UPP Bond 1 Limited Investor Report

For the year ended 31 August 2018

UPP BOND 1 LIMITED INVESTOR REPORT

INTRODUCTION

Investor report for the year ended 31 August 2018

This annual Investor Report is delivered pursuant to Schedule 9 Part 1 of the Common Terms Agreement ('CTA') and covers the year ended 31 August 2018.

The date of this Investor Report is 12 December 2018.

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

1.0

General overview

GENERAL OVERVIEW

UPP Bond 1 Holdings Limited

UPP Bond 1 Holdings Limited announces its results for the year ended 31 August 2018

Audited financial highlights for the year ended 31 August 2018

£'000	Year ended 31 August 2018	Year ended 31 August 2017	Change %
Turnover	64,329	62,697	2.6%
Gross profit	45,342	43,736	3.7%
EBITDA*	42,352	40,907	3.5%
EBITDA margin*	65.8%	65.2%	0.6%

**EBITDA before sinking fund expenditure*

Business highlights

- Occupancy for 2017/18 of 100.0% (2016/17: 99.9%)
- Turnover up by 2.6%, reflecting RPI-linked annual term rental income increases
- Increase in gross profit of 3.7% and EBITDA of 3.5% driven by savings on utilities and reduction in tax costs
- EBITDA margin increase of 0.6% year on year
- Both Historic and Projected Annual Debt Service Coverage Ratios comfortably above lock-up triggers post-year end
- Strong demand has continued into 2018/19 with projected occupancy of 99.2% across the AssetCos
- Term rental income predicted to increase by 2.7% compared to 2018


Photo credit: Robert Greshoff

Sean O'Shea,
Group Chief Executive Officer

"Once again, the results for UPP Bond 1 Holdings Limited for the financial year ended 31 August 2018 underline the attractiveness of UK higher education (HE) as a sector offering opportunities for investors seeking stable, long-term returns based on accretive, asset-backed and RPI-linked revenues. The unique models of partnership developed by UPP over the last two decades are testament to the mutual benefits available to all parties where the interests of each are genuinely aligned over the long term.

The year saw an increase in turnover of 2.6% to £64.3m and as a result EBITDA was up by 3.5% to £42.4m. Occupancy for the financial year 2017/18 stood at 100.0% reflecting the strength of our partnerships and the resilience of a sector which continues to evolve and compete successfully in what is a truly global HE market place.

"The unique models of partnership developed by UPP over the last two decades are testament to the mutual benefits available to all parties where the interests of each are genuinely aligned over the long term."

Evidence from UCAS continues to suggest that, despite the uncertainties of Brexit, demand from EU and international students remains robust and levels of participation of young people from the UK remain at a record high.

Whilst the sector has witnessed regulatory change over the course of the financial year, with the establishment of the Office for Students as sector regulator and the Department for Education currently reviewing all elements of HE's value for money under the auspices of the Augar Review, it is highly unlikely that this will deter students from realising the lifetime benefits of studying at university.

It is also equally unlikely that universities can choose to ignore the benefits of providing students with the best facilities developed alongside expert partners."

Enquiries

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

1.1 Summary of the UPP Group business

UPP Group (defined as UPP REIT Holdings Limited and its subsidiaries) is the UK's leading provider of on-campus residential and academic accommodation infrastructure and currently has over 35,000 student rooms in operation or under construction (with a further 2,000 rooms at preferred bidder stage) through long-term partnerships with 16 leading UK universities, of which 11,693 are rooms operated by the AssetCos.

The key features of UPP Group's cash-generative business model, based on bespoke partnerships with 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")
- A restrictive covenant regime that limits long-term competing university supply in order to maintain project demand dynamics
- Established partnerships with leading institutions, targeted on the basis of its own rigorous selectivity criteria
- Accommodation 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 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 (ISE). The bond was secured against the income from the properties at the universities of York, Nottingham, Nottingham Trent, Kent, Oxford Brookes and Plymouth ("the AssetCos"). UPP Bond 1 Holdings Limited is a wholly-owned subsidiary of UPP Group Limited and was set up to be the intermediate holding Company for the six AssetCos.

This issuance comprised two tranches:

- £307.1m 4.9023% Amortising Fixed Rate Bond due 2040
- £75.0m 2.7921% Amortising Index-linked Bond due 2047

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

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

- Repay existing senior bank facilities owed by the seven AssetCos

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

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

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

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

2.0

Higher education sector and business developments

2.1 The higher education sector

Higher education (HE) has come to represent a key determinant of a country's productivity, economic growth and prosperity and is a major driver of future output and living standards. It is widely recognised by global leaders that ensuring a quality education for all and promoting lifelong learning opportunities are key to long-term sustainable development[1] in an economic environment where globalisation and technology are driving change in the nature of work and demand for skills,[2] as well as shaping the future of the labour markets.[3] Automation and technology continue to require a workforce with higher-level skills in knowledge-led economies.[4]

In this context, demand for tertiary qualifications traditionally delivered on-campus continues, as does demand for student accommodation. In 2013 there were 137 million 25-34-year-olds with a tertiary education – and the same age group is projected to increase to 300 million by 2030.[5] The Organisation for Economic Co-operation and Development (OECD) data indicates that the proportion of young people aged 25 to 34 attaining a tertiary qualification increased considerably over the past decade from 26% in 2000 to 44% in 2018 – a trend that is expected to continue over the coming decade.

Across OECD countries, attainment of tertiary education improves employment rates by approximately 10% compared to adults with an upper secondary education and tertiary-educated individuals report on average 55% higher earnings than their upper secondary qualified peers, with an overall better life and health-related outcomes. The return on investment offered by tertiary education not only improves people's lives through better employment opportunities and higher earnings but also drives higher revenues and social contributions for the public sector, with governments benefiting from reduced public expenditure on social welfare programmes, greater taxes, increased productivity and better social returns such as civic engagement in environmental protection and further contribution to sustainable development.[6]

Increasing demand, in turn, continues to increase the level of global competition between universities for students, within which context the provision of high-quality residential and academic facilities plays an important role in attracting applicants. Research suggests that nearly two-thirds of students feel that facilities were an important factor when it came to choosing a university with 36% believing that accommodation is the most valued facility.[7]

At the current time many HE systems, including within the UK, therefore continue to move in the direction of decentralisation which has changed their structure, size and funding arrangements. Many HE systems are therefore also experiencing a greater focus from students on quality and value for money, particularly where the burden of HE funding has moved from the public purse to individual students. Value for money has become a core theme in the sector, one of the main objectives of the Office for Students (OfS) and one of the terms of reference of the Government's review of post-18 education.[8]

Additionally, the Student Academic Experience Survey 2018 conducted by Advance HE and The Higher Education Policy Institute (HEPI), revealed that the accommodation type and living arrangements of students have

Many HE systems are therefore also experiencing a greater focus from students on quality and value for money.

a real impact on how much value students perceive that they receive from their course. Students living in more traditional student accommodation, closer to university, feel that they have received greater value for money and demonstrate higher satisfaction levels with their choice overall when compared to those who live further away or live at home.[9]

Whilst HE systems continue to evolve in light of changing patterns of demand – in particular the requirement for a more diverse range of provision for changing labour markets – the traditional campus model of delivery continues to predominate. The development of HE courses delivered online has, to date, proved to be a complementary rather than an alternative method of provision. Typically, universities have utilised this approach to focus on specific cohorts of students (e.g. part-time students) and to introduce technology-enhanced teaching and blended-learning methods.

Whilst the development of Massive Open Online Courses (MOOCs) has the potential to widen global access to HE, particularly where it is currently in short supply,[10] available data suggests such courses have not been the disruptive innovation which would make a radical change to HE delivery more generally. Rather, providers of MOOCs have tended to suffer from low completion rates and a lack of a viable business model.

It is therefore within the framework of the internationalisation of education and increased competition in the labour market that the UK remains one of the top global destinations for HE. Cumulative global demand has continued to drive an increase in student mobility, with the number of students enrolled outside of their country of citizenship increasing fivefold over the last four decades to 5 million.

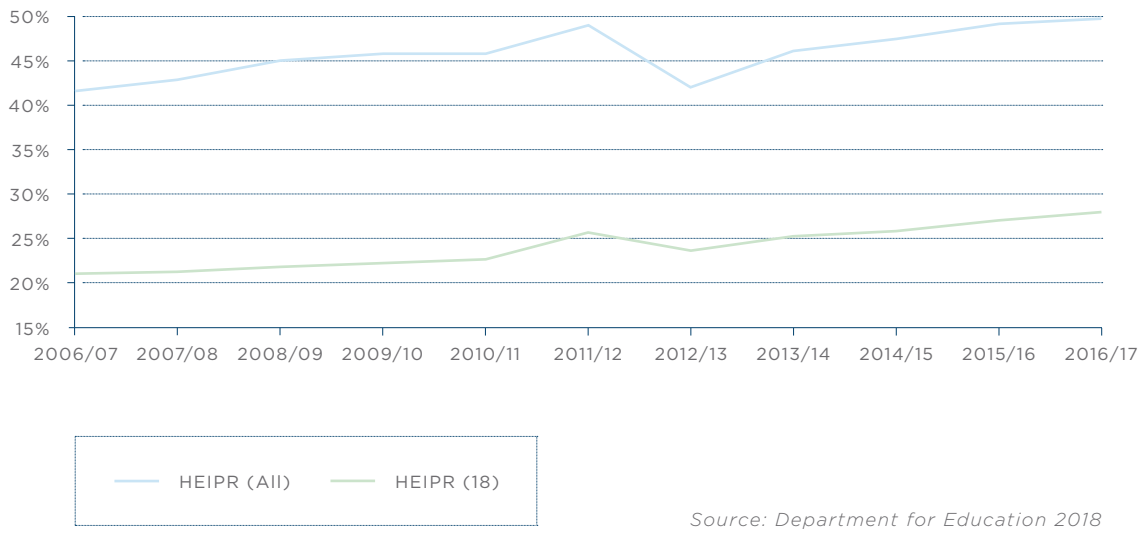
Institutions across the UK continue to retain world-class status, with the Times Higher Education (THE) World University Rankings for 2019 ranking 29 UK institutions in the top 200 and 11 within the top 100.[11] As a global destination for student mobility, the UK remains second only to the US and the number one destination for HE students in Europe.

Despite the demographic decline in the 18-24-year-old cohort – one which is due to begin increasing again from 2020 – the UK sector has continued to attract applicants from the UK and overseas. Indeed the Higher Education Initial Participation Rate (HEIPR), which provides an estimation of the likelihood of a young person participating in HE by age 30, has identified a continuing upward trend.

Figures released by the Department for Education (DfE) on 27 September 2018 show an overall participation rate of 50% for 2016/17 – an increase of 0.7% on the previous year. The data also identified that individuals are more likely to participate in HE for the first time at age 18 than at any other age. The 2016/17 initial participation rate for 18-year-olds is the highest in the series at 28%, up by 0.9% compared to 2015/16. This measure has increased for the fourth year in a row.[13]

Figure 2.1 below identifies the trajectory of the overall HEIPR – an estimate of the likelihood of a young person participating in HE by the age of 30 – and the participation rate for those aged 18-years-old (first-time rate).

Figure 2.1 – HEIPR Overall and 18 years 2006/07 to 2016/17



Source: Department for Education 2018

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

Growing enrolment numbers in tertiary education are also positively correlated to strong economic growth and as such the UK will continue to be a major player in the global HE sector.[14] In 2016/17, the total income of the HE sector was £35.7bn (an increase of £1bn from the previous year) with approximately half of this coming from tuition fees.[15] In the same year, the total operating expenditure was £34.5bn. Most importantly, the impact of the UK HE system is not only measured by its significant economic assets or by students' return on investment but goes beyond those to cultivating engaged global citizens.

2.2 Academic demand

Domestic

Demand for HE remains robust. In 2006/07, the number of full-time students in the UK HE system was 1.4 million. A decade later, in 2016/17, there were 2.3 million recorded students studying in the UK, of which nearly 1.8 million were enrolled on a full-time basis. The 2016/17 academic year saw the largest ever cohort of full-time students in the UK. This increase of nearly 400,000 full-time students translates into a compound annual growth rate of approximately 2.2%[16] - an impressive record given the changing regulatory and economic environment facing the sector over the same period.

As expected, in line with the demographic decline in 18-24-year-olds in the UK, the Universities and Colleges Admissions Service (UCAS) data as at the 30 June 2018 deadline (set out in Figure 2.2 below), identified a 3% decline in the number of applicants across all ages at the same point in 2017. In England, the proportion of 18-year-old applicants this year was the highest on record at 38.1% - a 0.2% increase on the application rate at this time in 2017 and the target market of accommodation offered by the AssetCos.

The anticipated decline in UK applicants is due to the demographic decline in 18-year-olds. This fall is due to halt in 2019 with continued growth taking place thereafter. HEPI estimates that the young population will increase by nearly 23% during the next decade leading to demand for about 50,000 additional university places by 2030 on the basis of demography alone.[17] If participation rates continue to match the increases witnessed over the preceding two decades, this demand could be as large as 350,000 additional places.

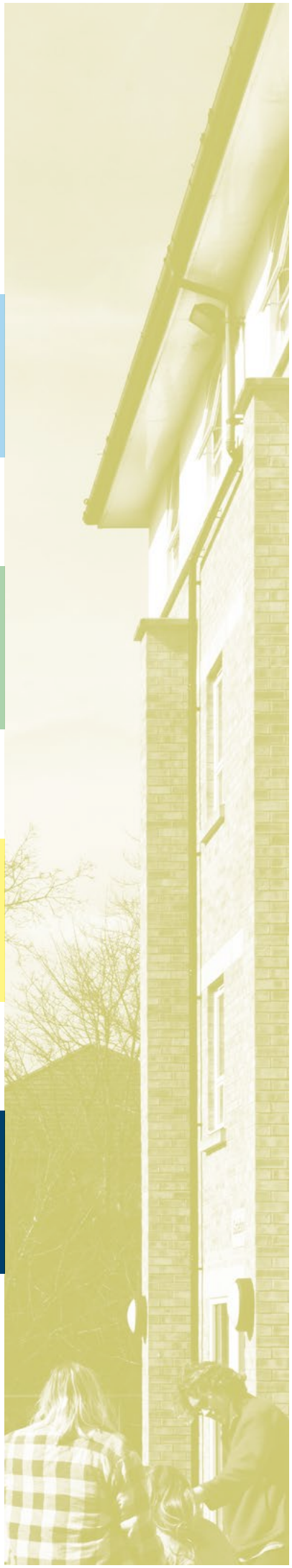
The recent, small decline in UK applicants has been compensated for by an increase in the number of European Union (EU) and non-EU-domiciled applicants. Despite the UK's decision to exit the EU, the number of EU applicants has risen 2% to 50,130 and the number of applicants outside the EU recorded a high of 75,380 students applying to study in the UK – an increase of 6%.[18]

Application rates of young people from disadvantaged backgrounds also increased to the highest levels recorded in January 2018 (22.6%).[19] Domestic applicant numbers stood at approximately 512,000 – similar levels to those seen in the 2012/13 academic year.

