UPP REIT Holdings Limited consolidated financial statements

For the financial year ended 31 August 2019

FINANCIAL STATEMENTS

CORPORATE INFORMATION

Directors	Richard Bienfait
	Irina Frolova
	Henry Gervaise-Jones
	Henk Huizing
	Robert McClatchey
	Andrew Wilkie
	Jingshen Hu
–	–
Secretary	Sanne Secretaries Limited
–	–
Auditor	Grant Thornton UK LLP
	30 Finsbury Square
	London
	EC2P 2YU
–	–
Registered office	IFC 5
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Strategic report

The Directors present their report and financial statements for the year ended 31 August 2019.

Principal activity and business review

UPP REIT Holdings Limited ('the Company') (ISIN – JE00BF5PSP50) is a close-ended UK REIT and the Parent of the UPP REIT Holdings Group ('the Group'). The Company was incorporated on 18 April 2017 and admitted to the Official List of The International Stock Exchange (TISE) on 28 February 2018. As a result of the Group restructuring in February 2018, the Company became a parent company of UPP Group Holdings Limited, trading as University Partnerships Programme ('UPP').

The Company's principal activities are those of an investment holding company and the provision of treasury management facilities. The principal activity of its subsidiary undertakings is the development, funding, construction and operation, including facilities management, of residential student and academic accommodation under the University Partnerships Programme.

Operational performance

For the year ended 31 August 2019, the Group maintained an interest in 32,716 operational rooms for a weighted average lease period of 50 years. In addition, a subsidiary undertaking, UPP Residential Services Limited (URSL), provides services for 1,172 operational rooms in discrete contracts in which the Group does not hold any interest in the lease. During the academic year 2019/20, the Group will have a total of 1,587 study bedrooms under construction.

The operational performance of the Group remained extremely strong - achieving 100.0% occupancy for the year ended 31 August 2018 and 99.1% occupancy on available rooms at the start of the year ended 31 August 2019.

The financial year ended 31 August 2019 has seen the Group continue to pursue its well-established strategy of controlled and selective growth with leading universities, generating long-term, predictable, RPI-linked revenues.

The Group has continued to grow the number of beds under management with both new and existing partners, reaching financial close on a further scheme with the University of Exeter and practical completion of construction activities relating to schemes with the University of Hull and the University of London. During the year, the Group continued to progress latent defect work identified in 2016 in newly built accommodation at one of the Company's subsidiary undertakings, UPP (Exeter) Limited. The programme of remediation continues, with no financial impact on the performance of the subsidiary undertaking.

In January 2019, the Group successfully reached financial close on the 1,182-bed East Park project as part of its ongoing partnership with the University of Exeter. UPP procured a total of £139.7 million senior debt, subordinated debt and equity. Pension Insurance Corporation plc ('PIC') provided £125.1 million of index-linked debt financing with a tenor of circa 48 years, with £14.6 million of subordinated debt and equity provided by UPP Group and its Shareholders.

In addition to the £41.4 million redevelopment of Moberly and Spreytonway residences, consisting of 251 and 131 beds respectively – already under construction and due for occupation by September 2020 – construction is now well underway on the East Park scheme. UPP has appointed Vinci Construction UK Limited to deliver the development, which is set to become operational over two phases in September 2020 and September 2021. When complete, the Group will be operating 4,156 rooms on campus.

During August 2019, the final phase of the £155 million Westfield Court development at the University of Hull was completed for the start of the 2019/20 academic year. Construction began in May 2017, with the first phase delivering 478 high-quality bedrooms on the University campus. Phase Two – a further 124 bedrooms – became operational as planned for January 2019.

In total the nine-block development features 1,462 brand new single rooms and one-bedroom apartments. Alongside this development, an urban green and avenue offers a range of facilities including laundry rooms and formal and informal outdoor areas. UPP also assumed the operation of the existing 288 rooms at the University's Taylor Court residences.

In partnership with the University of London, in August 2019 the Group also delivered a further 511 rooms at Eleanor Rosa House in Stratford, East London. The scheme provides a mixed-use, 33-storey landmark building delivering over 18,000 square metres of new student accommodation. UPP is operating all study bedrooms and associated communal space.

