | **(1,386)** | *(737)* |
| **Operating profit** | | **3,569** | *4,169* |
| Interest receivable and similar income | 7 | **55** | *49* |
| Interest payable and similar expenses | 8 | **(3,454)** | *(4,209)* |
| **Profit before tax** | | **170** | *9* |
| Tax on profit | 9 | **-** | *-* |
| **Profit for the financial year** | | **170** | *9* |
| **Profit for the year attributable to:** | | | |
| Owners of the parent | | **170** | *9* |
| | | **170** | *9* |

The notes on pages 20 to 44 form part of these financial statements.

The above results all relate to continuing operations.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 AUGUST 2018

| | Note | 2018 £000 | 2017 £000 |
|---|---|---|---|
| Profit for the financial year | | **170** | *9* |
| **Other comprehensive income** | | | |
| Unrealised surplus on revaluation of tangible fixed assets | 12 | **4,034** | - |
| Deferred tax on revaluation of tangible fixed assets | 19 | **3,072** | *430* |
| Fair value movement on swaps | 18 | **117** | *(1,558)* |
| Deferred taxation movement swaps | 18,19 | **442** | *306* |
| Capital contribution | 21 | **11,654** | - |
| **Other comprehensive income for the year** | | **19,319** | *(822)* |
| **Total comprehensive income for the year** | | **19,489** | *(813)* |
| **Profit for the year attributable to:** | | | |
| Owners of the Parent Company | | **170** | *9* |
| | | **170** | *9* |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Parent Company | | **19,489** | *(813)* |
| | | **19,489** | *(813)* |

The notes on pages 20 to 44 form part of these financial statements.

## CONSOLIDATED BALANCE SHEET
## AS AT 31 AUGUST 2018

| | Note | | 2018 £000 | | 2017 £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 11 | | **3,668** | | *3,762* |
| Tangible fixed assets | 12 | | **66,114** | | *63,269* |
| | | | **69,782** | | *67,031* |
| **Current assets** | | | | | |
| Debtors | 14 | **6,954** | | *5,983* | |
| | | **6,954** | | *5,983* | |
| Creditors: amounts falling due within one year | 15 | **(2,379)** | | *(2,009)* | |
| **Net current assets** | | | **4,575** | | *3,974* |
| **Total assets less current liabilities** | | | **74,357** | | *71,005* |
| Creditors: amounts falling due after more than one year | 16 | | **(49,183)** | | *(60,806)* |
| **Provisions for liabilities** | | | | | |
| Deferred taxation | 19 | - | | *(3,514)* | |
| | | | **-** | | *(3,514)* |
| **Net assets** | | | **25,174** | | *6,685* |
| **Capital and reserves** | | | | | |
| Called up share capital | 20 | | **440** | | *440* |
| Revaluation reserve | 21 | | **28,894** | | *22,860* |
| Cashflow hedge reserve | 21 | | **2,717** | | *2,158* |
| Profit and loss account | 21 | | **(6,877)** | | *(18,773)* |
| | | | **25,174** | | *6,685* |

## CONSOLIDATED BALANCE SHEET (CONTINUED)
## AS AT 31 AUGUST 2018

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 7 December 2018.

**R Bienfait**
Director

The notes on pages 20 to 44 form part of these financial statements.