Figure 2.2 – Deadline Applicant Statistics: UCAS Data 30 June 2018

App. Domicile	2012	2013	2014	2015	2016	2017	2018	2017 to 2018 %
England	429,100	441,790	456,920	460,740	459,430	437,860	421,610	-3.7%
Northern Ireland	19,150	20,290	20,300	20,810	21,110	20,290	19,310	-4.8%
Scotland	42,490	42,930	43,910	48,490	49,470	48,940	48,710	-0.5%
Wales	23,240	22,660	23,450	23,550	23,740	22,530	21,830	-3.1%
UK	**513,980**	**527,670**	**544,580**	**553,590**	**553,750**	**529,620**	**511,460**	**-3.4%**
EU	41,480	43,290	45,380	48,930	51,850	49,250	50,130	1.8%
Non-EU	61,260	64,940	69,060	70,530	69,300	70,830	75,380	6.4%
Total	**616,720**	**635,900**	**659,020**	**673,050**	**674,900**	**649,700**	**636,960**	**-2.0%**

Source: UCAS



Historic UCAS applications and acceptances data continues to underline the popularity of UK HE, with the main scheme applications to acceptances ratio remaining remarkably consistent. The main scheme applications to acceptances ratio for 2017/18 is still in line with, or above, the nationally observed average of 6.4:1 for five of the seven universities in the UPP Bond – reflecting national trends in the number of entrants for all universities in 2016/17 due to demographic patterns.

Overall, recruitment to UPP Bond partner institutions has been strong, with full-time student numbers growing by 3% from 2015/16 to 2016/17 in line with national student number growth over the same period.[20] The total number of applications has grown by nearly 600,000 since the 2008 cycle, an increase of 21% to 2017. Acceptances over the same period have grown by 16% with 77,535 more acceptances issued in 2017 than 2008.[21]

International

In 2016/17, the most recent year for which domicile data is available, there were 404,220 EU and overseas students studying full time at publicly-funded HE institutions across the UK – 232,815 studying at undergraduate level and more than 171,405 at postgraduate – accounting for 22% of the entire full-time student body.[22] In 2000/01, there were 109,000 non-UK-domiciled students coming to study in the UK. In 2016/17 the same student population increased almost fourfold to 404,220, reflecting UK HE's attractiveness. Over the last two decades, the UK has positioned itself as a global destination for HE with demand for UK institutions continuing to grow.

Regardless of the political uncertainty caused by Brexit, in 2016/17 the EU was the largest source of non-UK students in terms of regional share. UCAS data reveals that as of the June 2018 deadline and after the UK's decision to exit the EU, the number of EU and non-EU students has increased since this time in 2017 by 2% and 6% respectively.[23]

Despite the changes in immigration and visa regulation, education remains the fifth largest services sector and the second biggest contributor to the net balance of payments.[24] A recent report by the HE Commission identified that, according to statistics from the DfE, the revenue from international education and transnational education activity in the UK increased by 22%, from £12.9bn in 2010 to £15.8bn in 2015.[25]

Another detailed study by HEPI sheds light on the economic value of international students. The total benefit to the UK economy associated with a typical EU-domiciled student was approximately £87,000, with the comparable estimate for non-EU-domiciled students standing at approximately £102,000, generating an aggregate total economic benefit to the UK economy of £22.6bn

Photo credit: Robert Greshoff

over the duration of their studies – of which £5.1bn is generated by EU students and £17.5bn by non-EU students. Looking at the net economic impact of international students, this translates to a £1m contribution to the UK economy for every 15 EU students and every 11 non-EU students over the duration of their studies.[26]

Properly contextualised, the risk that a fall in EU student numbers would impact on academic and residential demand appears low. Since the announcement of Brexit, the number of EU students applying to UK HE courses has increased by 1% in 2016/17 HESA data. Currently, only 1 in 20 full-time undergraduates (5%) are from the EU (excluding the UK) and just 11% of full-time postgraduates. Shortly after the vote, the Minister of State for Universities, Science, Research and Innovation confirmed that there would be "no immediate changes" for EU nationals and the Department for Business, Energy and Industrial Strategy has committed to continue current funding and immigration arrangements for EU students until 31 December 2020.

Academic demand indicators for 2019/20

Initial data from UCAS identified the highest recorded number of applicants for 'early deadline' university courses on the UCAS 15 October 2018 deadline analysis for the academic year 2019/20. This data includes applicants for courses in medicine, dentistry, and veterinary degrees, as well as for all courses at the University of Cambridge and the University of Oxford. The total number of applicants as of the deadline was 65,870 – a year-on-year increase of 7% (4,430 applicants) on figures released at the same point in the 2017 cycle.

The number of applicants from the UK has risen by 9% (3,680 applicants) to a record 45,650 at this stage in the 2018 admissions cycle. This represents the highest number recorded since 2010/11 – well before the introduction of the £9k tuition fee cap. Specifically, this increase is driven by an 11% rise in applications from 18-year-olds in England, despite a fall in the UK 18-year-old population of around 1.8% continuing this year. The number of applicants from Northern Ireland and Wales have also increased by 4% and 5% respectively when compared to the same point last year. Applicants from the EU report no change from last year and the number of applicants from outside the EU see an increase of 6% to 13,610 applicants.[27]

Whilst those submitting to this deadline typically represent only 10% of total applicant numbers, this still represents a positive and encouraging indicator with respect to continuing demand for the academic year 2019/20.

Photo credit: Robert Greshoff

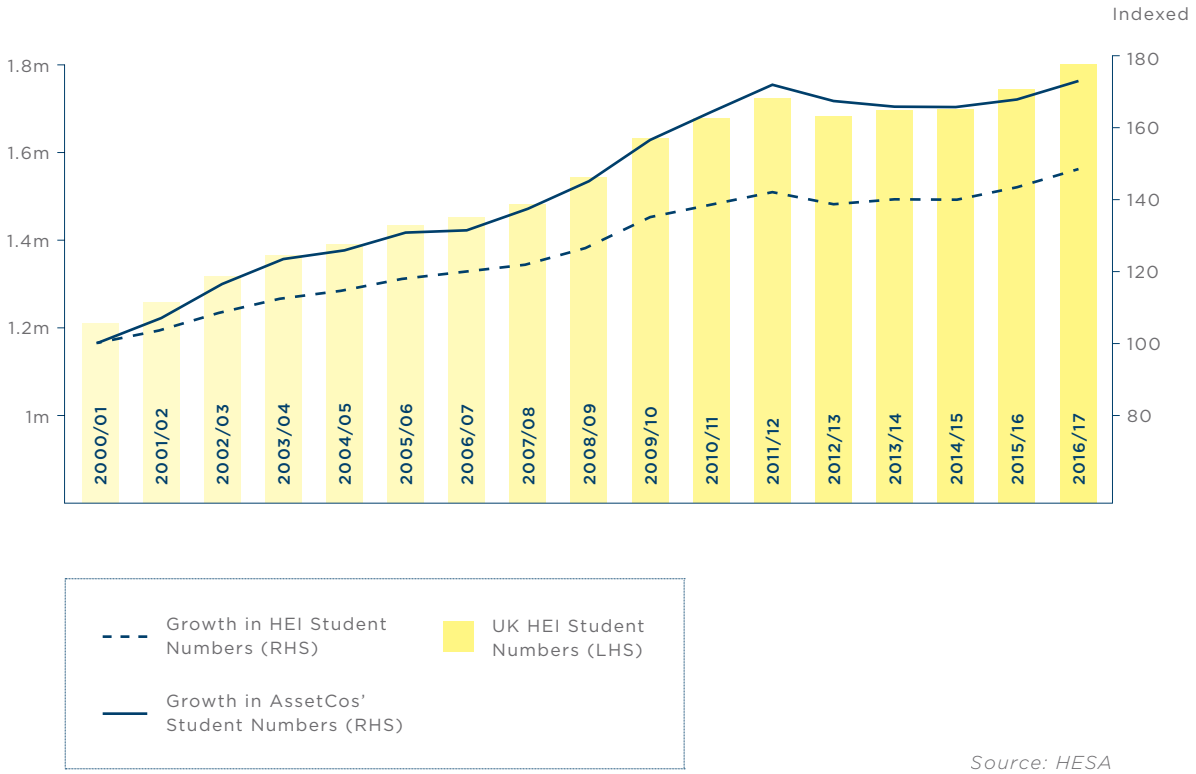
2.3 The Student Accommodation market

As a corollary of the expansion and widening participation taking place within the HE sector since 1992, demand for full-time UK HE programmes, and consequently demand for student accommodation from both domestic and international students, is continuing to grow and, at a national level, this growth continues to significantly outstrip the supply of new Purpose-Built Student Accommodation (PBSA). Based on available sector data, UPP estimates that approximately 980,000 students currently live in Houses of Multiple Occupation (HMOs) or at home. Market analysts go further, suggesting that the number of students living in HMOs is at an all-time high.[29] The fact that demand is rising at a faster rate than supply and wider pressures in this market segment – such as the wider use of Article Four Directives to control the conversion of houses to student accommodation and less favourable Stamp Duty Land Tax rules – may cause more landlords to exit the sector, placing greater reliance on the provision of purpose-built stock.

On this basis, the student accommodation sector remains a strong and attractive one and the extra protection afforded by the long-term, on-campus, partnership model, developed by UPP, continues to provide investors with secure and stable returns.

In 2017/18, the number of purpose-built bedrooms for students, including those owned and operated by universities, was estimated at more than 602,000.[30] According to research by Cushman and Wakefield, universities are increasingly recognising the benefit of working with the private sector as a means to facilitating innovation on campus, enhancing

Figure 2.3 Full-time enrolments from 2000/01 to 2016/17



Source: HESA

their facilities, increasing their attractiveness to students and generally improving their commercial position as a means to strategically position themselves more effectively in light of increasing competition.[31] Clearly, the UPP model of on-campus accommodation – providing a full suite of university student experience initiatives, at rent levels set by the university and UPP typically in discussion with the Students' Union – has an implicit strategic advantage under these conditions.

Affordability and value for money continue to shape demand and supply preferences in the academic year 2018/19. This is driven by students finding a voice in relation to an increasing debt burden and has now become a core policy focus for the two main political parties in the UK.

In the most recent student accommodation analysis published by CBRE, the affordability of PBSA is premised on delivering quality in terms of location, amenities, and services in comparison to similar market options. The desire from investors to build on existing returns is also driving innovation in construction techniques and operational flexibility such as build-to-rent, co-living, holiday market lettings, and hotel-like stays.[33]

It remains the case that a significant proportion of the UK HE estate (estimated at circa 25%) is in need of either complete refurbishment or redevelopment.[34] Universities recognise that high-quality facilities continue to play a key role in student decision-making. It is therefore apparent that there is a growing economic rationale for institutions undertaking estate-transfer transactions – a market segment where UPP is positioned as the clear market leader.

2.4 AssetCo Demand

In the financial year ended 31 August 2017 levels of occupancy stood at 99.9% across the portfolio. For the financial year ended 31 August 2018 occupancy stood at 100%. At the time of publication, occupancy for the year ending 31 August 2019 was 99.2%. The AssetCo at the University of Nottingham had secured occupancy of 99%, although this is typically improved upon by securing short-term bookings available on any vacant rooms. The 95% occupancy at the University of Plymouth is reflective of the current secured position. UPP is in discussion with the University to ascertain the reasons for the shortfall in budgeted occupancy. Performance for the individual AssetCos comprising the UPP Bond 1 Limited portfolio is detailed in the table below. A detailed outlook of each AssetCo university is provided in Appendix 1.

AssetCo	Room numbers	Occupancy 2017/18	Occupancy 2018/19
UPP (Alcuin) Limited – University of York	1,044	100%	100%
UPP (Broadgate Park) Holdings Limited – University of Nottingham	2,229	100%	99.9%
UPP (Exeter) Limited – University of Exeter	2,569	100%	100%
UPP (Kent Student Accommodation) Limited – University of Kent	544	100%	100%
UPP (Nottingham) Limited – Nottingham Trent University	2,773	100%	100%
UPP (Oxford Brookes) Limited – Oxford Brookes University	770	100%	100%
UPP (Plymouth Three) Limited – University of Plymouth	1,764	100%	95.0%
Total	11,693	100%	99.2%

2.5 Market demand for student accommodation as an asset class

In the Investor Report for the financial year ended 31 August 2017, it was reported that the market had seen the deployment of significant levels of new investment from recently-recapitalised operators and that international investors had remained active – including the likes of CPPIB, GIC and Unite Students, Gravis Capital Partners and Campus Living Villages. During 2017, the student accommodation market has continued to be dominated by portfolio deals in terms of volume, with single-asset transactions totaling £4bn investment in 2017 – up 25% on the previous year.[35] The first half of 2018 showed signs of a further year of consolidation in the sector with £4.5bn projected value of investment.

In 2016, 68,000 beds were traded in the market with a total value of £4.5bn, with several deals achieving record yields.[36] In 2017, investor activity in the UK student accommodation market has been resilient with the same figure rising to 75,000 beds traded for £5.3bn – an increase of 17% year-on-year.[37]

According to Knight Frank's update, 23,000 student bedrooms will be completed for the start of the 2018/19 academic year, with a further 11,000 under construction or planning to be delivered in the 2019/20 and 2020/21 academic years.[38] Moreover, schemes owned by occupiers with an operational stock of over 10,000 beds in multiple markets reported rental growth in excess of 3% on average.[39]

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

- European Property Investors Special Opportunities IV (EPISO 4), backed by Curlew Capital, has acquired a 90% interest worth £439m in a joint venture with Downing, which owns a 2,756-bed portfolio of six halls in university cities across the country. The joint venture has committed to forward-purchase two more residences next year, including a 578-bed scheme in Vauxhall London, taking the total number of beds to 3,644
- iQ Student Accommodation has bought Pure Student Living from LetterOne for £870m. It was reported that the process generated 11 strong bids that saw the deal close at a price almost 10% higher than expected. The portfolio comprises 3,644 rooms across 11 sites in London, Edinburgh, York, Bath, and Brighton
- Maslow Capital has completed three PBSA deals collectively valued at approximately £65m. Maslow has also announced the launch of a specialist PBSA division which will focus on providing bespoke lending and funding facilities for developers in the student accommodation sector. To date, the specialist provider of real estate development finance has completed 10 PBSA facilities, which will see more than 1,600 new beds and 500,000 sq ft of new accommodation delivered, with a combined GDV of more than £160m
- Legal & General has acquired five student accommodation blocks and an academic facility at the University of Exeter for £76m (€85.6m). The UK insurer said Legal & General Investment Management's real estate division acquired the assets on behalf of two separate funds as part of a joined-up approach to satisfy its wide-ranging investor needs across its fund management platform. The student accommodation blocks have been acquired by Legal & General's UK Property Fund for £49.6m, representing an initial yield of 5.78%
- Arlington Investors, the international investment firm, has acquired the operating portfolio of student accommodation provider Study Inn for £135m. London-headquartered Arlington acquired 10 sites from Study Inn, spanning 1,494 rooms located in the Russell Group university towns of Coventry, Nottingham, Sheffield, and Cambridge. This transaction takes Arlington's student accommodation portfolio to over 10,000 beds and its total investment in the sector to over £750m
- CBRE Global Investment Partners (GIP) announced it had sold 75% of the Curlew Student Trust (CST) portfolio and set up a second fund. The assets were acquired by PBSA provider Student Roost for an undisclosed sum. CBRE GIP said the 15 student accommodation assets in the sale portfolio – which comprise 5,407 beds – are located in 12 university cities across the UK including London, Birmingham, Bath, Durham, and Sheffield. The sale also includes land in Swansea that is consented for the development of student accommodation

In March 2018, the UPP Group converted to a Real Estate Investment Trust (REIT) and listed on The International Stock Exchange. The financial year ended 2017/18 has continued to see an increasing number of large-scale on-campus reconfigurations and estate-transfer projects coming to market.