Eleanor Rosa House is the Group's second transaction with the University of London, reinforcing UPP's bespoke, long-term partnership with the University which is enhancing and increasing the accommodation available to students at the University and its affiliated institutions.

From 1 January 2019, Henry Gervaise-Jones was appointed to the Board of UPP Bond 1 Holdings Limited and assumed the role of Chief Financial Officer for its parent company UPP REIT Holdings Limited. From the same date, Richard Bienfait the former Chief Financial Officer was appointed Chief Executive Officer.

Shortly following the financial year end, on 3 September 2019 Richard Bienfait announced that he will be stepping down from this role at the end of January 2020. In January 2020, a new Chief Executive Officer was announced - Elaine Hewitt. Elaine joins UPP from NHS Property Services Ltd. Elaine will join the Business on 1 April 2020. During the interim period between the departure of Richard and Elaine assuming the role of Chief Executive Officer, Robert McClatchey, current Chairman, will lead the business alongside the Executive Leadership Team.

General Overview

The UK higher education (HE) sector remains a global destination for students, with demand for UK institutions having grown exponentially and both European Union (EU) and international applicant numbers remaining strong. According to the most recent data from the Higher Education Statistic Agency (HESA), full-time student enrolments to UK institutions grew by 2.6% year on year for 2017/18 to more than 1.8 million. There are now more than 630,000 more full-time students at UK universities each year than was the case in 2000/01. Enrolments have continued to increase despite a fall in the number of 18-year-olds in England. This demographic dip has now reached its lowest point and the population of this cohort is expected to increase by 23.0% over the coming decade. Given that the supply of Purpose-Built Student Accommodation (PBSA) has increased by less than 327,000 units over the same period, demand for accommodation remains robust.

In terms of the outlook for demand for the academic year 2019/20, main scheme data from the Universities and Colleges Admissions Service (UCAS) also identifies continued levels of demand from new applicants to UK institutions. The 30 June 2019 deadline data set (shown in Figure 1.1) identifies a 0.2% increase in overall applications to 638,030. Applicants from the UK fell by just 1.1% to a total of 506,040. Student applicants from the EU (excluding the UK) increased by 1.1% to 50,650. The data also underlines the continuing popularity of UK HE with international (non-EU) applicant numbers increasing by 7.9% to 81,340 – an increase of more than 5,000 applicants.

Particularly encouraging were applicant numbers from the 18-year-old population, which increased by just over 1.0%. In England, the 18-year-old application rate increased to a record 39.5% from 38.1% at the same point in 2018. This increase comes against a backdrop of an almost 1.9% fall in the UK's 18-year-old population. There are now well over 275,000 18-year-old applicants to UK universities each year.

In terms of the longer-term trends, the most recent UCAS End of Cycle Report (2018), which provides a national overview of demand for, and acceptances to, undergraduate UK HE, identifies that whilst applicant numbers have declined since the 2016 cycle, the number of acceptances issued by universities has seen a small increase. The effect of this has been to increase the overall acceptance rate across the sector by 0.4 percentage points to reach 76.7% - the highest seen since 2008. This suggests that universities are choosing to expand the range of their usual entry requirements to accept applicants with different grade profiles or qualifications. There were 533,360 acceptances issued during the most recent full application cycle. UCAS notes that the data identifies that the appetite for UK HE remains strong and continues to grow year on year.

The impending exit of the UK from the EU continues to cast uncertainty across numerous sectors of the economy. At the time of writing, Brexit is due to occur at the end of January 2020.

Figure 1.1 – Applicants for all courses by domicile group (30 June 2019 deadline)

App. Domicile	2015/16	2016/17	2017/18	2018/19	2019/20
England	460,740	459,430	437,860	421,610	418,940
Northern Ireland	20,800	21,100	20,290	19,310	18,520
Scotland	48,490	49,470	48,940	48,710	47,110
Wales	23,550	23,740	22,530	21,830	21,470
UK	553,580	553,740	529,620	511,460	506,040
EU (excluding UK)	48,930	51,850	49,250	50,130	50,650
Non-EU	70,530	69,300	70,830	75,380	81,340
Total	**673,040**	**674,890**	**649,700**	**636,970**	**638,030**

Source: UCAS

Whilst there have been some concerns in relation to how these changes might impact EU and international student enrolment post-Brexit, scenario demand modelling by the Higher Education Policy Institute and London Economics suggests any fall in EU numbers will be largely offset by an increase in the population of international students - an estimated net fall in the full-time student population of less than 1.0%.