## COMPANY BALANCE SHEET
## AS AT 31 AUGUST 2018

| | Note | | 2018 £000 | | 2017 £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 11 | | **(12,073)** | | *(12,390)* |
| Tangible fixed assets | 12 | | **66,114** | | *63,269* |
| Investments | 13 | | **-** | | *-* |
| | | | **54,041** | | *50,879* |
| **Current assets** | | | | | |
| Debtors | 14 | **6,952** | | *5,981* | |
| | | **6,952** | | *5,981* | |
| Creditors: amounts falling due within one year | 15 | **(2,379)** | | *(2,012)* | |
| **Net current assets** | | | **4,573** | | *3,969* |
| **Total assets less current liabilities** | | | **58,614** | | *54,848* |
| Creditors: amounts falling due after more than one year | 16 | | **(49,183)** | | *(60,806)* |
| **Provisions for liabilities** | | | | | |
| Deferred taxation | 19 | **-** | | *(3,513)* | |
| | | | **-** | | *(3,513)* |
| **Net assets/(liabilities)** | | | **9,431** | | *(9,471)* |
| **Capital and reserves** | | | | | |
| Called up share capital | 20 | | **440** | | *440* |
| Revaluation reserve | 21 | | **5,114** | | *(920)* |
| Cash flow hedge reserve | 21 | | **2,717** | | *2,158* |
| Profit and loss account brought forward | | **(11,148)** | | *(11,634)* | |
| Profit for the year | | **582** | | *420* | |
| Other changes in the profit and loss account | | **11,726** | | *66* | |
| Profit and loss account carried forward | | | **1,160** | | *(11,149)* |
| | | | **9,431** | | *(9,471)* |

## COMPANY BALANCE SHEET (CONTINUED)
## AS AT 31 AUGUST 2018

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

**R Bienfait**
Director

Date: 7 December 2018

The notes on pages 20 to 44 form part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 AUGUST 2018

| | Called up share capital | Revaluation reserve | Cash flow hedge reserve | Profit and loss account | Total equity |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| At 1 September 2017 | 440 | 22,860 | 2,158 | (18,773) | 6,685 |
| Profit for the year | - | - | - | 170 | 170 |
| Transfer from revaluation reserve | - | - | - | 72 | 72 |
| Movement on revaluation of principal assets | - | 6,106 | - | - | 6,106 |
| Other movements | - | - | 559 | - | 559 |
| Capital contribution | - | - | - | 11,654 | 11,654 |
| Transfer to profit and loss account | - | (72) | - | - | (72) |
| **At 31 August 2018** | 440 | 28,894 | 2,717 | (6,877) | 25,174 |

The notes on pages 20 to 44 form part of these financial statements.

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 2018 was £72k.

Profit and loss account includes Capital contribution made in 2018 of £11,654k in relation to the waiver of subordinated loan notes by UPP Bond 1 Ltd, the Company's Parent entity.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 AUGUST 2017

| | Called up share capital | Revaluation reserve | Cash flow hedge reserve | Profit and loss account | Total equity |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| At 1 September 2016 (as previously stated) | 440 | 22,496 | 1,727 | (21,010) | 3,653 |
| Prior year adjustment | - | - | 1,683 | 2,162 | 3,845 |
| At 1 September 2016 (as restated) | 440 | 22,496 | 3,410 | (18,848) | 7,498 |
| Profit for the year | - | - | - | 9 | 9 |
| Transfer from revaluation reserve | - | - | - | 66 | 66 |
| Revaluation of principal asset | - | 430 | - | - | 430 |
| Fair value of swaps | - | - | (1,252) | - | (1,252) |
| Transfer to profit and loss account | - | (66) | - | - | (66) |
| **At 31 August 2017** | 440 | 22,860 | 2,158 | (18,773) | 6,685 |

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 £66k.

## COMPANY STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 AUGUST 2018

| | Called up share capital | Revaluation reserve | Cash flow hedge reserve | Profit and loss account | Total equity |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| At 1 September 2017 | 440 | (920) | 2,158 | (11,148) | (9,470) |
| Profit for the year | - | - | - | 582 | 582 |
| Transfer from revaluation reserve | - | - | - | 72 | 72 |
| Movement on revaluation of principal assets | - | 6,106 | - | - | 6,106 |
| Other movements | - | - | 559 | - | 559 |
| Capital contribution | - | - | - | 11,654 | 11,654 |
| Transfer to profit and loss account | - | (72) | - | - | (72) |
| **At 31 August 2018** | 440 | 5,114 | 2,717 | 1,160 | 9,431 |

The notes on pages 20 to 44 form part of these financial statements.

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 2018 was £72k.

Profit and loss account includes Capital contribution made in 2018 of £11,654k in relation to the waiver of subordinated loan notes by UPP Bond 1 Ltd, the Company's Parent entity.