The Group has reached financial close on two transactions: with Swansea University for the delivery of 2,021 bedrooms and the University of Exeter for the redevelopment and delivery of 382 high-quality student residences on campus at the University's Spreytonway and Moberly sites. In addition, the Group has secured preferred bidder status for the University of Exeter's East Park design, build, finance and operate (DBFO) scheme for the development of a further 1,182 bedrooms. The DBFO market in which UPP operates continues to be characterised by significant barriers to entry due to the complexity, level of expertise and available risk capital required to successfully deliver these large infrastructure transactions. Clearly differentiated from property-based, direct-let provision, the long-term partnership model continues to represent a niche market where UPP has established itself as the market leader.[40]

2.6 UK policy outlook

Brexit

Brexit continues to cause some uncertainty. The current Government remains committed to continuing current funding and immigration arrangements for EU students until 31 December 2020. The same applies to the immigration status of EU students and their ability to study in the UK, the tuition fee status of current EU students, students currently participating in the Erasmus+ exchange programme and participants in EU funding programmes for research and innovation. Whilst there have been some concerns in relation to how these changes might affect EU and international student enrolment post-Brexit, demand modelling by HEPI 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%.

Post-18 education review and funding

With regard to longer-term funding arrangements, the issue of tuition fees has been placed centre stage in terms of the policy focus of the two main political parties. The pledge of the Labour Party to scrap tuition fees has resulted in the Conservative administration refocusing its attention on student debt. In October 2017, at the Conservative Party Conference, the Prime Minister confirmed that the tuition fee cap would be frozen at the current level of £9,250.

It was also announced that the repayment threshold salary at which students begin to repay loans would be increased from £21k per year to £25k per year. In February 2018, the Government announced a wider review of post-18 education with the aim of enforcing greater variability in tuition fees by subject – a fair system that widens participation and provides equal opportunities for all, delivers the skills required in the employment market and promotes value for money for students and taxpayers. The Review report is due to be published in early 2019.[41]

The immediate freezing of tuition fee increases and the rise in the loan repayment threshold will likely reinforce academic and residential demand. A further review of university funding based on capping fees below the current figure may well improve the longer-term outlook on demand, whilst greater fee income variability could make universities more likely to look for delivery of schemes off-balance sheet, with a private partner.

Office for Students

The Higher Education and Research Act (2017) established the Office for Students (OfS) in January 2018 as an independent regulator accountable for promoting the interests of students and ensuring equality of opportunity. The OfS became operational in April 2018, with the mission of enabling informed student choice and institutional autonomy.[42]

These changes are likely to have a positive impact on the UPP business model and its capacity to secure occupancy by bringing more equity to the UK HE system and thus higher participation rates and greater value for money for students whilst maintaining UK HE's world-class reputation.

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10. Centre for Global Higher Education (2017), Institute of Education (UCL), The potential of MOOCs for learning at scale in the Global South
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13. Department for Education, September 2018
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15. Universities UK and HESA Finance Record (2016-17)
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27. UCAS Applicant Deadline Data 15 October 2018
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29. CBRE UK Student Accommodation – Accommodation Storylines: Applications, Affordability and appetite from Investors September 2017 p.3
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37. Savills UK, Spotlight, UK Student Housing 2017, Savills Research, May 2017
38. Knight Frank, UK Student Housing update: Development Pipeline, 2018
39. Knight Frank, UK Student Housing Rental Update, June 2018
40. JLL, Student Housing: University partnerships in the UK, November 2016
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42. Office for Students (2018)

3.0

Financial highlights

For the year ended 31 August 2018

FINANCIAL HIGHLIGHTS

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

- Occupancy for 2018 at 100.0% (2017: 99.9%)
- Turnover increased to £64.3m which is a 2.6% underlying increase on 2017
- EBITDA before sinking fund of £42.4m (2017: £40.9m)
- Healthy cash balance of £35.9m made up largely of liquidity reserve accounts and short-term working capital requirements
- Payments to subordinated debt loan notes of £9.66m (2017: £8.84m)

For the year ended 31 August 2018, the UPP Bond portfolio performed above modelled expectations of 1.37. The historic Annual Debt Service Cover Ratio (ADSCR) for the period was 1.38 compared to a lock-up ADSCR of 1.15.

Rental income was fixed at the start of the academic year along with a significant proportion of the costs which are subject to contractual RPI increases. The main exception is utilities, however this was managed by buying ahead where possible and by careful management and monitoring. With occupancy secured at 100%, performance for the year surpassed model and budgeted expectations, with a subordinated debt loan notes distribution of £9.66m made on 31 August 2018.

The Group made a loss for the year of £11.8m (2017: £17.6m). Of this loss, £19.8m (2017: £19.8m) is attributable to interest on subordinated debt, of which £9.66m (2017: £8.84m) was paid at the end of the 2017/18 financial year.

Consolidated profit and loss results for the seven AssetCos are presented on page 28 for the financial year ended 31 August 2018. These results for 2018 and 2017 include the costs associated with UPP Bond 1 Limited, UPP Bond 1 Holdings Limited and UPP Bond 1 Issuer Plc.

During the financial year the wider Group elected to convert to a Real Estate Investment Trust (REIT). To facilitate this, the Group was required to establish a new ultimate holding Company to meet the specific listing requirements for a REIT. On 28 February 2018, UPP REIT Holdings Limited (ISIN – JE00BF5PSP50) completed the acquisition of the entire issued share capital of Student UK TopCo Limited (SUKT), thereby becoming the Parent Company of UPP Group Holdings Limited.

In addition to this restructuring, the Group also sought the consent of each Noteholder (Qualifying Issuer Secured Creditors) for the waiver of the existing subordinated Shareholder debt between each AssetCo and its Parent Company, UPP Bond 1 Limited. Following an Issuer Security Trustee Voting Request (dated 17 January 2018), consent for the waiver and necessary amendments to the Tax Deed of Covenant was given on 15 February 2018. Accordingly, the UPP Group converted to a UK REIT on 28 February 2018 and was officially admitted to The International Stock Exchange as of 8 March 2018.

The REIT structure, which has been promoted by the UK Government as an efficient vehicle for the long-term ownership of UK real estate interests, will allow the Asset Companies comprising the Group's property portfolio to benefit from the REIT exemption from corporation tax arising in its property rental business. UPP remains UK tax resident.

With occupancy secured at 100%, performance for the year surpassed model and budgeted expectations.

3.1 AssetCo consolidated profit and loss account for year ended 31 August 2018

	Year ended 31 August 2018	Year ended 31 August 2017	Change %
	£'000	£'000	
Turnover	64,329	62,697	2.6%
Cost of sales	(18,987)	(18,961)	(0.1%)
Gross profit	45,342	43,736	3.7%
Gross profit margin	70.5%	69.8%	
Operating expenses	(2,990)	(2,830)	(5.7%)
EBITDA before sinking fund expenditure	42,352	40,907	3.5%
EBITDA margin	65.8%	65.2%	
Sinking Fund expenditure	(5,300)	(4,024)	(31.7%)
EBITDA	37,052	36,883	0.5%

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

For the year ended 31 August 2018 occupancy was 100.0% (2017: 99.9%). The growth in turnover was 2.6% (2017: 2.3%) which was driven by RPI-linked rental income and increases achieved above RPI. With the exception of UPP (Oxford Brookes) Limited, rents for all the AssetCos were set 12 months prior to the start of the academic year when RPI was 2.04%.

Cost of sales, which is made up of facilities management (FM) costs, employee costs and utilities, increased by 0.1% (2017: 1.2%) during the year. This is due to a reduction in internet access costs offset with contractual increases in FM costs. Internet access costs decreased as the UPP (Broadgate Park) Holdings Limited and UPP (Nottingham) Limited AssetCos entered the final year of their respective contracts. FM and employee costs increased during the year due to contractual increases linked to September 2016 RPI. This is with the exception of UPP (Oxford Brookes) Limited where increases are linked to RPI as at the start of the academic year. Utility costs have broadly remained in line with 2017 expenditure levels across all AssetCos.

Overheads have increased by 5.7% (2017: decrease 3.7%) due to additional approved variations in the year. Approved variations include £150k for the remainder of drainage works at UPP (Kent Student Accommodation) Limited, and £130k for remediation works at UPP (Exeter) Limited in relation to the ongoing cladding issue. The EBITDA margin before sinking fund expenditure is 65.8% (2017: 65.2%).

Sinking fund costs are made up of items throughout the accommodation that reach the end of their economic life and require

replacement. While sinking fund expenditure is highly predictable and modelled in line with the relevant replacement period for each item, it is not necessarily comparable from one year to the next. Accordingly, the amount charged to the profit and loss account, while visible, can vary substantially between years and as such the financial performance of the AssetCos is best monitored at the EBITDA before sinking fund expenditure line.

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

3.2 Forecast financial highlights for the year ended 31 August 2019 for the seven AssetCos

- Occupancy for the year currently standing at 99.2% across the AssetCos
- Rental income projected to increase by 2.7%
- Projected ADSCR ratio of 1.34 compared to lock up ratio of 1.15

AssetCo occupancy is secured at 99.2% at the start of the academic year for all seven AssetCos. More detail on the developments in the HE sector is provided in Section 2 of this report.

With occupancy confirmed for 2018/19, rental receipts from students net of contractual university fees are expected to be circa £65.9m, an underlying increase of 2.7% on 2017/18.

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

3.3 Sinking fund and operational performance

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

This targeting of high service levels is reflected in the performance of the FM provider. During the financial year ended 31 August 2018, URSL suffered no deductions for unavailability or poor performance and this reflects the high standards set in previous years.

Sinking fund, or lifecycle, expenditure is managed by URSL and was in line with budget for the year. In total, £5.3m (2017: £4.0m) was invested into the AssetCos to maintain the quality of the accommodation. All works were completed on time and within budget. More detail on the expenditure for each AssetCo is provided in Appendix 1 of this report.

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

4.0

Ratio calculations

As set out in Paragraph 2 of Part 2 of Schedule 9 of the CTA, the ratio calculations for the year ended 31 August 2018 are:

4.1 Historic AssetCo DSCR

UPP (Alcuin) Limited	1.33
UPP (Broadgate Park) Holdings Limited	1.41
UPP (Kent Student Accommodation) Limited	1.38
UPP (Nottingham) Limited	1.40
UPP (Oxford Brookes) Limited	1.41
UPP (Plymouth Three) Limited	1.36
UPP (Exeter) Limited	1.37

4.2 Projected AssetCo DSCR

UPP (Alcuin) Limited	1.33
UPP (Broadgate Park) Holdings Limited	1.38
UPP (Kent Student Accommodation) Limited	1.44
UPP (Nottingham) Limited	1.33
UPP (Oxford Brookes) Limited	1.40
UPP (Plymouth Three) Limited	1.20
UPP (Exeter) Limited	1.37

4.3 Historic senior DSCR 1.38

4.4 Projected senior DSCR 1.34

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

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

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

4.5 Current hedging policy

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

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

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

For the year ended 31 August 2018 the Group has recognised the fair value of derivatives. In recognising this fair value the Group has considered the contractual rent basis of each of the AssetCos – and whether the criteria is met to utilise hedge accounting – and ascertained that for four out of the six AssetCos that have entered into inflation-linked swaps the hedge accounting criteria had been met.

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

4.6 Distributions made

In accordance with the terms of the Loan Note Instrument dated 5 March 2013 – entered into by UPP Bond 1 Holdings Limited and UPP Group Limited – and the terms of the CTA, an amount of £9,660,000 (2017: £8,836,000) was distributed to UPP Group Limited on 31 August 2018.

4.7 Confirmation

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

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

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

c) The Group is in compliance with the Hedging Policy

Signed for and on behalf of UPP Bond 1 Issuer Plc

Julian Benkel

Group Compliance Director and Company Secretary

5.0

Monitoring Adviser Addendum

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

A. Background

UPP Bond 1 Issuer PLC (the "**Issuer**") has prepared its Annual Investor Report for the year ended 31 August 2018 in relation to the Issuer's note programme (the "**Programme**"). Bishopsfield Capital Partners Limited ("**Bishopsfield**" or "**BCP**"), as Monitoring Adviser, is required under the terms of the Monitoring Services Agreement ("**MSA**") dated 5 March 2013 to prepare an addendum to the Annual Investor Report (the "**Monitoring Adviser Addendum**") commenting, inter alia, on whether on the basis of information obtained by the Monitoring Adviser in the performance of the Services, and in accordance with the Monitoring Adviser Standard, it agrees with the matters stated in the Annual Investor Report. The Monitoring Adviser Addendum is also required to identify:

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

This Monitoring Adviser Addendum refers to matters arising during the period from 1 September 2017 through 31 August 2018 unless otherwise stated herein.

B. Executive summary

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

We note that monitoring was conducted under normal conditions throughout the year to 31 August 2018 (the Transaction Documents would require Bishopsfield to provide certain escalated monitoring should certain triggers be breached).

There are presently three tranches of notes outstanding:

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

Occupancy across the seven AssetCos was 100% for the 2017/18 academic year.

EBITDA, before sinking fund payments, was £42.4m on turnover of £64.3m.

One distribution of £9.66m was announced in relation to the last academic year and this was reported to have been paid on 29 August 2018. A Compliance Certificate was received in respect of this distribution.

As previously reported (see December 2017 Addendum) Bishopsfield visited, during October 2017, the AssetCo properties at the University of York (Alcuin). This autumn, during September 2018, we visited the AssetCo properties at the University of Plymouth. This AssetCo accounts for approximately 15% of rooms within the Bond financing and 14% of EBITDA (before sinking fund expenditure), respectively (for the year ended 31 August 2018). The Site Visit is summarised in Section D of this Monitoring Adviser Addendum. We note that during the Site Visit and at a subsequent Management Meeting, the Issuer has highlighted to us that occupancy is forecast to be 95% for the financial year ending 31 August 2019 for the University of Plymouth AssetCo; this reduces the forecast DSCR for 2018/19 to 1.20x (as against 1.36x for the 2017/18 reporting period).

We also visited the AssetCo properties at the University of Exeter during September 2018 as part of our ongoing monitoring obligations in respect of the waiver sought and granted in June 2017 in relation to façade and pod remediation works. We observed continued progress with the remediation works; Issuer reporting indicates that, despite some delays due primarily to bad weather experienced last winter, the remediation works are now back on time relative to programme.