Despite some uncertainty, UCAS published data at the 30 June 2019 deadline indicating that, following UK's vote to leave the EU, the number of applicants from the EU increased by 1.0% - having increased by 2.0% during the 2018 cycle. The number of non-EU applicants reported a remarkable increase of 8.0%, the highest number of applicants for this group, again following a 6.0% increase in 2018.

On this basis, the Board remains confident in the robust nature of domestic and international demand for UK HE, the Company pipeline and the capacity of the Company to secure and deliver transactions coming to market based on its unique selective approach to partnerships. The Board remains cognisant of the attendant risks relating to this approach and will continue to actively manage these where they arise.

Financial risk management objectives and policies

The Group uses various financial instruments including loans, cash, interest risk and inflation swaps 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. These policies have remained unchanged from the previous year.

Interest rate risk

The Group finances its operations through a mixture of retained profits, intra-group borrowings and parent company loans. Interest on the intra-group borrowings and parent company loans is at fixed commercial rates.

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.

Market specific risks

The Group remains exposed to industry-specific risks such as demand fluctuation driven by changes in funding arrangements of UK HE, changes to tuition fees and maintenance grants and Government policy aimed at generating greater competition between institutions for students with high grades.

The Group operates a structured risk management process which identifies, evaluates and prioritises risks and uncertainties. During the year, the Group introduced a number of further initiatives to further improve the management of these risks. In the case of exposure to the loss of risk capital in bidding and long-term demand risk, the Group has established an Investment Committee under whose terms of reference proposed investments are scrutinised and challenged on the basis of cost and other commercial conditions ahead of any decision taken to proceed.

Employees

The Group is an equal opportunities employer with particular reference to non-discrimination and non-harassment on the basis of ethnic origin, religion, gender, age, disability and sexual orientation. The Group gives disabled persons the same consideration as other individuals. Matters which affect the Group are communicated to employees through formal and informal meetings, internal announcements and regular contact with Directors and senior management. On 12 November 2012, the UPP Group secured Investors in People accreditation. The Group also successfully implemented the Living Wage across the portfolio.

Key financial performance indicators

The key financial performance indicators during the year were as follows:

	2018/19	2017/18
	£'000	£'000
Turnover	258,068	247,096
EBITDA (Earnings before interest, tax, amortisation and depreciation)	88,126	80,719
Loss after tax	(18,487)	(59,862)

Key drivers behind the movements in key financial performance indicators above are:

- Like-for-like turnover increased by 6% during the year primarily due to the increase in student accommodation rental income (by £13,690k)
- The increase in EBITDA during the year was caused mainly by higher rental income
- Loss after tax was lower mainly due to lower interest costs as a result of debt waived in the year ended 31 August 2018 and due to factors mentioned above

Other key performance indicators:

- The Company's principal activity is that of a holding company of its subsidiary undertakings
- The Group monitors the relevant indicators of its subsidiary undertakings on an annual basis for any significant change

The appropriate key performance indicators of each of the core income streams of its subsidiary undertakings are:

Subsidiary undertakings that provide student accommodation

The following is considered by the Directors to be an indicator of average performance of the subsidiary undertakings that provide student accommodation and that is not necessarily evident from the financial statements.

	2018/19	2017/18
Average occupancy: Acceptance ratio	6.00:1	6.20:1

The indicator above is directly related to the performance of the relevant university partners of these subsidiary undertakings, among other factors, and any changes in these statistics may potentially affect the performance of that subsidiary undertaking.

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

	2018/19	2017/18
Average occupancy across all facilities	99.1%	100.0%

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

Subsidiary undertaking that provides facilities management services

The Directors would like to report that during the current year the numbers of rooms to which they provide services is 33,002.