## COMPANY STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 AUGUST 2017

| | Called up share capital | Revaluation reserve | Cash flow hedge reserve | Profit and loss account | Total equity |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| At 1 September 2016 (as previously stated) | 440 | (1,284) | 1,727 | (13,796) | (12,913) |
| Prior year adjustment | - | - | 1,683 | 2,162 | 3,845 |
| At 1 September 2016 (as restated) | 440 | (1,284) | 3,410 | (11,634) | (9,068) |
| Profit for the year | - | - | - | 420 | 420 |
| Transfer from revaluation reserve | - | - | - | 66 | 66 |
| Revaluation of principal asset | - | 430 | - | - | 430 |
| Fair value of swaps | - | - | (1,252) | - | (1,252) |
| Transfer to profit and loss account | - | (66) | - | - | (66) |
| **At 31 August 2017** | 440 | (920) | 2,158 | (11,148) | (9,470) |

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 £66k.

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 AUGUST 2018

| | 2018 £000 | *2017 £000* |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the financial year | **170** | *9* |
| **Adjustments for:** | | |
| Amortisation of intangible assets | **94** | *94* |
| Depreciation of tangible assets | **189** | *174* |
| Interest paid | **3,454** | *4,209* |
| Interest received | **(55)** | *(49)* |
| (Increase) in debtors | **(1)** | *(2)* |
| (Increase)/decrease in amounts owed by groups | **(853)** | *534* |
| Increase/(decrease) in creditors | **43** | *(54)* |
| Increase/(decrease)) in amounts owed to groups | **37** | *(199)* |
| **Net cash generated from operating activities** | **3,078** | *4,716* |
| **Cash flows from investing activities** | | |
| Interest received | **55** | *49* |
| **Net cash from investing activities** | **55** | *49* |
| **Cash flows from financing activities** | | |
| Repayment of loans | **(866)** | *(599)* |
| Interest paid | **(2,267)** | *(4,166)* |
| **Net cash used in financing activities** | **(3,133)** | *(4,765)* |
| **Net increase in cash and cash equivalents** | **-** | *-* |
| **Cash and cash equivalents at the end of year** | **-** | *-* |
| **Cash and cash equivalents at the end of year comprise:** | | |
| | **-** | *-* |

The notes on pages 20 to 44 form part of these financial statements.

## 1. General information

UPP (Alcuin) Limited is a private company limited by shares incorporated in England. The Company number is 06077462. The registered office is 40 Gracechurch Street, London, EC3V 0BT.

## 2. Accounting policies

### 2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland FRS 102 and the Companies Act 2006.

The Group has chosen to apply transitional relief under Section 35.10 (i) Service concession arrangements – Accounting By Operators, and as a result its tangible fixed assets which meet the definition of service concession arrangements under Section 34 but where the contract was entered into before the date of transition will continue to be accounted for using the same accounting policies being applied at the date of transition to FRS 102.

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 judgment in applying the Group's accounting policies (see note 3).

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Profit and Loss Account in these financial statements.

The following principal accounting policies have been applied:

### 2.2 Basis of consolidation

The consolidated financial statements present the results of the Company and its own subsidiaries ("the Group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Balance Sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Profit and Loss Account from the date on which control is obtained. They are deconsolidated from the date control ceases.

### 2.3 Going concern

The directors have reviewed the Group and Company's projected profits and cash flows which they have prepared on the basis of a detailed analysis of the Group and Company's finances, contracts and likely future demand trends. The Company has a net liability position and has received confirmation from its immediate parent undertaking, UPP Bond 1 Limited, that it will provide the necessary financial support to ensure it can meet its liabilities as they fall due. Accordingly the financial statements have been prepared on a going concern basis.

## 2. Accounting policies (continued)

### 2.4 Turnover

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

### 2.5 Derivatives instruments

Derivatives, which include inflation swaps, are not basic financial instruments.

To mitigate its exposure to changes in inflation, the company 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.

### 2.6 Investments

Fixed asset investments are carried at cost less any provision for impairment in value.