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The Issuer provided four Compliance Certificates during the twelve months ended 31 August 2018:

- Compliance Certificate dated 5 September 2017 in relation to a Distribution reported by the Issuer to have been made on 31 August 2017;
- Compliance Certificate dated 19 December 2017 in relation to Audited Financial Statements for the year ended 31 August 2017;
- Compliance Certificate dated 27 April 2018 in relation to unaudited semi-annual Financial Statements for the first half of the financial year ending 31 August 2018 (i.e. for the six months ending 28 February 2018); and
- Compliance Certificate dated 29 August 2018 in relation to a Distribution reported by the Issuer to have been made on the same date

C. MA Proposal Requests received

The Monitoring Adviser considered four MA Proposal Requests during the year to 31 August 2018:

1) On 9 October 2017, ParentCo sought various consents related to UPP Group's contemplated REIT conversion. Bishopsfield confirmed the categorisation of the MA Proposal Request as an ISC Direction Matter and made a conditional recommendation that the Issuer Security Trustee approves the MA Proposal Request on behalf of the Issuer Secured Creditors. We note that ParentCo announced on 3 November 2017 its intent not to proceed with the MA Proposal Request or the concurrent, related Proposal Request.

2) On 10 January 2018, ParentCo again sought various consents related to UPP Group's contemplated REIT conversion. Bishopsfield confirmed the categorisation of the MA Proposal Request as an ISC Direction Matter and made a conditional recommendation that the Issuer Security Trustee approves the MA Proposal Request on behalf of the Issuer Secured Creditors.

   Subsequently, at the end of February 2018, the AssetCos issued a letter to the Monitoring Adviser, the Issuer Security Trustee and the AssetCo Security Trustee providing various confirmations and representations in relation to the REIT conversion, as requested in Bishopsfield's January 2018 recommendation.

3) On 27 July 2018, the Issuer sought consent seeking consent to UPP (Broadgate Park) Limited (the relevant AssetCo) entering into a License Agreement related to the erection of a crane on a neighbouring property that is expected to oversail certain of the AssetCo's properties. Bishopsfield confirmed the categorisation of the MA Proposal Request as an MA Direction Matter and made a conditional recommendation that the Issuer Security Trustee approves the MA Proposal Request on behalf of the Issuer Secured Creditors on the basis that the proposed works and AssetCo entering into the License Agreement are not expected to adversely impact the interests of the Issuer Secured Creditors.

4) On 28 August 2018, the Issuer sought a further consent seeking consent to UPP (Broadgate Park) Limited (the relevant AssetCo) entering into a second License Agreement related to the erection of a second crane on a neighbouring property that is also expected to oversail certain of the AssetCo's properties. Bishopsfield confirmed the categorisation of the MA Proposal Request as an MA Direction Matter and made a conditional recommendation that the Issuer Security Trustee approves the MA Proposal Request on behalf of the Issuer Secured Creditors on the basis that the proposed works and AssetCo entering into the License Agreement are not expected to adversely impact the interests of the Issuer Secured Creditors.

D. Monitoring services performed[43]

1. REGULAR UPDATES

1.1. Management meetings

In addition to the 21 November 2017 Management Meeting that we discussed in our previous Monitoring Adviser Addendum, two further Management Meetings have been conducted:

Bishopsfield met with Management on 23 May 2018. Discussions focused on:

- Market environment; management commented on:
  - Demand being strong (100% occupancy) across all properties in the UPP Bond structure
  - HEPI projections for falling demand in the short term, and strong growth beyond this
  - Strength of demand from international (both EU27 and non-EU) students
- Policy changes; management commented that it is observing closely any implications for UPP arising from the Hackitt review of building regulations and fire safety following the Grenfell Tower tragedy
- BREXIT; management commented that BREXIT was not yet having an observable impact on AssetCo performance
- Existing and anticipated MA Proposal Requests (see Section C above for additional details)
  - Exeter Latent Defect remediation; management commented that the remedial works were continuing although delays had been experienced due to bad weather through the winter months. In addition, the University of Exeter has requested that works be suspended during the exam season. (BCP Ref. UPP 14)
  - REIT conversion; these have been implemented (UPP Ref. UPP 17)
- Management changes; we were informed that Mark Swindlehurst has joined as Managing Director with responsibility for managing the AssetCos. In addition, Nicola Morris is standing down as Group Financial Controller

Bishopsfield met with Management on 1 November 2018. Discussions focused on:

- University Accommodation: Competitive Landscape
  - Demand for and supply of student accommodation; management discussed the continued competitive landscape and robust student demand witnessed this year
  - Introduction of the Office for Students and its potential implications
  - New Minister for Higher Education (Sam Gyimah) and the focus of the Augur Review
  - Augur Review; management commented that the report is due in January 2019, and that there had been (at the time of meeting) little visibility on its likely recommendations
  - BREXIT; management commented on the 'no deal' analysis prepared by HEPI and London Economics
- AssetCos Financial Review
  - Management commented on the robust performance of individual AssetCos through 2017/18. Summarised financial information was provided to support the discussion
  - Occupancy forecasts for 2018/19 were discussed, highlighting that all were set at 99% except for Oxford Brookes and Exeter (100%) and Broadgate Park (98%). Management noted that Plymouth occupancy was presently well below budget (95%); it is working with the University to bolster current year performance and improve occupancy going forward

- Status of Proposal Requests / subsequent implementation; discussion focused on
  - Exeter Settlement Agreement and related latent defect works: Discussion focused on the reasons for a hiatus in reporting to Bishopsfield (we note that this has been subsequently addressed)
  - Broadgate Park neighbouring works: management commented that the cranes referenced in the summer 2018 Proposal Requests have been erected without incident
- University of Plymouth Site Visit – matters arising:
  - Management confirmed that consideration is being given to certain works that should both enhance marketability and address certain dilapidations
- Management changes:
  - UPP confirmed that Richard Bienfait will become CEO in January 2019, with current CEO, Sean O'Shea, becoming Vice Chairman of UPP Group Limited

[43.] *Each heading follows the relevant heading in Schedule 1, Part 1 of the MSA*

1.2. FM Provider

FM services are provided by UPP Residential Services Limited (URSL). URSL has provided the information that Bishopsfield has requested largely in a timely manner; the information related primarily to the University of Plymouth Property Visit conducted during September 2018, the MA Proposal Requests received and certain questions / clarifications arising during the Operating Budget review.

1.3. Property Visits

1.3.1. University of Plymouth

BCP conducted a Site Visit to the University of Plymouth accommodation during September 2018. Prior to financial close a comprehensive report was produced by WSP and dated October 2012 (the "WSP Report"; following discussions with UPP Group management we elected to rely on the aforementioned WSP report, together with a Life Cycle Report produced by URSL.

BCP met local employees and were accompanied by members of UPP's head office. Employees demonstrated knowledge and awareness of both local and national UPP practices and procedures. We examined the condition of the properties in conjunction with the comments made in the Closing WSP report in this instance and in connection with any major capital expenditure (exceeding £500,000), planned maintenance and lifecycle expenditure over the next 12 months, material disputes, breaches and deductions, litigations and claims and other matters that were brought to our attention. Whilst management did not formally advise of major capital expenditure planned, the UPP team did highlight certain remedial works identified to the stairwells at Robbins Hall that are being assessed.

We examined planned maintenance and lifecycle expenditure over the next twelve months following the site visit, material disputes, breaches and deductions, litigations and claims and various other matters arising.

1.3.2. University of Exeter

Bishopsfield conducted a Site Visit to UPP's accommodation at the University of Exeter during September 2018. This Site Visit was scheduled to view the Remediation Works in progress. We visited some of the rooms where pod-related work was due to commence and viewed several buildings where cladding-related works are ongoing. We observed that, with the aid of Bailey Partnership and UPP management reports, the remedial works are now progressing in a timely manner.

2. CASH MANAGEMENT AND OPERATING BUDGET

2.1 Collections

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

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

2.2 Operating Budget

The Monitoring Adviser is required to review the Operating Budget of ParentCo and each AssetCo at least annually. Bishopsfield reviewed the Operating Budgets for the twelve months commencing 1 September 2018 and found the reviewed Operating Budgets to be reasonable based upon the information available to us at such time and:

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

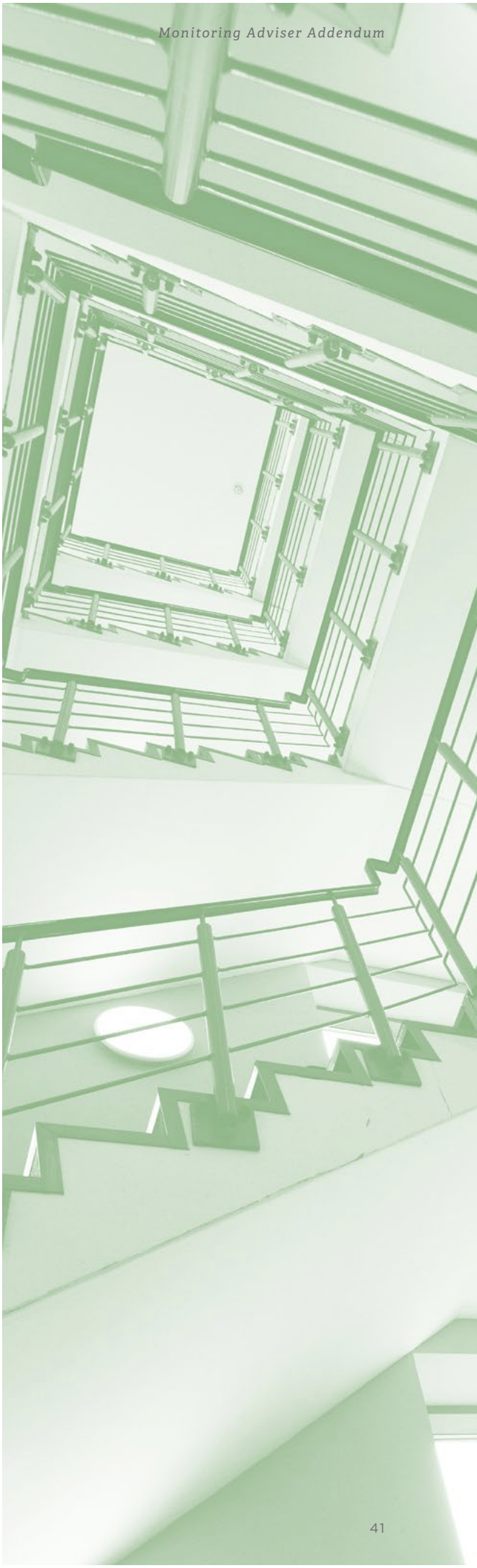
3. SINKING FUND REVIEW

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

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

The Lifecycle Report should report on lifecycle maintenance costs projected to be required over the following 60 months to maintain the condition of each Relevant Property in good working order, of a quality consistent with those of alternative accommodation available in respect of the relevant university and consistent good industry practice. URSL has provided 10-year projections. Following the Bishopsfield's review of the Lifecycle Report presented in March 2018, using a Test Date of 28 February 2018 for calculations of the Sinking Fund Required Amounts, we can confirm that all Sinking Fund Reserve Accounts had excess funds available as at 31 August 2017 relative to the Sinking Fund Required Amounts.

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



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6.0

AssetCo summaries

Appendix 1

UPP (Alcuin) Limited, University of York

Profit and loss, year ended 31 August		2018	2017
	Note	£000's	£000's
Revenue	1.1	**6,396**	6,191
Cost of sales	1.2	**(1,441)**	(1,285)
Overheads	1.3	**(242)**	(264)
EBITDA before sinking fund		**4,713**	4,642
Sinking fund		**(861)**	(205)
EBITDA		**3,852**	4,437
Depreciation		**(189)**	(174)
Amortisation		**(94)**	(94)
Profit before financing costs		**3,569**	4,169
Interest income		**55**	49
Bond note interest & uplift on Index-linked loan notes	1.4	**(2,791)**	(2,807)
Subordinated debt interest	1.4	**(663)**	(1,402)
Profit before tax		**170**	9
Tax		**-**	-
Profit for the year		**170**	9

York

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

ET – Estate Transfer
NB – New Build

UPP (Alcuin) Limited, University of York

Balance sheet		2018	2017
	Note	£000's	£000's
Fixed assets	1.5	**69,782**	67,031
Current assets		**4,237**	3,383
Current liabilities, excluding senior debt		**(1,223)**	(1,143)
Senior debt and other long term liabilities			
Fixed rate debt	1.4	**(37,442)**	(38,243)
Index linked debt	1.4	**(12,897)**	(12,438)
Subordinated debt	1.4	**-**	(10,991)
Derivative financial instruments		**2,717**	2,600
Deferred tax		**-**	(3,514)
Net assets / (liabilities)		**25,174**	6,685
Share capital		**440**	440
Revaluation reserve		**28,894**	22,860
Profit and loss account		**(6,877)**	(18,773)
Cash flow hedge reserve		**2,717**	2,158
Shareholders' funds		**25,174**	6,685

Notes

1.1 The increase in turnover to £6.4m (2017: £6.2m) is the result of rental indexation with occupancy at 100.0% across both years.

1.2 Cost of sales increased to £1.4m (2017: £1.3m).

1.3 Overheads decreased to £242k (2017: £264k).

1.4 Interest is paid on fixed rate debt, index-linked debt and subordinated debt balances. Subordinated debt was waived 1 March 2018.

1.5 The fixed assets are held at a value of £66.1m (2017: £63.3m). The remainder of the balance is made up of goodwill which is amortised over the life of the project.

UPP (Alcuin) Limited, University of York

Historic Senior Debt Service Cover Ratio (DSCR)

	2018
	£000's
EBITDA after sinking fund per P&L	**3,852**
Add:	
Sinking fund expenditure	**861**
Interest receivable	**24**
Deduct:	
Sinking fund deposit	**(555)**
Total movement	**330**
Total cash available for debt service	**4,182**
Debt service	
Interest	**2,267**
Fixed rate debt principal repayment	**866**
Total debt service	**3,133**
Annual Debt Service Cover Ratio (ADSCR) calculations	
ADSCR – default	**1.05**
ADSCR – lock up	**1.15**
ADSCR – actual	**1.33**
Headroom over default	**893**
Headroom over lock up	**579**

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

UPP (Alcuin) Limited, University of York

Key metrics

Area	Metric	2018	2017
Site operations	Occupancy	**100.0%**	100.0%
Finance	EBITDA*	**£4.7m**	£4.6m
	ADSCR	**1.40**	1.40
Health and safety	Accident frequency rate	**0.00**	0.00
Environment	Tonnes of CO^2 emissions	**1,194**	1,189
FM performance	Performance deductions	**None**	None
	Availability deductions	**None**	None

**EBITDA before sinking fund expenditure*

Sinking Fund

The sinking fund spend for the year was £861k (2017: £205k), with the movement between years relating to the replacement cycle of the assets. Annual spend is not directly comparable year on year.

Outlook for the new financial year

The Company has secured occupancy of 100.0% for 2018/19 which is above budgeted expectations. Rents for the academic year 2019/20 will be set during Q2 of 2018/19.

University outlook

The University of York is a world-class institution, ranked within the top 120 institutions in the world according to The Times Higher Education World University Rankings 2019. The most recent Research Excellence Framework (REF) recognised more than 80% of its submitted material to be of "world-leading" or "internationally excellent" quality and it was in the top 10 for the impact of its research. The University of York achieved a Gold Teaching Excellence Framework (TEF) in the first results published in June 2017. Within the UK, it was ranked 22 in The Sunday Times Good University Guide 2019.