On behalf of the Board

Henry Gervaise-Jones
Director
31 January 2020

Directors' report

The Directors present their report for the year ended 31 August 2019

Principal activity

The Group's principal activity is the development, funding, construction and operation (including facilities management) of student accommodation under the University Partnerships Programme ('UPP').

Corporate information

The principal legislation under which the Company operates is the Companies (Jersey) Law 1991. The Company is tax resident in the United Kingdom and therefore operates under UK tax laws.

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.

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 4 to 9.

Dividend

The Directors do not propose the payment of a dividend. An £8,000k dividend was paid on 30 November 2018.

Directors and their interests

The Directors holding office during the year ended 31 August 2019 and subsequently are:

Richard A. Bienfait	resigned on 31 January 2020
Michael A. Bryan	resigned on 30 July 2019
Irina Frolova	–
Henry Gervaise-Jones	appointed on 1 January 2019
Hendrik L. Huizing	–
Robert S. McClatchey	–
Sean O'Shea	resigned on 31 December 2018
Andrew Wilkie	–
Jingshen Hu	appointed on 20 July 2019

At 31 August 2019, two of the previous Directors held a beneficial interest in the 'B' ordinary shares of the wholly-owned subsidiary company, UPP Group Limited. Additionally, a further two Company Directors and seven other Directors held a beneficial interest in the 'C' ordinary shares of the wholly-owned subsidiary company, UPP Group Holdings Limited. These shares hold no dividend or voting rights.

At 31 August 2019, other than the interest noted above, none of the Directors had any beneficial interests in the shares of the Company or in any of the subsidiary companies.

Statement of Directors' responsibilities

The Directors are responsible for preparing the consolidated financial statements. The Directors are required by the Companies (Jersey) Law 1991 to prepare consolidated financial statements which give a true and fair view of the state of affairs of the Company and Group and the profit and loss of the Group for that period. The Directors have elected to prepare the Group's financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as endorsed by the EU and in accordance with the Companies (Jersey) Law 1991.

The Directors, in preparing these consolidated financial statements, are also required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed subject to any material departures disclosed or explained in the consolidated financial statements; and
- Prepare the consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping accounting records which are sufficient to show and explain the Group and Company's transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements are properly prepared and in accordance with the Companies (Jersey) Law 1991. 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 in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The Directors confirm that they have complied with the above requirements in preparing the consolidated financial statements.

Signed in accordance with a resolution of the Directors;
By order of the Board

Henry Gervaise-Jones
Director
31 January 2020

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

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of UPP REIT Holdings Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 August 2019 which comprise the Consolidated Statement of Profit or Loss, the Consolidated Statement of Other Comprehensive Income, the Consolidated and Company's Statements of Changes in Equity, Consolidated and Company's Statements of Financial Position, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies (Jersey) Law 1991.

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 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies (Jersey) Law 1991;
- the financial statements have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991

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 as applied to listed entities, 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.

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

Overview of our audit approach

- Overall materiality: £39 million, which represents approximately 2% of the Group's total assets;
- Key audit matters were identified as:
  - Valuation of principal assets arising from service concession arrangements (SCAs);
  - Derivative contracts and hedge accounting; and
  - Presentation of new assets arising from service concession arrangements (SCAs)
- Full scope audit procedures have been performed on UPP REIT Holdings Limited and all active subsidiaries, this now includes the audit of UPP Bond 1 Issuer plc which was previously audited by a component auditor
- We no longer deem that Compliance with REIT requirements and IFRS transition to be Key audit matters

Key audit matters

The following graph depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit; and
- directing the efforts of the engagement team

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Group	How the matter was addressed in the audit – Group	Key Observations
Risk 1 – Valuation of principal assets arising from service concession arrangements (SCAs) The value of the principal assets arising from SCAs of the group subject to valuation at the year-end was £1,689m (2018: £1,596m). This is split between Service concession arrangements – intangible assets (£1,586m) and Service concession arrangements – financial assets (£103m). Given the level of judgement and complexity involved in the valuation, management's expert is used periodically to assist in the valuation of the assets. A full valuation was completed by management's expert in the prior year; during the current year management have completed an assessment of property valuation to identify indicators of impairment. The level of judgement and complexity involved in the valuation of principal assets means that we have deemed it to be one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Assessing the competence, capabilities and objectivity of management's expert; • Obtaining valuations of principal assets and challenging assumptions used by the third-party valuers in the prior year, including the performance of sensitivity analysis of the key assumptions being the discount rates, occupancy rates and retail price index (RPI); and • Comparison of assumptions which have been updated by management during the year through use of a review by our internal expert. The group's accounting policy on valuation of principal assets is shown in note 2.9 to the financial statements and related disclosures are included in notes 16 and 21.	Our testing did not identify any material misstatements in relation to the valuation of principal assets arising from service concession arrangements (SCAs).