### 2.7 Tangible fixed assets

Tangible fixed assets are stated at 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:

## 2. Accounting policies (continued)

### 2.7 Tangible fixed assets (continued)

The estimated useful lives range as follows:

| | |
|---|---|
| Assets for use in operating leases | - annuity method over the term of the lease |
| Computer 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 group'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.

### 2.8 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 arose on the acquisition of the subsidiary undertakings during the year ended 31 August 2007. Negative goodwill arose on the hive up of subsidiary undertakings during the year ended 31 August 2013.

Goodwill attributed to subsidiary undertakings is amortised on a straight line basis over the remaining lease period on the principal asset held by the subsidiary which expires in 2057. 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.

The carrying amount of goodwill is allocated to the cash generating companies acquired. The recoverable amount of those companies has been based on value in use calculations as at the date that the shareholding was acquired. These calculations have been based on a full year forecast, extrapolated over the remaining lease period using a 2.5% - 3.5% growth rate. The group is not currently aware of any reasonable changes which would necessitate changes in its key assumptions.

## 2. Accounting policies (continued)

### 2.9 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.

### 2.10 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

### 2.11 Interest bearing loans and borrowings

Fixed rate senior secured notes, index linked senior secured notes and subordinated loan notes are initially measured at fair value, net of transaction costs. They are then subsequently measured at amortised cost using the effective interest method. Refer to section 3 for details on why the instruments are considered to be basic.

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.

### 2.12 Creditors

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

## 2. Accounting policies (continued)

### 2.13 Hedge accounting

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

Inflation linked 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 the 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.

It is considered that the criteria to apply hedge account have been met.

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.

### 2.14 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.

### 2.15 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.

## 2. Accounting policies (continued)

### 2.16 Debt issue costs

The debt issue costs incurred have been offset against the related debt and will be charged to finance costs at a constant rate on the carrying value of the debt. If it becomes clear that the related debt will be redeemed early then the charge to finance costs will be accelerated. Where there is an early repayment clause within the debt instrument, costs incurred are amortised to the profit and loss account to the earliest opportunity the debt could be repaid.

### 2.17 Pensions

**Defined contribution pension plan**

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 Consolidated Profit and Loss Account when they fall due. Amounts not paid are shown in accruals as a liability in the Balance Sheet. The assets of the plan are held separately from the Group in independently administered funds.

### 2.18 Interest income

Interest income is recognised in the Consolidated Profit and Loss Account using the effective interest method.

## 2. Accounting policies (continued)

### 2.19 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Consolidated Profit and Loss Account, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company and the Group operate and generate income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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 or liability 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.

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

## 2. Accounting policies (continued)

### 2.20 Related party transactions

The company is a wholly owned subsidiary of UPP Bond 1 Limited which is a wholly owned subsidiary of the parent company UPP REIT 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.

## 3. Judgements in applying accounting policies 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. The key assumptions used to determine the principal assets are further explained in note 12.

Valuation of RPI swaps (Note 18)

The Directors have adopted a policy of measuring fair value of derivative financial instruments on a 'transfer basis' rather than 'marked to market' or so called 'settlement basis', which is further explained in Note 18. 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.

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 Company has used a third party expert to assist with valuing such instruments.

The resulting gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income.

## 3. Judgements in applying accounting policies (continued)

Goodwill useful economic life

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

Impairment of non-financial assets

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

An impairment loss recognised is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply. There has been no impairment in the current year or in the prior year.

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

Classification of index-linked financial instruments (Note 17)

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 and because both principal and interest repayment obligations change in the same proportion and therefore the conditions in paragraphs 11.9(a) and (aA) of FRS 102 are met and the Group's index linked financial instruments are classified as basic and carried at amortised cost.

## 3. Judgements in applying accounting policies (continued)

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. It is considered that the criteria to apply hedge accounting have been met.

## 4. Turnover

Turnover represents income, on the basis of accounting policy 2.4, excluding VAT, attributed to the provision of student accommodation.