It has seen strong enrolment growth, with the full-time student population having grown by almost 6,000 students in the years between 2006/07 and 2016/17 to 16,285 (53%) and has a student to bed ratio of 2.2:1. The University remains one of the most popular HE institutions in the UK and is a member of the Russell Group of institutions.

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

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

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

UPP (Broadgate Park) Holdings Limited, University of Nottingham

Profit and loss, year ended 31 August		2018	2017
	Note	£000's	£000's
Revenue	1.1	**11,973**	11,613
Cost of sales	1.2	**(3,477)**	(3,597)
Overheads	1.3	**(696)**	(610)
EBITDA before sinking fund		**7,800**	7,406
Sinking fund		**(672)**	(741)
EBITDA		**7,128**	6,665
Depreciation		**(893)**	(782)
Profit/(loss) before financing costs		**6,235**	5,883
Interest income		**119**	77
Bond note interest & uplift on Index-linked loan notes	1.4	**(4,853)**	(4,869)
Subordinated debt interest	1.4	**(1,854)**	(3,873)
Profit/(loss) before tax		**(353)**	(2,782)
Tax		**-**	-
Profit/(loss) for the year		**(353)**	(2,782)

Nottingham

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

ET – Estate Transfer
NB – New Build

UPP (Broadgate Park) Holdings Limited, University of Nottingham

Balance sheet		2018	2017
	Note	£000's	£000's
Fixed assets	1.5	**92,400**	93,118
Current assets		**6,467**	3,837
Current liabilities, excluding senior debt		**(2,236)**	(1,827)
Senior debt and other long term liabilities			
Fixed rate debt	1.4	**(69,494)**	(70,348)
Index linked debt	1.4	**(19,474)**	(18,793)
Subordinated debt	1.4	**-**	(39,845)
Derivative financial instruments		**5,689**	5,304
Deferred tax		**-**	(902)
Net assets/(liabilities)		**13,352**	(29,456)
Share capital		**22,881**	22,881
Revaluation reserve		**6,593**	6,481
Profit and loss account		**(21,812)**	(63,221)
Cash flow hedge reserve		**5,690**	4,403
Shareholders' funds/(deficit)		**13,352**	(29,456)

Notes

1.1 Turnover has increased to £12.0m (2017: £11.6m) due to rental increases and short-term lettings including those in the vacation period.

1.2 Cost of sales have dropped to £3.5m (2017: £3.6m).

1.3 Overheads increased to £696k (2017: £610k).

1.4 Interest is paid on fixed rate debt, index-linked debt and subordinated debt balances. Subordinated debt was waived 1 March 2018.

1.5 The fixed assets are held at a value of £92.4m (2017: £93.1m).

UPP (Broadgate Park) Holdings Limited, University of Nottingham

Historic Senior Debt Service Cover Ratio (DSCR)

	2018
	£000's
EBITDA after sinking fund per P&L	**7,127**
Add:	
Sinking fund expenditure	**672**
Interest receivable	**73**
Deduct:	
Sinking fund deposit	**(771)**
Total movement	**(26)**
Total cash available for debt service	**7,101**
Debt service	
Interest	**4,064**
Fixed rate debt principal repayment	**960**
Total debt service	**5,024**
Annual Debt Service Cover Ratio (ADSCR) calculations	
ADSCR – default	**1.05**
ADSCR – lock up	**1.15**
ADSCR – actual	**1.41**
Headroom over default	**1,826**
Headroom over lock up	**1,324**

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

UPP (Broadgate Park) Holdings Limited, University of Nottingham

Key metrics

Area	Metric	2018	2017
Site operations	Occupancy	**100.0%**	99.0%
Finance	EBITDA*	**£7.8m**	£7.4m
	ADSCR	**1.41**	1.36
Health and safety	Accident frequency rate	**0.00**	0.00
Environment	Tonnes of CO^2 emissions	**2,814**	3,087
FM performance	Performance deductions	**None**	None
	Availability deductions	**None**	None

**EBITDA before sinking fund expenditure*

Sinking fund

Sinking fund expenditure for the year was £672k (2017: £741k). The movement between years relates to the replacement cycle of the assets. Levels of annual spend are not directly comparable year on year.

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

Outlook for the new financial year

The Company has secured occupancy of 99.0% for 2018/19 which is above budgeted expectations, but UPP continues to work with the University to increase occupancy over the remainder of the academic year via short-term bookings. Rents for the academic year 2019/20 will be set during Q2 of 2018/19.

University outlook

The University of Nottingham continues to be one of the most popular destinations for students in the UK and has risen two places over the last year to be ranked 16 in the UK by The Sunday Times Good University Guide 2019. The Guide also shortlisted the University for its 'University of the Year' award for a second successive year and it was placed within the top 150 institutions in the world according to The Times Higher Education World University Rankings 2019. The most recent Research Excellence Framework (REF) saw more than 80% of its submitted material judged to be of "world-leading" or "internationally excellent" quality and, based on its Research Power score, the University was ranked seventh. The University's outstanding teaching secured Gold in the recent Teaching Excellence Framework (TEF).

The University is a member of the Russell Group of institutions, produces the most sought-after graduates in the UK according to employer surveys and was awarded University of the Year for Graduate Employment by The Sunday Times Good University Guide. In 2016/17, the University experienced a growth in student enrolments reaching 29,230 full-time students – a 2% increase from the previous year. For the academic year 2016/17, it attracted 47,485 UCAS applications and its main scheme application to acceptance ratio was 7.4:1. The University has strong residential demand illustrated by its student to bed ratio of 2.8:1. This is particularly true of the Broadgate Park residences, which are located at the West Gate of the University's main Park Campus and provide the only self-catered accommodation available to students.

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

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

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

UPP (Kent Student Accommodation) Limited, University of Kent

Profit and loss, year ended 31 August		2018	2017
	Note	£000's	£000's
Revenue	1.1	**3,914**	3,622
Cost of sales	1.2	**(1,071)**	(1,037)
Overheads	1.3	**(344)**	(350)
EBITDA before sinking fund		**2,499**	2,235
Sinking fund		**(150)**	(56)
EBITDA		**2,349**	2,179
Depreciation		**(123)**	(113)
Profit before financing costs		**2,226**	2,066
Interest income		**30**	24
Bond note interest & uplift on Index-linked loan notes	1.4	**(1,451)**	(1,462)
Subordinated debt interest	1.4	**(504)**	(961)
Fair value movement of swaps		**107**	(1,057)
Profit before tax		**408**	(1,390)
Tax		**270**	206
Profit for the year		**678**	(1,184)

Kent

544 ROOMS OCTOBER 2007 **NB**

NB – New Build

UPP (Kent Student Accommodation) Limited, University of Kent

Balance sheet		**2018**	2017
	Note	**£000's**	£000's
Fixed assets	1.5	**37,300**	34,287
Current assets		**1,987**	1,175
Current liabilities, excluding senior debt		**(333)**	(313)
Senior debt and other long term liabilities			
Fixed rate debt	1.4	**(20,842)**	(21,180)
Index linked debt	1.4	**(5,568)**	(5,367)
Subordinated debt	1.4	**-**	(10,919)
Derivative financial instruments		**1,695**	1,588
Deferred tax		**-**	(5,326)
Net assets/(liabilities)		**14,239**	(6,055)
Share capital		**1,381**	1,381
Revaluation reserve		**10,976**	2,810
Profit and loss account		**1,882**	(10,246)
Shareholders' funds/(deficit)		**14,239**	(6,055)

Notes

1.1 The increase in turnover to £3.9m (2017: £3.6m) is the result of rental indexation and maintaining 100.0% occupancy.

1.2 Cost of sales has increased to £1.1m (2017: £1.0m).

1.3 Overheads have decreased to £344k (2017: £350k).

1.4 Interest is paid on fixed rate debt, index-linked debt and subordinated debt balances. Subordinated debt was waived 1 March 2018.

1.5 Fixed assets are held at a value of £37.3m (2017: £34.3m).

UPP (Kent Student Accommodation) Limited, University of Kent

Historic Senior Debt Service Cover Ratio (DSCR)

	2018
	£000's
EBITDA after sinking fund per P&L	**2,349**
Add:	
Sinking fund expenditure	**150**
Interest receivable	**16**
Deduct:	
Sinking fund deposit	**(319)**
Total movement	**(153)**
Total cash available for debt service	**2,196**
Debt service	
Interest	**1,217**
Fixed rate debt principal repayment	**370**
Total debt service	**1,587**
Annual Debt Service Cover Ratio (ADSCR) calculations	
ADSCR – default	**1.05**
ADSCR – lock up	**1.15**
ADSCR – actual	**1.38**
Headroom over default	**529**
Headroom over lock up	**371**

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

UPP (Kent Student Accommodation) Limited, University of Kent

Key metrics

Area	Metric	2018	2017
Site operations	Occupancy	**100%**	100%
Finance	EBITDA*	**£2.5m**	£2.2m
	ADSCR	**1.38**	1.35
Health and safety	Accident frequency rate	**0.00**	0.00
Environment	Tonnes of CO^2 emissions	**642**	632
FM performance	Performance deductions	**None**	None
	Availability deductions	**None**	None

•EBITDA before sinking fund expenditure

Sinking Fund

The sinking fund expenditure for the year was £150k (2017: £56k). This movement between years relates to the variable replacement cycle of the assets. Annual spend is not directly comparable year on year.

Outlook for the new financial year

The Company has secured occupancy of 100.0% for 2018/19 which is above modelled expectations. Rents for the academic year 2019/20 will be set during Q2 of 2018/19.

University outlook

The University of Kent is ranked 55 in The Sunday Times Good University Guide 2019. This position is supported by a strong performance in the Research Excellence Framework (REF), excellent graduate employment prospects and a high completion rate. In the most recent REF, the University of Kent was ranked 17th for research output and research intensity, outperforming 11 of the 24 Russell Group universities. The University is also ranked in the top 10% of the world's universities for international outlook according to the Times Higher Education World University Rankings 2019.

The University is one of a select group of institutions in the UK that operates a college system – a feature that contributed to a Gold award in the new Teaching Excellence Framework (TEF). Its campus, built on 300 acres of park land overlooking the historic city of Canterbury, continues to attract a healthy and growing level of academic applications – reporting 18,065 full-time students in 2016/17, an increase of almost 48% since 2006/07. In 2016/17, it had a main scheme application to acceptance ratio of 6.4:1.

The Canterbury campus houses over 4,300 students in rooms, flats and houses and residential demand remains strong with a student to bed ratio of 2.4:1. The local housing market is characterised by a lack of private rented supply for students, a restrictive planning environment and only two direct-let operators of purpose-built student accommodation.

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

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

UPP (Nottingham) Limited, Nottingham Trent University

Profit and loss, year ended 31 August		2018	2017
	Note	£000's	£000's
Revenue	1.1	**14,233**	13,991
Cost of sales	1.2	**(5,231)**	(5,511)
Overheads	1.3	**(484)**	(504)
EBITDA before sinking fund		**8,518**	7,976
Sinking fund		**(1,570)**	(909)
EBITDA		**6,948**	7,067
Depreciation		**(835)**	(831)
Amortisation		**(9)**	(9)
Profit/(loss) before financing costs		**6,104**	6,227
Interest income		**72**	89
Bond note interest & uplift on Index-linked loan notes	1.4	**(5,233)**	(5,248)
Subordinated debt interest	1.4	**(1,918)**	(3,454)
Pension finance costs	1.4	**(50)**	(46)
Profit/(loss) before tax		**(1,025)**	(2,432)
Tax	1.5	**130**	(7)
Profit/(loss) for the year		**(895)**	(2,439)

Nottingham Trent

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

ET – Estate Transfer
NB – New Build

UPP (Nottingham) Limited, Nottingham Trent University

Balance sheet		2018	2017
	Note	£000's	£000's
Fixed assets	1.6	**96,156**	96,934
Current assets		**9,489**	(7,125)
Current liabilities, excluding senior debt		**(5,882)**	(5,241)
Senior debt and other long term liabilities			
Fixed rate debt	1.4	**(73,822)**	(74,801)
Index linked debt	1.4	**(21,926)**	(21,160)
Subordinated debt	1.4	**-**	(45,130)
Pension liability	1.5	**(1,495)**	(1,990)
Derivative financial instruments		**5,845**	5,825
Deferred tax		**(0)**	(933)
Net assets/(liabilities)		**8,365**	(39,371)
Share capital		**5,597**	5,597
Revaluation reserve		**6,942**	6,943
Profit and loss account		**(10,019)**	(56,465)
Cash flow hedge reserve		**5,845**	4,554
Shareholders' funds/(deficit)		**8,365**	(39,371)

Notes

1.1 The increase in turnover to £14.2m (2017: £14.0m) is the result of rental indexation and the Company maintaining 100.0% occupancy.

1.2 Cost of sales has decreased to £5.2m (2017: £5.5m).

1.3 Overheads have decreased to £484k (2017: £505k).

1.4 Interest is paid on fixed rate debt, index-linked debt and subordinated debt balances. Subordinated debt was waived 1 Match 2018.

1.6 The Company operates a defined benefit pension scheme for employees transferred from the University. The long-term liability represents the difference between the present value of the future liability and the fair value of the scheme assets, This is based on an actuarial valuation provided to the AssetCo.

1.7 The fixed assets are at a value of £95.9m (2017: £96.7m). The remainder of the balance is made up of goodwill which is amortised over the life of the project.

UPP (Nottingham) Limited, Nottingham Trent University

Historic Senior Debt Service Cover Ratio (DSCR)

	2018
	£000's
EBITDA after sinking fund per P&L	**6,948**
Add:	
Sinking fund expenditure	**1,570**
Interest receivable	**17**
Deduct:	
Sinking fund deposit	**(860)**
Pension costs	**(50)**
Total movement	**677**
Total cash available for debt service	**7,625**
Debt service	
Interest	**4,349**
Fixed rate debt principal repayment	**1,102**
Total debt service	**5,451**
Annual Debt Service Cover Ratio (ADSCR) calculations	
ADSCR – default	**1.05**
ADSCR – lock up	**1.15**
ADSCR – actual	**1.40**
Headroom over default	**1,901**
Headroom over lock up	**1,356**

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

UPP (Nottingham) Limited, Nottingham Trent University

Key metrics

Area	Metric	2018	2017
Site operations	Occupancy	**100.0%**	100.0%
Finance	EBITDA*	**£8.5m**	£8.0m
	ADSCR	**1.41**	1.29
Health and safety	Accident frequency rate	**3.70**	0.00
Environment	Tonnes of CO^2 emissions	**2,851**	2,851
FM performance	Performance deductions	**None**	None
	Availability deductions	**None**	None

**EBITDA before sinking fund expenditure*

Sinking fund

The sinking fund spend for the year was £1,570k (2017: £909k). The movement between years relates to the replacement cycle of the assets. Annual spend is not comparable year on year.

Outlook for the new financial year

The Company has secured occupancy of 100.0% for 2018/19 which is above modelled expectations. Rents for the academic year 2019/20 will be set during Q2 of 2018/19.

University outlook

Nottingham Trent University has seen an unprecedented rise in The Sunday Times Good University Guide 2019 from 57th place in 2017 to 37th this year. A second successive 10-place rise also saw it named as 'Modern University of the Year' for 2017/18 by the Guide. Nottingham Trent University featured in The Sunday Times top 40 for the first time and only two post-1992 universities are ahead of it in the latest table, both specialist institutions. This success followed Nottingham Trent University's Gold award in the Teaching Excellence Framework (TEF).