Key Audit Matter – Group	How the matter was addressed in the audit – Group	Key Observations
Risk 2 – Derivative contracts and hedge accounting Both the valuation and application of derivative contracts and hedge accounting are highly complex. The Group have interest rate and retail price index (RPI) swaps which are measured at fair value at each reporting date and which therefore can create significant volatility in the consolidated statement of comprehensive income due to fair value movements between reporting dates. The risk is increased in the current year due to developments regarding IBOR Reform, in particular its impact on the judgements regarding hedge continuation. We therefore identified derivative contracts and hedge accounting as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Use of our internal expert to confirm the accuracy of the calculations and input data used for the valuation of the hedge calculation provided by management's expert; and • Calculating the amounts used within the assumptions and comparing these to the assumptions used by management's expert, such as interest rates, inflation rates and credit spreads, for valuing and accounting for hedges to ensure they are in accordance with the requirements of International Financial Reporting Standard (IFRS) 13 'Fair Value measurement' and IFRS 9 'Financial instruments' • In relation to IBOR Reform, we challenged management regarding their judgements and conclusion reached The group's accounting policy on derivative contracts and hedge accounting is shown in note 2.13 to the financial statements and related disclosures are included in notes 21, 22 and 23.	Our testing did not identify any material misstatements in relation to the valuation and application of derivative contracts and hedge accounting.

Key Audit Matter – Group	How the matter was addressed in the audit – Group	Key Observations
Risk 3 - Presentation of new assets arising from service concession arrangements (SCAs) The accounting treatment of the SCAs held in the Special Purpose Vehicles (SPVs) is dependent on the balance of risk and rewards assumed by the SPV and the University respectively. Due to there being several key judgements affecting the accounting treatment, we have identified the presentation of new assets under service concession arrangements as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • Inspecting and challenging management's assessment of the classification of its principal assets; • Inspecting the SCAs to determine if the SPVs have an unconditional contractual right to receive a specified or determinable amount of cash; • Testing management's calculations of the assets arising from the SCAs; and • Assessing the sufficiency of financial statement disclosures including the presentation of principal assets to evidence compliance with applicable accounting standards The group's accounting policy on SCAs is shown in note 2.9 to the financial statements and related disclosures are included in note 16.	Our testing did not identify any non-compliance with REIT requirements and did not identify any material misstatements.

Our application of materiality

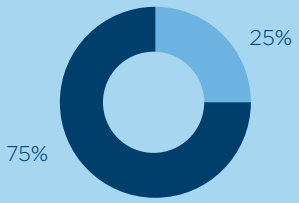
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality Measure	Group	Parent
Financial statements as a whole	£39 million, which is approximately 2% of group total assets. This benchmark is considered the most appropriate because of the long term infrastructure nature of the group's activities and hence the focus of various stakeholde rs on this balance. Materiality for the current year is higher than the level that we determined for the year ended 31 August 2018 to reflect growth in total assets of the Group over the year.	£9 million, which is approximately 2% of parent company total assets. This benchmark is considered the most appropriate as the company is a holding company. Materiality for the current year is the same as the level that we determined for the year ended 31 August 2018.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	60% of financial statement materiality.
Specific materiality	We also determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions due to the inherent sensitivity of these transactions and related disclosures.	We also determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions due to the inherent sensitivity of these transactions and related disclosures.
Communication of misstatements to the audit committee	We determined the threshold at which we will communicate misstatements to the audit committee to be £1.95 million (2018: £1.90 million) and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	We determined the threshold at which we will communicate misstatements to the audit committee to be £0.45 million (2018: £0.45 million) and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