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

| | **2018**<br>**£000** | *2017*<br>*£000* |
|---|---|---|
| Provision of student accommodation | **6,396** | *6,191* |
| | **6,396** | *6,191* |

All turnover arose within the United Kingdom.

## 5. Auditor's remuneration

| | **2018**<br>**£000** | *2017*<br>*£000* |
|---|---|---|
| Fees payable to the Group's auditor and its associates for the audit of the Group's annual financial statements | **9** | *11* |
| **Fees payable to the Group's auditor and its associates in respect of:** | | |
| Taxation compliance services | **-** | *4* |
| | **-** | *4* |

## 6. Employee and Director information

Staff costs were as follows:

| | **Group 2018 £000** | *Group 2017 £000* | **Company 2018 £000** | *Company 2017 £000* |
|---|---|---|---|---|
| Wages and salaries | **132** | *122* | **132** | *122* |
| Social security costs | **11** | *9* | **11** | *9* |
| Cost of defined contribution scheme | **7** | *5* | **7** | *5* |
| | **150** | *136* | **150** | *136* |

Key management personnel

All directors and certain senior employees who have authority and responsibility for planning, directing and controlling the activities of the Company are considered to be key management personnel. Total remuneration with respect of these individuals is £nil (2017: £nil).

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

| | **2018 No.** | *2017 No.* |
|---|---|---|
| Site managers | **1** | *1* |
| Adminstration, maintenance and cleaning | **5** | *5* |
| | **6** | *6* |

The Company has no employees other than the directors, who did not receive any remuneration *(2017 - £NIL)*

## 7. Interest receivable

| | **2018 £000** | *2017 £000* |
|---|---|---|
| Interest receivable from group companies | **31** | *25* |
| Bank interest receivable | **24** | *24* |
| | **55** | *49* |

## 8. Interest payable and similar expenses

| | 2018 £000 | *2017 £000* |
|---|---|---|
| Fixed rate senior interest due to group undertaking | **1,975** | *2,006* |
| Subordinated loan interest payable | **663** | *1,402* |
| Index-linked interest due to group undertaking | **816** | *801* |
| | **3,454** | *4,209* |

Interest due to group undertaking is payable to UPP Bond 1 Issuer plc.

Subordinated loan interest is payable to UPP Bond 1 Limited. The effective from 1 March 2018 the subordinated loan notes were waived.

## 9. Taxation

| | 2018 £000 | *2017 £000* |
|---|---|---|
| **Total current tax** | **-** | *-* |
| **Deferred tax** | | |
| **Total deferred tax** | **-** | *-* |
| **Taxation on profit on ordinary activities** | **-** | *-* |

## 9. Taxation (continued)

### Factors affecting tax charge for the year

The tax assessed for the year is lower than *(2017 - lower than)* the standard rate of corporation tax in the UK of 19.00% *(2017 - 19.58%)*. The differences are explained below:

| | **2018 £000** | *2017 £000* |
|---|---|---|
| Profit on ordinary activities before tax | **171** | *8* |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2017 - 19.58%) | **32** | *2* |
| **Effects of:** | | |
| Expenses disallowable for tax purposes | **75** | *127* |
| Non-taxable income | **(4)** | - |
| Movement in deferred tax not recognised | **(20)** | *(129)* |
| Exempt property rental (profits) / losses in the year | **(83)** | - |
| **Total tax charge for the year** | **-** | - |

### Factors that may affect future tax charges

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

There will be a reduction in corporation tax rate from 19% to 17% with effect from 1 April 2020.

A deferred tax asset of £3,033k (2017: £2,273k) in respect of available tax losses and other timing differences has not been recognised at 31 August 2018.

## 10. Parent company profit for the year

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Profit and Loss Account in these financial statements. The profit after tax of the parent Company for the year was £582*k (2017 - £420k)*.

## 11. Intangible assets

**Group**

| | Positive Goodwill £000 |
|---|---|
| **Cost** | |
| At 1 September 2017 | **4,703** |
| At 31 August 2018 | **4,703** |
| **Amortisation** | |
| At 1 September 2017 | **941** |
| Charge for the year | **94** |
| At 31 August 2018 | **1,035** |
| **Net book value** | |
| At 31 August 2018 | **3,668** |
| *At 31 August 2017* | *3,762* |

Goodwill arose on the acquisition of the subsidiary undertakings during the year ended 31 August 2007 and it is amortised on a straignt line basis over the remaining lease period.