Despite a competitive private operator market in existence across the city, Nottingham Trent University boasts a student to bed ratio of 3.7:1, up from 3.5:1. For the academic year 2016/17, the University attracted around 37,075 applications and its main scheme application to acceptance ratio was 5.2:1. The University has also experienced 40% growth over the last decade, reaching 25,410 full-time students in 2016/17. It is best known for its leading fashion and other creative arts courses, however, the focus of the University is also on providing valuable employment skills. It is one of the few UK universities that offers every student a work placement opportunity.

The University has invested more than £450m in redeveloping its three campuses since 2003, including the Newton and Arkwright buildings, the Students' Union on the City Campus and the new Pavilion Building and residences at the Clifton Campus. Another £175m has been budgeted for new student facilities over the next five years.

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

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

UPP (Oxford Brookes) Limited, Oxford Brookes University

Profit and loss, year ended 31 August		2018	2017
	Note	£000's	£000's
Revenue	1.1	**4,538**	4,425
Cost of sales	1.2	**(944)**	(948)
Overheads	1.3	**(237)**	(222)
EBITDA before sinking fund		**3,357**	3,255
Sinking fund		**(175)**	(326)
EBITDA		**3,182**	2,929
Depreciation		**(375)**	(351)
Profit/(loss) before financing costs		**2,807**	2,578
Interest income		**37**	35
Bond note interest & uplift on Index-linked loan notes	1.4	**(2,044)**	(2,061)
Subordinated debt interest	1.4	**(608)**	(1,167)
Profit/(loss) before tax		**192**	(615)
Tax		**-**	-
Profit/(loss) for the year		**192**	(615)

Oxford Brookes

770 ROOMS SEPTEMBER 2002, NB

NB – New Build

UPP (Oxford Brookes) Limited, Oxford Brookes University

Balance sheet		2018	2017
	Note	£000's	£000's
Fixed assets	1.5	**43,200**	42,849
Current assets		**2,583**	1,776
Current liabilities, excluding senior debt		**(505)**	(584)
Senior debt and other long term liabilities			
Fixed rate debt	1.4	**(28,215)**	(28,815)
Index linked debt	1.4	**(8,710)**	(8,399)
Subordinated debt	1.4	**-**	(14,919)
Derivative financial instruments		**2,259**	2,129
Deferred tax		**-**	(1,362)
Net assets/(liabilities)		**10,612**	(7,325)
Share capital		**1,206**	1,206
Revaluation reserve		**13,258**	11,642
Profit and loss account		**(6,110)**	(21,940)
Cash flow hedge reserve		**2,258**	1,767
Shareholders' funds/(deficit)		**10,612**	(7,325)

Notes

1.1 The increase in turnover to £4.5m (2017: £4.4m) is the result of indexation and the pass through of increased FM costs to rents and maintaining a nomination of 100.0% of the rooms from the University.

1.2 Cost of sales decreased to £944k (2017: £948k).

1.3 Overheads have increased to £237k (2016: £222k)

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

1.5 The fixed assets are held at a value of £43.2m (2017: £42.8m).

UPP (Oxford Brookes) Limited, Oxford Brookes University

Historic Senior Debt Service Cover Ratio (DSCR)

	2018
	£000's
EBITDA after sinking fund per P&L	**3,182**
Add:	
Sinking fund expenditure	**175**
Interest receivable	**19**
Deduct:	
Sinking fund deposit	**(94)**
Total movement	**100**
Total cash available for debt service	**3,282**
Debt service	
Interest	**1,688**
Fixed rate debt principal repayment	**645**
Total debt service	**2,333**
Annual Debt Service Cover Ratio (ADSCR) calculations	
ADSCR – default	**1.05**
ADSCR – lock up	**1.15**
ADSCR – actual	**1.41**
Headroom over default	**832**
Headroom over lock up	**599**

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

UPP (Oxford Brookes) Limited, Oxford Brookes University

Key metrics

Area	Metric	2018	2017
Site operations	Occupancy	**100.0%**	100.0%
Finance	EBITDA*	**£3.4m**	£3.3m
	ADSCR	**1.41**	1.40
Health and safety	Accident frequency rate	**0.00**	0.00
Environment	Tonnes of CO^2 emissions	**890**	899
FM performance	Performance deductions	**None**	None
	Availability deductions	**None**	None

**EBITDA before sinking fund expenditure*

Sinking fund

Sinking fund expenditure for the year was £175k (2017: £326k). The movement between years relates to the replacement cycle of the assets. Annual spend is not directly comparable year on year.

Outlook for the new financial year

The Company has secured occupancy of 100.0% for 2018/19 which is in line with modelled expectations. Rents for 2019/20 will be set in October 2019 as part of the controlled rent.

University outlook

Oxford Brookes University remains one of the most popular new universities in the UK. It is the only UK university to be featured in the Quacquarelli Symonds World University Ranking of the top 50 universities in the world that are under 50 years' old. The Sunday Times Good University Guide ranked it 63rd overall for 2019. For the academic year 2016/17, the University attracted around 24,860 applicants and its main scheme application to acceptance ratio was 6.4:1.

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

Over recent years, the University has made significant investment in its physical infrastructure with the development of the award-winning £132m John Henry Brookes Building at the Headington campus which opened in February 2014. The University is also now two years into its 10-year £220m development programme with a £30m new home for the Business School opening on Headington campus for 2017/18 academic year along with a new bio-imaging unit. The development programme will also see large-scale refurbishments to many of its buildings as well as a further 800 new-build bedrooms at the Headington and Harcourt Hill campuses by September 2019.

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

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

UPP (Plymouth Three) Limited, University of Plymouth

Profit and loss, year ended 31 August		2018	2017
	Note	£000's	£000's
Revenue	1.1	**8,969**	8,808
Cost of sales	1.2	**(2,682)**	(2,535)
Overheads	1.3	**(338)**	(355)
EBITDA before sinking fund		**5,949**	5,918
Sinking fund		**(753)**	(846)
EBITDA		**5,196**	5,072
Depreciation		**(338)**	(314)
Amortisation		**(37)**	(37)
Profit/(loss) before financing costs		**4,821**	4,721
Interest income		**58**	61
Bond note interest & uplift on Index-linked loan notes	1.4	**(3,669)**	(3,692)
Subordinated debt	1.4	**(1,365)**	(2,513)
Fair value movement of swaps		**258**	(2,576)
Profit/(loss) before tax		**103**	(3,999)
Tax		**663**	503
Profit/(loss) for the year		**766**	(3,496)

Plymouth

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

ET – Estate Transfer
NB – New Build

UPP (Plymouth Three) Limited, University of Plymouth

Balance sheet		2018	2017
	Note	£000's	£000's
Fixed assets	1.5	**86,294**	88,516
Current assets		**4,993**	3,997
Current liabilities, excluding senior debt		**(786)**	(1,039)
Senior debt and other long term liabilities			
Fixed rate debt	1.4	**(51,705)**	(52,576)
Index linked debt	1.4	**(15,270)**	(14,733)
Subordinated debt	1.4	**-**	(32,320)
Derivative financial instruments		**4,157**	3,899
Deferred tax		**-**	(4,430)
Net assets/(liabilities)		**27,683**	(8,686)
Share capital		**2,033**	2,033
Revaluation reserve		**23,555**	21,736
Profit and loss account		**2,095**	(32,455)
Shareholders' funds		**27,683**	(8,686)

Notes

1.1 The increase in turnover to £9.0m (2017: £8.8m) is the result of rental indexation and maintaining 100.0% occupancy.

1.2 Cost of sales has increased to £2.7m (2017: £2.5m).

1.3 Overheads have decreased to £338k (2017: £355k).

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

1.5 The fixed assets are held at a value of £84.8m (2017: £86.9m). The remainder of the balance is made up of goodwill which is amortised over the life of the project.

UPP (Plymouth Three) Limited, University of Plymouth

Historic Senior Debt Service Cover Ratio (DSCR)

	2018
	£000's
EBITDA after sinking fund per P&L	**5,196**
Add:	
Sinking fund expenditure	**753**
Interest receivable	**32**
Deduct:	
Sinking fund deposit	**(532)**
Total movement	**253**
Total cash available for debt service	**5,449**
Debt service	
Interest	**3,050**
Fixed rate debt principal repayment	**952**
Total debt service	**4,002**
Annual Debt Service Cover Ratio (ADSCR) calculations	
ADSCR – default	**1.05**
ADSCR – lock up	**1.15**
ADSCR – actual	**1.36**
Headroom over default	**1,246**
Headroom over lock up	**845**

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

UPP (Plymouth Three) Limited, University of Plymouth

Key metrics

Area	Metric	2017	2016
Site operations	Occupancy	**100.0%**	100.0%
Finance	EBITDA*	**£5.9m**	£5.9m
	ADSCR	**1.36**	1.38
Health and safety	Accident frequency rate	**0.00**	0.00
Environment	Tonnes of CO^2 emissions	**2,336**	2,180
FM performance	Performance deductions	**None**	None
	Availability deductions	**None**	None

**EBITDA before sinking fund expenditure*

Sinking fund

The sinking fund expenditure for the year was £753k (2017: £846k). The movement between years relates to the replacement cycle of the assets. Levels of annual spend are comparable year on year.

Outlook for the new financial year

The Company has secured occupancy of 95.0% for 2018/19. Rents for the academic year 2019/20 will be set during Q2 of 2018/19.

University outlook

The University of Plymouth was ranked 72nd by The Sunday Times Good University Guide 2019, climbing 14 places from last year's ranking. The University has moved up 25 places on student satisfaction with teaching and into the top 30 on this measure. The University has both national and international appeal with a main scheme application to acceptance ratio of 4.4:1 for 2017/18. It has exceptionally strong residential demand characteristics with a student to bed ratio of 4.7:1.

It plays a central role in the economy of the south west and was the first university to be awarded Regional Growth Fund money to promote the expansion and development of small businesses. The University is the largest provider of nursing, midwifery and healthcare professional training across the region and is the only post-1992 institution with its own medical school, which was opened for the academic year 2013/14.

The University is opening the £17m Derriford research facility for the 2017/18 academic year which brings together medical, dental and biomedical research in one facility. It now has more than 300 students following an increase in core numbers and the addition of degrees in biomedical and healthcare sciences. The University is also opening a new school of nursing in Exeter, adding to its provision in Plymouth and Truro.

For Plymouth University's latest strategy (2020):

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

UPP (Exeter) Limited, University of Exeter

Profit and loss, year ended 31 August		2018	2017
	Note	£000's	£000's
Revenue	1.1	**14,308**	14,046
Cost of sales	1.2	**(4,142)**	(4,048)
Overheads	1.3	**(555)**	(475)
EBITDA before sinking fund		**9,611**	9,523
Sinking fund		**(1,120)**	(941)
EBITDA		**8,491**	8,582
Depreciation		**(598)**	(549)
Profit/(loss) before financing costs		**7,893**	8,033
Interest income		**91**	49
Bank debt interest	1.4	**(7,595)**	(6,238)
Subordinated debt	1.4	**(1,365)**	(2,949)
(loss) before tax		**(976)**	(1,105)
Tax		**-**	-
(loss) for the year		**(976)**	(1,105)

Exeter

2,569 ROOMS 2009-2012 ET, NB

ET – Estate Transfer
NB – New Build

UPP (Exeter) Limited, University of Exeter

Balance sheet		2018	2017
	Note	£000's	£000's
Fixed assets	1.5	**134,900**	134,351
Current assets		**8,660**	6,930
Current liabilities, excluding senior debt		**(1,131)**	(1,777)
Senior debt and other long term liabilities			
Index linked debt	1.4	**(138,775)**	(137,386)
Subordinated debt	1.4	**-**	(22,524)
Derivative financial instruments		**-**	-
Deferred tax		**-**	(6,610)
Net assets/(liabilities)		**3,654**	(27,016)
Share capital		**650**	650
Revaluation reserve		**23,982**	16,329
Profit and loss account		**(20,978)**	(44,995)
Shareholders' funds		**3,654**	(27,016)

Notes

1.1 The increase in turnover to £14.3m (2017: £14.0m) is the result of rental indexation and maintaining 100.0% occupancy.

1.2 Cost of sales has increased to £4.1m (2017: £4.0m).

1.3 Overheads have increased to £555k (2017: £475k).

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

1.5 The fixed assets are held at the value of £134.9m (2017: £134.4m).

UPP (Exeter) Limited, University of Exeter

Historic Senior Debt Service Cover Ratio (DSCR)

	2018
	£000's
EBITDA after sinking fund per P&L	**8,491**
Add:	
Sinking fund expenditure	**1,120**
Interest receivable	**41**
Deduct:	
Sinking fund deposit	**(1,167)**
Total movement	**(6)**
Total cash available for debt service	**8,485**
Debt service	
Interest	**1,521**
Fixed rate debt principal repayment	**4,684**
Total debt service	**6,205**
Annual Debt Service Cover Ratio (ADSCR) calculations	
ADSCR – default	**1.05**
ADSCR – lock up	**1.15**
ADSCR – actual	**1.37**
Headroom over default	**1,970**
Headroom over lock up	**1,349**

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

UPP (Exeter) Limited, University of Exeter

Key metrics

Area	Metric	2018	2017
Site operations	Occupancy	**100%**	100%
Finance	EBITDA*	**£9.6m**	£9.5m
	ADSCR	**1.37**	1.41
Health and safety	Accident frequency rate	**0.00**	1.23
Environment	Tonnes of CO^2 emissions	**1,871**	2,243
FM performance	Performance deductions	**None**	None
	Availability deductions	**None**	None

**EBITDA before sinking fund expenditure*

Sinking fund

The sinking fund expenditure for the year was £1.1m (2017: £941k). The movement between years relates to the replacement cycle of the assets. Levels of annual spend are comparable year on year.

Outlook for the new financial year

The Company has secured occupancy of 100.0% for 2018/19 which is above modelled expectations. Rents for the academic year 2019/20 will be set during Q2 of 2018/19.

University outlook

The University of Exeter is one of the most popular universities in the UK. It was ranked 12th in The Sunday Times Good University Guide 2019, rising two places in 2018, and is within the top 150 institutions in the world according to The Times Higher Education World University Rankings 2019. It is a member of the Russell Group of institutions, further reinforcing its world-class reputation. The University of Exeter was awarded Gold in the first Teaching Excellence Framework (TEF) and 98% of its research was rated as being of international quality in the most recent Research Excellence Framework (REF).

The University has seen very strong enrolment growth with a compound annual growth rate of 5.4% between 2006/07 and 2016/17, when it had 21,625 full-time students enrolled. For 2016/17, it had an application to acceptance ratio of 7.2:1 with applications having grown by 77% between 2008/09 and 2016/17. The University experiences a high residential demand and has a student to bed ratio of 3.1:1.

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

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

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

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UPP Bond 1 Holdings Limited

Appendix 2: Consolidated financial statements for the year ended 31 August 2018

UPP BOND 1 HOLDINGS LIMITED

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

Directors' report for the year ended 31 August 2018

The Directors present their consolidated financial statements for the year ended 31 August 2018.