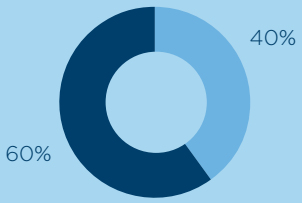
Overall materiality – group



■ Tolerance for potential uncorrected misstatements

■ Performance materiality

Overall materiality – parent



An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- evaluation by the group audit team of identified components to assess the significance of that component and to determine the planned audit response based on a measure of materiality. Significance was determined as a percentage of Group's total assets, total income and loss on ordinary activities before taxation;
- full scope audit procedures on UPP REIT Holdings Limited and all active subsidiaries;
- the total percentage coverage of full scope procedures over the group's revenue was 100%; and
- the total percentage of full scope audit procedures over the group's total assets was 100%

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.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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

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

Matters on which we are required to report 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 statement of directors' responsibilities set out on page 10, 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.

Use of our report

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.

Simon Bevan

Senior Statutory Auditor
For and on behalf of Grant Thornton UK LLP
Statutory Auditors, Chartered Accountants,
London
5 February 2020

Consolidated statement of profit or loss

For the year ended 31 August 2019

	Notes	Year ended 31 August 2019 £'000	Year ended 31 August 2018 £'000
Rental and other income	8	258,068	247,096
Cost of sales		(143,673)	(140,361)
Gross profit		**114,395**	**106,735**
Operating expenses	9	(64,065)	(59,064)
Operating profit		**50,330**	**47,671**
Finance income	13	**4,199**	**3,668**
Senior financing interest		(69,823)	(73,851)
Other interest payable and similar charges		(3,193)	(37,460)
Finance cost total	14	**(73,016)**	**(111,311)**
Loss on ordinary activities before taxation		**(18,487)**	**(59,972)**
Tax on loss on ordinary activities	15	–	110
Loss for the financial year		**(18,487)**	**(59,862)**
Loss for the financial year attributable to:			
Non-controlling interests		(709)	(1,324)
Owners of the Parent		(17,778)	(58,538)
Loss for the financial year		**(18,487)**	**(59,862)**

The above results all relate to continuing operations.

The notes on pages 33 to 105 form part of these financial statements.

Consolidated statement of other comprehensive income

For the year ended 31 August 2019

	Notes	**Year ended 31 August 2019** £'000	Year ended 31 August 2018 £'000
Loss for the financial year		**(18,487)**	**(59,862)**
Items that will not be reclassified to profit and loss			
Revaluation of principal asset		-	-
Reversal of deferred tax on revaluation of principal assets	15	-	11,613
		-	**11,613**
Items that are or may be reclassified subsequently to profit and loss			
Fair value movements on swaps	23	(57,502)	34,143
Deferred tax on fair value of swaps		-	(24,049)
Actuarial gain / (loss) relating to pension scheme	28	(323)	563
Deferred tax attributable to actuarial gain / (loss)	15	-	(338)
		(57,825)	**10,319**
Total other comprehensive income for the year		**(57,825)**	**21,932**
Total comprehensive loss for the year		**(76,312)**	**(37,930)**
Other comprehensive income for the year attributable to:			
Non-controlling interests		(915)	(7,103)
Owners of the Parent		(56,910)	29,035
Total		**(57,825)**	**21,932**
Total other comprehensive income for the year attributable to:			
Non-controlling interests		(1,624)	(8,427)
Owners of the Parent		(74,688)	(29,503)
Total		**(76,312)**	**(37,930)**
Loss per share (in GBP)			
Basic		(17.5)	(58.5)
Diluted		(17.5)	(58.5)

The notes on pages 33 to 105 form part of these financial statements.