Negative goodwill, related to the Company only, arose on the hive up of subsidiary undertakings during the year ended 31 August 2013 and it is amortised on a straight line basis over the remaining lease period.

## 11. Intangible assets (continued)

**Company**

| | Negative Goodwill £000 |
|---|---|
| **Cost** | |
| At 1 September 2017 | **(13,970)** |
| At 31 August 2018 | **(13,970)** |
| **Amortisation** | |
| At 1 September 2017 | **(1,580)** |
| Charge for the year | **(317)** |
| At 31 August 2018 | **(1,897)** |
| **Net book value** | |
| At 31 August 2018 | **(12,073)** |
| *At 31 August 2017* | *(12,390)* |

## 12. Tangible fixed assets

**Group and Company**

| | Assets for use in operating leases £000 | Computer equipment £000 | Total £000 |
|---|---|---|---|
| **Valuation** | | | |
| At 1 September 2017 | 63,400 | 71 | 63,471 |
| Revaluations | 2,700 | - | 2,700 |
| At 31 August 2018 | 66,100 | 71 | 66,171 |
| **Depreciation** | | | |
| At 1 September 2017 | 160 | 43 | 203 |
| Charge for the year on owned assets | 175 | 14 | 189 |
| On revalued assets | (335) | - | (335) |
| At 31 August 2018 | - | 57 | 57 |
| **Net book value** | | | |
| At 31 August 2018 | 66,100 | 14 | 66,114 |
| *At 31 August 2017* | *63,240* | *29* | *63,269* |

## 12. Tangible fixed assets (continued)

Fixed assets include borrowing costs of £1,195k (2017: £1,195k).

Assets used in operating leases were independently valued by Jones Lang LaSalle ("JLL"), Chartered Surveyors, on an existing use basis at 31 August 2018. JLL have confirmed that the value as at that date was £66,100k.

The critical assumptions made in relation to the valuation are set out below:

| | 2018 | 2017 |
|---|---|---|
| Discount rates | 8.54% | 8.56% |
| Occupancy rates | 99% | 99% |
| Long term annual rental growth | 3.00% | 3.00% |

Cost or valuation at 31 August 2018 is as follows:

| | **Assets for use in operating leases £000** |
|---|---|
| **At cost** | **38,268** |
| **At valuation:** | |
| Valuation as at 31st August 2018 | **27,832** |
| | **66,100** |

If the assets used in operating leases had not been included at valuation they would have been included under the historical cost convention as follows:

| | **2018 £000** | *2017 £000* |
|---|---|---|
| **Group** | | |
| Cost | **38,268** | *38,268* |
| Accumulated depreciation | **(988)** | *(871)* |
| **Net book value** | **37,280** | *37,397* |

## 13. Investments

### Subsidiary undertakings

The following were subsidiary undertakings of the Company:

| Name | Class of shares | Holding | Principal activity |
|---|---|---|---|
| UPP (York) Limited | Ordinary | 100 % | Dormant |

## 14. Debtors

| | Group 2018 £000 | *Group 2017 £000* | Company 2018 £000 | *Company 2017 £000* |
|---|---|---|---|---|
| **Due after more than one year** | | | | |
| Financial instruments | **2,717** | *2,600* | **2,717** | *2,600* |
| | **2,717** | *2,600* | **2,717** | *2,600* |
| **Due within one year** | | | | |
| Amounts owed by group undertakings | **4,229** | *3,376* | **4,229** | *3,376* |
| Prepayments and accrued income | **8** | *7* | **6** | *5* |
| | **6,954** | *5,983* | **6,952** | *5,981* |

Included within amounts owed by group undertaking is a balance of £1,145k (2017 - £840k) which is to fund a debt service reserve account that is sized to be adequate to cover the next six months of service costs of both tranches of the senior secured notes. This amount is reviewed every six months and increased or decreased accordingly. Interest receivable on these loans is calculated using the effective interest method which is different to the actual cash interest received at the rate the company earns interest on the cash balances it holds. The amounts owed by group undertakings are repayable on demand and not subject to interest.