Principal activity of the business

UPP Bond 1 Holdings Limited ("the Company") is the Parent Company of UPP Bond 1 Holdings Limited group ("the Group").

The Group's principal activity is of a holding Company for its subsidiary undertakings. The subsidiary undertakings' principal activity is the operation of student accommodation and the provision of related facilities management services for seven AssetCos; consisting of 11,693 rooms (2017: 11,693) achieving 100.0% occupancy (2017 – 99.9%) for the 2017/18 financial year.

Financial risk management objectives and policies

The Group's financial risk management objectives and policies are considered to be of strategic significance and are therefore detailed in the Strategic Report on pages 79 to 81.

Going concern

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

Dividend

The Directors do not propose the payment of a dividend (2017: £Nil).

Directors and their interests

The Directors holding office during the year ended 31 August 2018 and subsequently are:

R Bienfait
J Benkel
S O'Shea
Intertrust Directors Limited

At 31 August 2018 none of the Directors had any beneficial interests in the shares of the Company or in any of the Group Companies.

Directors' responsibilities statement

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

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

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

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

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

The Directors confirm that:

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

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

Independent auditor

Under section 487(2) of the Companies Act 2006, Grant Thornton UK LLP will be deemed to have been reappointed as auditors 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.

On behalf of the Board

R Bienfait
Director
7 December 2018

Strategic report for the year ended 31 August 2018

Results and review of the business

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

The principal activity of these subsidiary undertakings is the operation and management of 11,693 student accommodation rooms (2017: 11,693) owned by the Companies listed above.

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

During the 2017 year the Group successfully reached agreement with the contractor that built the accommodation at one of its subsidiary undertakings, UPP (Exeter) Limited, in relation to a latent defect identified in its newly built accommodation during the year ended 31 August 2015. A programme of remediation works to rectify the latent defect continued throughout the year and will continue over the next three financial years, with no financial impact on the performance of the subsidiary undertaking.

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.

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

The Group's loss for the year attributable to Shareholders and reported in the financial statements is £11,811,000 (2017: £17,524,000).

Key performance indicators

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

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

	2017/18	2016/17
Average Applications: Acceptance ratio	**5.35:1**	5.76:1

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

The Directors also monitor the occupancy levels of the student accommodation facilities across the seven Companies.

	2017/18	2016/17
Average occupancy across the facilities	**100%**	99.9%

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

Financial risk management objectives and policies

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

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

Interest rate risk

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

Inflation rate risk

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

Liquidity risk

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

Principal risk and uncertainties

Demand risk

The Group is subjected to risks arising from occupancy voids and no nominations by the university partners which can lead to uncertain revenues. This risk is managed by maintaining relationships with the university, improved marketing of accommodation and improved third-party revenues to compensate for any shortfalls in rental income.

Portfolio risk

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

On behalf of the Board

R Bienfait
Director
7 December 2018

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

Opinion

We have audited the financial statements of UPP Bond 1 Holdings Limited "the parent company" and its subsidiaries for the year ended 31 August 2018 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Company Statements of Changes in Equity the Group and Company Statements of Financial Position, the Group Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102; The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 August 2018 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006

Basis for opinion

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

Who we are reporting to

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

Conclusions relating to going concern

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

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

Other information

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Milton Keynes

7 December 2018

Group income statement for the year ended 31 August 2018

	Notes	**Year Ended 31 August 2018** **£'000**	Year Ended 31 August 2017 £'000
Turnover	5	**64,329**	62,697
Cost of sales		**(18,987)**	(18,961)
Gross profit		**45,342**	43,736
Operating expenses		**(15,584)**	(13,955)
Operating profit	7	**29,758**	29,781
Interest receivable & similar income	10	**222**	180
Interest payable & similar charges	11	**(44,305)**	(48,186)
Loss on ordinary activities before taxation		**(14,325)**	(18,225)
Tax credit /(charge) on loss on ordinary activities	12	**2,514**	701
Loss for the financial year		**(11,811)**	(17,524)

The above results all relate to continuing operations.

The notes on pages 93 to 122 form part of these financial statements.

Group statement of comprehensive income for the year ended 31 August 2018

		Year ended 31 August 2018	Restated Year ended 31 August 2017
		£'000	£'000
Loss for the financial year		**(11,811)**	(17,524)
Fair value movements on RPI swaps	19	**990**	(10,059)
Deferred tax on fair value of RPI swaps	20	**2,638**	1,965
Deferred tax on revaluation of principal asset	20	**19,504**	2,327
Gain/(loss) on revaluation of principal asset	14	**6,438**	-
Re-measurement gain/(loss) recognised on defined benefit pension scheme	24	**563**	266
Movement on deferred tax relating to pension liability	20	**(338)**	(48)
Total other comprehensive income		**29,795**	(5,549)
Total comprehensive income for the period		**17,984**	(23,073)

The notes on pages 93 to 122 form part of these financial statements.

Group statement of changes in equity for the year ended 31 August 2018

Group

Attributable to owners of the parent

	Share capital	Revaluation reserve	Cash flow hedge reserve	Other reserve	Profit & loss account	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 September 2016 (as previously stated)	55,570	14,483	9,652	(21,462)	(46,443)	11,800
Prior year adjustment	-	-	11,323	-	21,771	33,094
At 1 September 2016 (restated)	55,570	14,483	20,975	(21,462)	(24,672)	44,894
Loss for the financial period	-	-	-	-	(17,524)	(17,524)
Transfer from profit & loss account	-	(501)	-	-	501	-
Other comprehensive income	-	2,327	(8,094)	-	218	(5,549)
Balance at 31 August 2017	**55,570**	**16,309**	**12,881**	**(21,462)**	**(41,477)**	**21,821**
At 1 September 2017	55,570	16,309	12,881	(21,462)	(41,477)	21,821
Loss for the financial period	-	-	-	-	(11,811)	(11,811)
Transfer from profit & loss account	-	(541)	-	-	541	-
Other comprehensive income	-	25,942	3,628	-	225	29,795
Balance at 31 August 2016	**55,570**	**41,710**	**16,509**	**(21,462)**	**(52,522)**	**39,805**

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 £541,000.

The notes on pages 93 to 122 form part of these financial statements.

Company statement of changes in equity for the year ended 31 August 2018

Company

Attributable to owners of the parent

	Share capital	Profit and loss account	Total equity
	£'000	£'000	£'000
At 1 September 2016	55,570	8	55,578
Profit for the financial period	-	3	3
Balance at 31 August 2017	**55,570**	**11**	**55,581**
At 1 September 2017	55,570	11	55,581
Profit for the financial period	-	3	3
Balance at 31 August 2018	**55,570**	**14**	**55,584**

The notes on pages 93 to 122 form part of these financial statements.

Group statement of financial position as at 31 August 2018

	Notes	**31 August 2018 £'000**	31 August 2017 £'000
Fixed assets			
Intangible assets	13	**125,180**	129,122
Tangible assets	14	**554,614**	551,529
		679,794	680,651
Current assets			
Debtors: amounts falling due within one year	16	**2,178**	799
Debtors: amounts falling due after one year	17	**22,362**	21,007
Cash at bank and in hand		**35,923**	35,629
		60,463	57,435
Creditors: amounts falling due within one year	18	**(22,621)**	(20,892)
Net current assets		**37,842**	36,543
Total assets less current liabilities		**717,636**	717,194

Group statement of financial position as at 31 August 2018 (continued)

	Notes	31 August 2018 £'000	31 August 2017 £'000
Creditors: amounts falling due after more than one year	19	**(676,336)**	(670,646)
Provisions for liabilities	20	**-**	(22,737)
Net assets excluding pension liability		**41,300**	23,811
Defined benefit pension liability	24	**(1,495)**	(1,990)
Net assets		**39,805**	21,821
Share capital and reserves			
Called up share capital	21	**55,570**	55,570
Revaluation reserve		**41,710**	16,309
Cash flow hedge reserve		**16,509**	12,881
Other reserve		**(21,462)**	(21,462)
Profit and loss account		**(52,522)**	(41,477)
		39,805	21,821

The financial statements were approved by the board on 8 December 2018 and were signed on its behalf by:

R Bienfait
Director
7 December 2018
Registered No: 08253967

The notes on pages 93 to 122 form part of these financial statements.

Company statement of financial position as at 31 August 2018

	Notes	**31 August 2018 £'000**	31 August 2017 £'000
Fixed assets			
Investments	15	**55,570**	55,570
		55,570	55,570
Current assets			
Debtors: amounts falling due after one year	17	**182,718**	175,338
		182,718	175,338
Total assets less current liabilities		**238,288**	230,908
Creditors: amounts falling due after more than one year	19	**(182,704)**	(175,327)
Net assets		**55,584**	55,581
Share capital and reserves			
Called up share capital	21	**55,570**	55,570
Profit and loss account		**14**	11
		55,584	55,581

The financial statements were approved by the board on 8 December 2018 and were signed on its behalf by:

R Bienfait
Director
7 December 2018
Registered No: 08253967

The notes on pages 93 to 122 form part of these financial statements.

Group statement of cash flows for the year ended 31 August 2018

	Notes	**Year ended 31 August 2018** £'000	Year ended 31 August 2017 £'000
Net cash inflow from operating activities	23(a)	**35,869**	37,950
Investing activities			
Interest received	10	**222**	180
Interest paid	11	**(26,218)**	(37,326)
Net cash flow from investing activities		**(25,996)**	(37,146)
Financing activities			
Cash outflow from repayment of fixed rate debt		**(4,684)**	(3,689)
Cash outflow from repayment of index-linked debt		**(4,895)**	(4,422)
Net cash flow from financing activities		**(9,579)**	(8,111)
(Decrease)/increase in cash and cash equivalents		**294**	(7,307)
Cash and cash equivalents at 1 September 2017		**35,629**	42,936
Cash and cash equivalents at 31 August 2018	23(b)	**35,923**	35,629

The notes attached form part of these financial statements.

Notes to the consolidated financial statements for the year ended 31 August 2018

1. Company information

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

2. Basis of preparation

These annual financial statements have been prepared in accordance with The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS 102'), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis except for the modification to a fair value basis for all derivative instruments and revaluation of fixed assets as specified in the accounting policies below. The Group has chosen to adopt Section 11 and 12 of FRS 102 in respect of financial instruments as available under Section 11 of FRS 102.

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

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

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

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

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

Going concern

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

Basis of consolidation

The statutory consolidated financial statements consolidate the financial statements of UPP Bond 1 Holdings Limited and its subsidiaries prepared to 31 August each year using the acquisition method from the date control passes to the Group.

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

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

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

No statement of comprehensive income is presented for UPP Bond 1 Holdings Limited as permitted by section 408 of the Companies Act 2006. The profit dealt with in the Company for the financial year was £3,000 (2017: £3,000).

3. Judgements and key sources of estimation uncertainty

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

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

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

Revaluation of the principal assets (Note 14)

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

Valuation of RPI swaps (Note 19)

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

Derivatives are initially recognised at fair value at the date a derivative is entered into and are subsequently re-measured to their fair value at each reporting date. The fair value of the derivatives has been determined on a transfer value basis, which takes into consideration the price the hedging instrument could be replaced with by another one with the same remaining terms. To that end, a calibration of usual valuation models has been performed on the trade date for each derivative to determine an initial spread to be added onto market conditions applied at each year end. Those market interest rate and inflation curves for a replacement have been used, deriving future cash flows based on forward rates and discounting them to produce their reported value. The Group has used a third-party expert to assist with valuing such instruments.

Goodwill useful economic life

The Group establishes a reliable estimate of the useful economic life of goodwill arising on business combinations. Goodwill attributed to subsidiary undertakings is amortised on a straight-line basis over the remaining lease period on the principal asset held by each subsidiary. This period of amortisation represents the period over which each subsidiary undertaking acquired will continue to generate operating cash flows. For further details refer to note 13.

Impairment of non-financial assets

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

reduced to its recoverable amount through impairment in profit and loss unless the asset is carried at a revalued amount where the impairment loss of a revalued asset is a revaluation decrease.

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

Defined benefit pension scheme (Note 24)

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

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

Presentation of the principal asset (Note 14)

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

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

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

The Directors consider the balance of the risks and rewards lies with the Group due to the Group taking the key demand risk and therefore the assets are treated as tangible fixed assets.

Photo credit: Robert Greshoff

Classification of index-linked financial instruments (Note 19)

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

Hedge accounting for inflation swaps (Note 25)

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

4. Principal accounting policies

(a) Tangible fixed assets

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

Assets for use in operating leases *– annuity method over the term of the lease.*
IT equipment *– straight line over 5 years*

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

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

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

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

(b) Turnover

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

(c) Intangible assets

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

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

(d) Valuation of investments

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

(e) Debtors

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

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

(f) Cash and cash equivalents

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

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

(g) Interest bearing loans and borrowings

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

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

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

(h) Creditors

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

(i) Derivative instruments

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

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

(j) Hedge accounting

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

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

Changes in the fair values of derivatives designated as cash flow hedges, and which are effective, are recognised in other comprehensive income directly in cash flow hedge reserve. Any ineffectiveness in the hedging relationship

(being the excess of the cumulative change in fair value of the hedging instrument since inception of the hedge over the cumulative change in the fair value of the hedged item since inception of the hedge) is recognised in the profit and loss account.

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

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

(k) Finance costs

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

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

(l) Borrowing costs

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

(m) Taxation

(i) Current tax
Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that 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.

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

Deferred tax is calculated on a non-discounted basis using the tax rates and laws that 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, 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.

(n) Related party transactions

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

(o) Defined contribution pension scheme

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

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

(p) Defined benefit pension plan

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

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

The defined benefit obligation is calculated using the projected unit credit method. Annually the Company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high-quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate').

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

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

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

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

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

(q) Defined contribution pension scheme

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

(r) Interest income

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

5. Turnover

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

	2018	2017
	£'000	£'000
Provision of student accommodation	**64,329**	62,697

All turnover arose within the United Kingdom.

6. Directors' remuneration

The immediate subsidiary undertaking, UPP Bond 1 Limited, paid fees of £24,000 (2017: £11,000) to Intertrust Directors 1 Limited in respect of services performed in connection with the management of the affairs of the Group for the year ended 31 August 2018. An amount of £3,000 (2017: £3,000) related to the services provided to the Company during the year.

No other Directors of the Group received payment for services performed in relation to the management of the Group (2017: £nil).

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

7. Operating profit

The operating profit is stated after charging:

	Year ended 31 August 2018	Year ended 31 August 2017
	£'000	£'000
Depreciation	**3,353**	3,114
Amortisation of goodwill	**3,942**	3,942

8. Auditors' remuneration

	Year ended 31 August 2018	Year ended 31 August 2017
	£'000	£'000
Fees payable to the Group's auditor and its associates for the audit of the Company's annual financial statements	**4**	4
Fees payable to the Group's auditor and its associates for the audit of the subsidiaries' annual financial statements	**140**	135
Taxation compliance services	**-**	56
	140	191

9. Employees

Staff costs were as follows:

	Year ended 31 August 2018	Year ended 31 August 2017
	£'000	£'000
Wages and salaries	**5,438**	5,362
Social security costs	**409**	374
Pension costs	**310**	258
	6,157	5,994

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

	No.	No.
Site managers	**28**	11
Administration, maintenance and cleaning	**278**	311
	306	322

10. Interest receivable and similar income

	Year ended 31 August 2018	Year ended 31 August 2017
	£'000	£'000
Bank interest receivable	**222**	180

11. Interest payable and similar charges

	Year ended 31 August 2018	Year ended 31 August 2017
	£'000	£'000
Financial liabilities measured at amortised cost		
Fixed rate senior secured notes	**14,761**	14,955
Index-linked senior secured notes	**12,873**	11,418
Unsecured loan notes	**17,036**	18,180
	44,670	44,553
Financial liabilities measured at fair value		
Fair value movement on RPI swaps	**(365)**	3,633
	44,305	48,186

Included within index-linked senior secured notes is £8,705k (2017: £7,331k) that relates to the index-linked uplift on the outstanding loan.