Consolidated statement of changes in equity

Consolidated statement of changes in equity

For the year ended 31 August 2019

		Attributable to equity holders of the Parent Company									
		Share capital	Share premium	Capital reserve	Other reserve	Cash flow hedge reserve	Revaluation reserve	Retained earnings	**Shareholders' equity**	**Non-controlling interest**	**Total equity**
	Note	£'000	£'000	£'000	£'000	£'000	£'000	£'000	**£'000**	£'000	**£'000**
At 1 September 2017		**1**	**-**	**23,142**	**(28,642)**	**(116,019)**	**36,196**	**(372,735)**	**(458,057)**	**(3,950)**	**(462,007)**
Loss for the financial period		-	-	-	-	-	-	(58,538)	**(58,538)**	(1,324)	**(59,862)**
Other comprehensive income		-	-	-	-	10,032	11,613	7,390	**29,035**	(7,103)	**21,932**
Total comprehensive income		-	-	-	**-**	**10,032**	**11,613**	**(51,148)**	**(29,503)**	**(8,427)**	**(37,930)**
New shares issued		999	458,767	-	-	-	-	-	**459,766**	-	**459,766**
Reclassification		-	-	-	28,642	-	(28,642)	-	**-**	-	**-**
Capital contributions		-	-	143	-	-	-	179,462	**179,605**	-	**179,605**
At 31 August 2018		**1,000**	**458,767**	**23,285**	**-**	**(105,987)**	**19,167**	**(244,421)**	**151,811**	**(12,377)**	**139,434**
At 1 September 2018		**1,000**	**458,767**	**23,285**	**-**	**(105,987)**	**19,167**	**(244,421)**	**151,811**	**(12,377)**	**139,434**
Loss for the financial period		-	-	-	-	-	-	(17,778)	**(17,778)**	(709)	**(18,487)**
Other comprehensive income		-	-	-	-	(56,587)	-	(323)	**(56,910)**	(915)	**(57,825)**
Total comprehensive income		**-**	**-**	**-**	**-**	**(56,587)**	**-**	**(18,101)**	**(74,688)**	**(1,624)**	**(76,312)**
New shares issued	26	32	14,718	-	-	-	-	-	**14,750**	**-**	**14,750**
Capital contributions		-	-	143	-	-		-	**143**	-	**143**
Equity-settled share-based payments	29	-	-	-	-	-	-	(87)	**(87)**	-	**(87)**
Transactions with owners											
Dividends paid		-	-	-	-	-		(8,000)	**(8,000)**	-	**(8,000)**
At 31 August 2019		**1,032**	**473,485**	**23,428**	**-**	**(162,574)**	**19,167**	**(270,609)**	**83,929**	**(14,001)**	**69,928**

The notes on pages 33 to 105 form part of these financial statements.

Company's statement of changes in equity

For the year ended 31 August 2019

	Share capital	Share premium	Retained earnings restated*	**Total equity**
	£'000	£'000	£'000	**£'000**
At 18 April 2017	**-**	**-**	**-**	**-**
Profit for the financial period	-	-	4,980	**4,980**
Other comprehensive income	-	-	-	**-**
Total comprehensive income	**-**	**-**	**4,980**	**4,980**
New shares issued	1,000	458,767	-	**459,767**
At 31 August 2018	**1,000**	**458,767**	**4,980**	**464,747**
At 1 September 2018	**1,000**	**458,767**	**4,980**	**464,747**
Profit for the financial period	**-**	**-**	**10,696**	**10,696**
Other comprehensive income	**-**	**-**	**-**	**-**
Total comprehensive income	**-**	**-**	**10,696**	**10,696**
New shares issued	**32**	**14,718**	**-**	**14,750**
Dividends paid	-	-	(8,000)	**(8,000)**
At 31 August 2019	**1,032**	**473,485**	**7,676**	**482,193**

* Restated – There was a typographical error within the Company's Statement of Changes in Equity in the financial statements for the year ended 31 August 2018. The profit for the year was incorrectly shown as £6,005k rather than £4,980k as disclosed within the Company's Statement of Financial Position. This also meant the total equity within the Statement of Changes in Equity incorrectly disclosed a balance of £465,772k rather than the correct total of £464,747. The error has been amended within the comparative numbers in the 31 August 2019 financial statements.