## 15. Creditors: Amounts falling due within one year

| | **Group 2018 £000** | *Group 2017 £000* | **Company 2018 £000** | *Company 2017 £000* |
|---|---|---|---|---|
| Fixed rate on loans | **1,156** | *866* | **1,155** | *866* |
| Trade creditors | **28** | *54* | **28** | *54* |
| Amounts owed to group undertakings | **167** | *131* | **167** | *131* |
| Accruals and deferred income | **1,028** | *958* | **1,029** | *961* |
| | **2,379** | *2,009* | **2,379** | *2,012* |

The amounts owed to group undertakings are repayable on demand and not subject to interest.

## 16. Creditors: Amounts falling due after more than one year

| | **Group 2018 £000** | *Group 2017 £000* | **Company 2018 £000** | *Company 2017 £000* |
|---|---|---|---|---|
| Fixed rate on loans | **36,286** | *37,377* | **36,286** | *37,377* |
| Index linked on loans | **12,897** | *12,438* | **12,897** | *12,438* |
| Unsecured subordinated loan notes | **-** | *10,991* | **-** | *10,991* |
| | **49,183** | *60,806* | **49,183** | *60,806* |

Effective from 1 March 2018 the subordinated loan notes were waived by UPP Bond 1 Ltd resulting in a capital contribtuion of £11,654k

## 17. Loans

On loans

On 5 March 2013, a fellow subsidiary of the Group's immediate parent UPP Bond 1 Limited, UPP Bond 1 Issuer plc, launched a Multicurrency Programme for the issuance of £382.1 million Senior Secured Notes. The proceeds of this bond issuance were on lent to UPP (Alcuin) Limited and five other subsidiary undertakings of UPP Bond 1 Limited, to enable the companies to repay their existing senior bank debt funding.

These notes are listed on the Irish Stock Exchange. The 4.9023% fixed rate loan notes are due to be fully repaid by 2040, with repayments having begun in August 2013.The 2.7291% index linked loan notes are due to be fully repaid by 2047, with repayments starting in August 2038.

The Group entered into on-loan arrangements with UPP Bond 1 Issuer plc the terms and conditions of which are laid out below:

| | Amount | Interest rate | Maturity |
|---|---|---|---|
| Tranche A | 41,993,000 | Fixed rate at 4.9023% | 31 August 2038 |
| Tranche B | 11,539,000 | Index-linked at 2.7291% | 31 August 2047 |

The on-loan facility above is 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.

Subordinated loan notes

On 5 March 2013, UPP Bond 1 Limited provided unsecured subordinated loan notes of £9,885,000 to the company. These loan notes bear interest at 14% and are repayable by 2056.

Effective from 1 March 2018 the subordinated loan notes were waived by UPP Bond 1 Ltd resulting in a capital contribtuion of £11,654k.

## 17. Loans (continued)

| | Group 2018 £000 | *Group 2017 £000* | Company 2018 £000 | *Company 2017 £000* |
|---|---|---|---|---|
| **Amounts falling due within one year** | | | | |
| Fixed rate on loans | **1,155** | *866* | **1,155** | *866* |
| | **1,155** | *866* | **1,155** | *866* |
| **Amounts falling due 1-2 years** | | | | |
| Fixed rate on loans | **1,306** | *1,155* | **1,306** | *1,155* |
| | **1,306** | *1,155* | **1,306** | *1,155* |
| **Amounts falling due 2-5 years** | | | | |
| Fixed rate on loans | **4,187** | *4,001* | **4,187** | *4,001* |
| | **4,187** | *4,001* | **4,187** | *4,001* |
| **Amounts falling due after more than 5 years** | | | | |
| Fixed rate on loans | **30,794** | *32,221* | **30,794** | *32,221* |
| Index-linked on loans | **12,897** | *12,438* | **12,897** | *12,438* |
| Unsecured subordinated loan notes | **-** | *10,991* | **-** | *10,991* |
| | **43,691** | *55,650* | **43,691** | *55,650* |
| | **50,339** | *61,672* | **50,339** | *61,672* |