12. Tax on loss on ordinary activities

	Year ended 31 August 2018	Year ended 31 August 2017
	£'000	£'000
a) Analysis of tax charge for the year		
Current tax on income for the year	**(1,581)**	-
Deferred tax:		
Current year	**933**	(711)
Rate difference	**-**	3
Current year – defined pension scheme relief	**-**	(16)
Rate difference – defined pension scheme relief	**-**	24
Total deferred tax	**(933)**	(701)
Total tax charge on losses on ordinary activities	**(2,514)**	(701)

(b) Factors affecting total tax charge for the year

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

	Year ended 31 August 2018	Year ended 31 August 2017
	£'000	£'000
Loss on ordinary activities before tax	**(14,325)**	(18,225)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.58% (2016: 20%)	**(2,722)**	(3,568)
Effects of:		
Disallowable expenses	**9,958**	4,477
Group relief claimed	**(130)**	(48)
Rate change	**-**	26
Non-taxable income	**(8,527)**	(2,761)
Movement in deferred tax not recognised	**421**	1,173
Exempt property rental (profits)/losses in the year	**(581)**	-
Deferred tax movement	**(933)**	-
Total tax charge for the year (note 12a)	**(2,514)**	(701)

(c) Deferred tax

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

Group	**Year ended 31 August 2018**	Year ended 31 August 2017
	£'000	£'000
	Group	Group
Included in provisions for liabilities	**-**	22,737
	-	22,737

Deferred tax	**Year ended 31 August 2018**	Year ended 31 August 2017
	£'000	£'000
	Group	Group
The deferred tax liability consists of:		
Accelerated capital allowances	**-**	6,784
Derivative financial instruments	**-**	3,571
Property revaluations	**-**	19,504
Losses to be relieved against future trading profits	**-**	(6,784)
Defined benefit pension scheme	**-**	(338)
Total deferred tax liability	**-**	22,737

Deferred tax liability	**Year ended 31 August 2018**	Year ended 31 August 2017
	£'000	£'000
	Group	Group
At 1 September	**22,737**	27,682
Charged to income statement	**(933)**	(701)
Movement in other comprehensive income	**(21,804)**	(4,244)
At 31 August	**-**	22,737

As a result of electing into REIT status, 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.

(d) Factors that may affect future tax charges

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

13. Intangible fixed assets

	Goodwill
	£'000
Cost	
At 1 September 2017 and at 31 August 2018	**145,035**
Amortisation	
At 1 September 2017	(15,913)
Charge for the period	(3,942)
At 31 August 2018	**(19,855)**
Net book value	
At 31 August 2018	**125,180**
At 31 August 2017	129,122

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

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

14. Tangible fixed assets

	Assets for use in operating leases	IT Equipment	Total Tangible fixed assets
	Group	Group	Group
	£'000	£'000	£'000
Cost or valuation			
At 1 September 2017	554,600	71	554,671
Revaluation	-	-	-
At 31 August 2018	**554,600**	**71**	**554,671**
Depreciation			
At 1 September 2017	(3,100)	(42)	(3,142)
Charge during the year	(3,338)	(15)	(3,353)
Revaluation	6,438	-	6,438
At 31 August 2018	**-**	**(57)**	**(57)**
Net book value			
At 31 August 2018	**554,600**	**14**	**554,614**
At 31 August 2017	551,500	29	551,529

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

At 31 August 2018	**535,159**
At 31 August 2017	538,561

Fixed assets include finance costs up to the date of completion of £16,771,000 (2017: £16,771,000)

Assets used in operating leases were independently valued by Jones Lang LaSalle ("JLL"), Chartered Surveyors, on an existing use basis at 31 August 2018. JLL have confirmed that the value as at that date was £554,600,000.

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

	2018	2017
Discount rates	**8.40% – 9.25%**	8.40% – 9.25%
Occupancy rates	**98% – 99%**	98% – 99%
Long term annual rental growth	**3%**	3%

15. Investments

	Interest in subsidiary undertakings
	£'000
Company	
At 1 September 2017 and 31 August 2018	**55,570**

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

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

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

16. Debtors: amounts falling due within one year

	31 August 2018	31 August 2018	31 August 2017	31 August 2017
	£'000	£'000	£'000	£'000
	Group	Company	Group	Company
Trade debtors	231	-	479	-
VAT receivable	-	-	42	-
Amounts owed to related parties	47	-	55	-
Prepayments and accrued income	1,900	-	223	-
	2,178	-	799	-

17. Debtors: amounts falling due after one year

	31 August 2018	31 August 2018	31 August 2017	31 August 2017
	£'000	£'000	£'000	£'000
	Group	Company	Group	Company
Amounts owed by subsidiary companies	-	182,718	-	175,338
Derivative financial instruments	22,362	-	21,007	-
	22,362	182,718	21,007	175,338

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

18. Creditors: amounts falling due within one year

	31 August 2018	31 August 2018	31 August 2017	31 August 2017
	£'000	£'000	£'000	£'000
	Group	Company	Group	Company
Senior secured notes	10,499	-	8,915	-
Trade creditors	378	-	675	-
Amounts owed to related parties	5,428	-	5,814	-
Accruals and deferred income	6,294	-	5,488	-
VAT payable	22	-	-	-
	22,621	-	20,892	-

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

	31 August 2018	31 August 2018	31 August 2017	31 August 2017
	£'000	£'000	£'000	£'000
	Group	Company	Group	Company
Fixed rate senior secured notes	281,515	-	285,962	-
Index-linked senior secured notes	222,616	-	218,272	-
Unsecured loan notes	182,704	182,704	175,327	175,327
	686,835	182,704	679,561	175,327
Less: included in creditors amounts falling due within one year	(10,499)	-	(8,915)	-
	676,336	182,704	670,646	175,327
Maturity of debt				
Repayable within one year or on demand	10,499	-	8,915	-
Repayable in more than one year but less than two years	11,675	-	10,359	-
Repayable in more than two years but less than five years	38,400	-	36,228	-
Repayable in more than five years	626,261	182,718	624,059	175,327
	686,835	182,718	679,561	175,327
Less: included in creditors amounts falling due within one year	(10,499)	-	(8,915)	-
	676,336	182,718	670,646	175,327

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 its 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 and loss account	Total
	£'000	£'000	£'000
Fair value of RPI swaps at 1 September 2017	15,520	5,487	21,007
Fair value movement in the year	988	365	1,353
Fair value of RPI swaps at 31 August 2018	**16,508**	**5,852**	**22,360**
Deferred tax asset on fair value of RPI swaps at 1 September 2017	(2,640)	(941)	(3,581)
Movement in the year	2,640	941	3,581
Deferred tax asset on fair value of RPI swaps at 31 August 2018	**-**	**-**	**-**
Fair value at 31 August 2018, net of deferred tax	**16,508**	**5,852**	**22,362**
Fair value at 1 September 2017, net of deferred tax	12,880	4,546	17,426

20. Provisions for liabilities

Deferred tax	31 August 2018	31 August 2017
	£'000	£'000
	Group	Group
The deferred tax liability consists of:		
Accelerated capital allowances	-	6,784
Fair value of RPI swap	-	3,571
Property revaluations	-	19,504
Losses to be relieved against future trading profits	-	(6,784)
Defined benefit pension scheme	-	(338)
Total deferred tax liability	-	22,737

As a result of electing into REIT status, 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.

21. Called-up share capital

	31 August 2018	31 August 2017
	£'000	£'000
Issued, allotted, called up and fully paid		
55,570,409 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 50,000 ordinary shares of £1 each at par for cash consideration.

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

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

22. Reserves

Revaluation reserve

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

Cash flow hedge reserve

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

Other reserve

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

Profit and loss account

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

23. Notes to the statement of cash flows

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

	Year ended 31 August 2018	Year ended 31 August 2017
	£'000	£'000
Operating profit	**29,758**	29,781
Depreciation	**3,353**	3,114
Goodwill amortisation	**3,942**	3,942
Pension costs	**50**	46
(Increase)/decrease in debtors due within one year	**(1,379)**	(241)
Increase in creditors due within one year	**145**	1,308
Net cash inflow from operating activities	**35,869**	37,950

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

	At 31 August 2018	At 31 August 2017
	£'000	£'000
Cash at bank and in hand	**19,181**	20,054
Short term deposits	**16,742**	15,575
Cash and cash equivalents	**35,923**	35,629

24. Pension commitments

Defined contribution scheme

The Group operates a defined contribution retirement benefit scheme for all qualifying employees. The total cost charged to income statement of £24,000 (2017: £24,000) represents a pre determined amount of the employee's salary paid into the scheme. As at 31 August 2018 £Nil (2017: £Nil) contributions remained outstanding.

Defined benefit scheme

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

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

The material assumptions used by the Actuary at 31 August 2018 were:

	2018	2017
Rate of inflation	**3.2%**	3.6%
Rate of increase in salaries	**3.8%**	4.2%
Rate of increase in pensions	**2.3%**	2.7%
Discount rate for liabilities	**2.6%**	2.5%

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

	31 August 2018	31 August 2017
	Years	Years
Retiring today		
Males	**22.7**	22.6
Females	**25.6**	25.5
Retiring in 20 years		
Males	**24.9**	24.8
Females	**28.0**	27.9

Amounts recognised in the income statement are as follows:

	31 August 2018	31 August 2017
	£'000	£'000
Service cost	**88**	100
Net interest on the defined liability	**49**	45
Administrative expenses	**1**	1
	138	146

Amount taken to other comprehensive income is as follows:

	31 August 2018	31 August 2017
	£'000	£'000
Return of scheme assets in excess of interest	**125**	336
Other actuarial gains/(losses) on assets	**-**	14
Change in demographic assumptions	**-**	(21)
Experience gain/(loss) on defined benefit obligation	**-**	(77)
Change in financial assumptions	**438**	14
Re-measurement of the net assets/(defined liability)	**563**	266

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

	31 August 2018	31 August 2017
	£'000	£'000
Present value of the defined benefit obligation	**(4,824)**	(5,188)
Fair value of scheme assets	**3,329**	3,198
Net defined benefit liability	**(1,495)**	(1,990)

Defined benefit obligation reconciliation is as follows:

	31 August 2018	31 August 2017
	£'000	£'000
At 1 September	**5,188**	4,970
Current service cost	**88**	100
Interest cost	**128**	104
Change in financial assumptions	**(438)**	(14)
Estimated benefits paid net of transfers in	**(154)**	(85)
Change in demographic assumptions	**-**	21
Experience loss / (gain) on defined benefit obligation	**-**	77
Contributions by scheme participants	**12**	15
At 31 August	**4,824**	5,188

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

	31 August 2018	31 August 2017
	£'000	£'000
At 1 September	**3,198**	2,798
Interest on assets	**79**	59
Actuarial gains/losses	**-**	14
Return on assets less interest	**125**	336
Employer contributions	**70**	61
Employee contributions	**12**	16
Administration expenses	**(1)**	(1)
Benefits paid	**(154)**	(85)
At 31 August	**3,329**	3,198

The actual return on scheme assets was £204,000 (2017: £395,000).

The Company expects to contribute £70,000 to its defined benefit pension scheme in 2019.

The estimated asset allocation of the scheme as at 31 August 2018 is as follows:

	31 August 2018		31 August 2017	
	%	**£'000**	%	£'000
Equities	**64**	**2,143**	66	2,115
Government bonds	**3**	**93**	3	102
Other bonds	**10**	**349**	12	385
Property	**14**	**460**	12	373
Cash	**2**	**61**	2	67
Other	**7**	**223**	4	156
Total fair value of scheme assets (bid value)	**100**	**3,329**	100	3,198
Present value of scheme liabilities		**(4,824)**		(5,188)
Net deficit		**1,495**		1,990

25. Financial risk management

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

Interest rate risk

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

Inflation rate risk

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

To mitigate the impact of inflation movements on future rental income and the Group's ability to service the fixed rate tranche of the bond debt UPP Bond 1 Issuer Plc, a fellow Group undertaking, has entered into RPI swaps with external counterparties all initially entered into on 5 March 2013, details of which are as follows:

External hedge arrangements

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

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

These instruments are mirrored with matching derivative instruments on–lent to six AssetCos. This is to manage the exposure of the Group to RPI movements from loan receipts from AssetCos where revenue streams are sensitive to inflation rate risk.

Hedge arrangements with AssetCos

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

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

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

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

Liquidity risk

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

Terms and debt repayment schedule:

	Currency	Effective interest rate (%)	Year of maturity	**Book value**
				2018 £'000
Fixed rate senior secured notes	£	4.9023%	2040	**281,515**
Index-linked senior secured notes (issued 2013)	£	2.9105%	2047	**82,803**
Index-linked senior secured notes (issued 2014)	£	1.0520%	2049	**139,813**
Unsecured loan notes (issued 2013)	£	9.3700%	2056	**159,313**
Unsecured loan notes (issued 2014)	£	11.3800%	2051	**23,390**
				686,834

Demand risk

The Group is subjected to risks arising from occupancy voids and lack of nominations by the university partners, which can lead to uncertain revenues. This risk is managed by cementing relationships with the university, improved marketing of accommodation and improved third-party revenues to compensate for any shortfalls in rental income.

Portfolio risk

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

26. Financial instruments

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

	Carrying amount At 31 August 2018	Carrying amount At 31 August 2017
	£'000	£'000
Financial asset		
Financial assets measured at amortised cost:		
Trade debtors	**231**	479
Other related party loans	**47**	55
Total financial liabilities measured at amortised cost	**278**	534
Financial assets measured at fair value		
Derivative financial assets	**22,362**	21,007
Financial liabilities		
Financial liabilities measured at amortised cost:		
Fixed rate senior secured noted	**281,515**	285,962
Index-linked senior secured notes	**222,616**	218,273
Unsecured loan notes	**182,703**	175,326
Trade creditors	**378**	675
Other related party loans	**5,428**	5,814
Total financial liabilities measured at amortised cost	**692,640**	686,050

27. Parent undertaking and controlling party

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

The Parent undertaking of the largest group of which the Company is a member and of which Group accounts are prepared is UPP REIT Holdings Limited.

UPP REIT Holdings Limited is controlled by a 60% stake held by PGGM Vermogensbeherr ("PGGM"), incorporated in The Netherlands.

The ultimate controlling party is PGGM by virtue of their majority shareholdings.

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

The Parent undertaking of the smallest group of which the Company is a member and for which Group accounts are prepared is UPP Group Holdings Limited.

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

www.upp-ltd.com