## 18. Financial Instruments

| | **Group 2018 £000** | *Group 2017 £000* | **Company 2018 £000** | *Company 2017 £000* |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative financial instruments at fair value | **2,717** | *2,600* | **2,717** | *2,600* |
| Financial assets measured at amortised cost | **4,229** | *3,376* | **4,229** | *3,376* |
| | **6,946** | *5,976* | **6,946** | *5,976* |
| **Financial liabilities** | | | | |
| Financial liabilities measured at amortised cost | **(50,599)** | *(62,815)* | **(50,599)** | *(62,815)* |

Financial assets measured at amortised cost comprise amounts owed from group undertakings.

Financial liabilities measured at amortised cost comprise, trade creditors, amounts owed to group undertakings, secured senior bank debt and secured subordinated loan notes.

Derivative financial instruments measured at fair value comprise an RPI swap.

To mitigate the risks of inflation movements in the underlying income generation of the Group impacting on the Group and Company's ability to service the fixed rate senior on loans, the Group has entered into an RPI swap with UPP Bond 1 Issuer plc, a fellow group company, which has entered into on loan arrangements with the Group. The notional amounts swapped for each year has been determined with reference to a percentage of the fixed rate on loan servicing costs.

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.

The Group entered into the RPI swap on 5 March 2013, fixing a portion of the underlying rental income stream to 2.7%. The RPI swap is for a period of 25 years from March 2013, commencing in February 2015 and finishing in February 2038.

The Group applies hedge accounting for its derivative instrument as the criteria are met under section 12 FRS 102. A hedging gain of £117k arose during the year (2017: £1,278k gain) and was recognised in the Statement of Other Comprehensive Income, reflecting the change in fair value of this RPI swap.

## 19. Deferred taxation

### Group

| | 2018 £000 | *2017 £000* |
|---|---|---|
| At beginning of year | **(3,514)** | *(4,249)* |
| Charged to other comprehensive income | **3,514** | *736* |
| **At end of year** | **-** | *(3,513)* |

| | Group 2018 £000 | *Group 2017 £000* | Company 2018 £000 | *Company 2017 £000* |
|---|---|---|---|---|
| Deferred tax on revaluation | - | *(3,072)* | - | *(3,072)* |
| Deferred tax on fair value of swaps | - | *(441)* | - | *(441)* |
| | - | *(3,513)* | - | *(3,513)* |

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

## 20. Share capital

| | 2018 £000 | *2017 £000* |
|---|---|---|
| 500,000 *(2017 - 500,000)* Ordinary shares shares of £1.00 each | **500** | *500* |
| **Allotted, called up and fully paid** | | |
| 440,000 *(2017 - 440,000)* Ordinary shares shares of £1.00 each | **440** | *440* |

The Ordinary shares have the rights and restrictions as set out in the amended Articles of Association of the Company

## 21. 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.

### Other reserves

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

### Profit and loss account

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

Profit and loss account includes Capital contribution made in 2018 of £11,654k in relation to the waiver of subordinated loan notes by UPP Bond 1 Ltd, the Company's Parent entity.

## 22. Controlling party

The Company is wholly owned by UPP Bond 1 Limited, a wholly owned subsidiary of UPP Bond 1 Holdings Limited

UPP Bond 1 Holdings Limited is a wholly owned subsidiary of UPP REIT Holdings Limited.

UPP REIT 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.

The group of which the Company is a member and for which group accounts are prepared is UPP Group Holdings Limited and UPP REIT Holdings Limited

Copies of the UPP Group Holdings Limited accounts can be obtained from Companies House, Crown House, Cardiff CF14 3UZ, once they have been filed.

Copies of the UPP REIT Holdings Limited accounts can be obtained from www.upp-ltd.com, once they have been published.