Consolidated statement of financial position

As at 31 August 2019

	Notes	31 August 2019 £'000	31 August 2018 £'000
Assets			
Non-current assets			
Property, plant and equipment	18	1,533	1,522
Service concession arrangements – intangible assets	16	1,586,509	1,492,771
Other intangible assets	17	110,244	111,566
Derivative financial assets	23	22,297	33,524
Total non-current assets		**1,720,583**	**1,639,383**
Current assets			
Trade and other receivables	19	7,897	13,141
Service concession arrangements – financial assets	21	102,984	103,261
Cash at bank and in hand	35	231,351	207,781
Total current assets		**342,232**	**324,183**
Total assets		**2,062,815**	**1,963,566**
Equity and liabilities			
Liabilities			
Non-current liabilities			
Borrowings	22	1,711,968	1,599,773
Derivative financial instruments	23	180,785	133,122
Employee benefit obligations	28	1,882	1,495
Total non-current liabilities		**1,894,635**	**1,734,390**

Consolidated statement of financial position (continued)

	Notes	31 August 2019 £'000	31 August 2018 £'000
Current liabilities			
Borrowings	22	34,817	30,749
Trade and other payables	20	16,939	19,679
Accrual and deferred income	20	46,353	39,188
Provisions	25	143	126
Total current liabilities		**98,252**	**89,742**
Total liabilities		**1,992,887**	**1,824,132***
Equity			
Called-up share capital	26	1,032	1,000
Share premium account		473,485	458,767
Capital reserves		23,428	23,285
Cash flow hedge reserve		(162,574)	(105,987)
Revaluation reserve		19,167	19,167
Retained earnings		(270,609)	(244,421)
Equity attributable to owners of the parent company		**83,929**	**151,811**
Non-controlling interest		(14,001)	(12,377)
Total equity		**69,928**	**139,434**

* Restated. There was a casting error within the Consolidated Statement of Financial Position in the financial statements for the year ended 31 August 2018. The sub-totals for liabilities were correctly shown as follows: total non-current liabilities of £1,734,390k and total current liabilities of £89,742k. The total liabilities line then incorrectly showed a total of £1,824,296k rather than the correct total of £1,824,132k. The amendment has been reflected within the comparative numbers in the 31 August 2019 financial statements. No other line items were affected.

The notes on pages 33 to 105 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board on 31 January 2020 and were signed on its behalf by:

Henry Gervaise-Jones
Director

Company's statement of financial position

As at 31 August 2019

	31 August 2019	31 August 2018
	£'000	£'000
Assets		
Non-current assets		
Investments	295,981	281,145
Loan receivables	196,813	184,611
Total non-current assets	**492,794**	**465,756**
Current assets		
Trade and other receivables	16	16
Cash and cash equivalents	12	-
Total current assets	**28**	**16**
Total assets	**492,822**	**465,772**
Equity and liabilities		
Liabilities		
Current liabilities		
Trade and other payables	1,128	1,025
Intercompany loans	9,501	-
Total current liabilities	**10,629**	**1,025**
Total liabilities	**10,629**	**1,025**

Consolidated statement of financial position (continued)

	31 August 2019	31 August 2018
	£'000	£'000
Equity		
Called-up share capital	1,032	1,000
Share premium account	473,485	458,767
Profit for the financial period	7,676	4,980
Total equity	**482,193**	**464,747**

During the year ended 31 August 2019, the Company generated a profit of £10,696k (2018: £4,980k).

The notes on pages 33 to 105 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board on 31 January 2019 and were signed on its behalf by:

Henry Gervaise-Jones
Director

Consolidated statement of cash flow

For the year ended 31 August 2019

	Notes	Year ended 31 August 2019 £'000	Year ended 31 August 2018 £'000
Loss for the financial year		**(18,487)**	**(59,862)**
Adjustments for:			
Tax on loss on ordinary activities	15	-	(110)
Net interest expense	13, 14	68,816	107,643
Operating profit		**50,329**	**47,671**
Depreciation	8	35,655	31,355
Goodwill impairment		1,996	1,996
Amortisation of computer software	17	146	472
Increase / (decrease) in provisions for dilapidations	25	16	16
Increase / (decrease) in debtors due within one year		5,244	(1,813)
Increase / (decrease) in creditors due within one year		4,965	8,064
Net cash inflow from operating activities		**98,351**	**87,761**
Investing activities			
Interest received		4,199	3,668
Payments for intangible fixed assets		(820)	(113)
Payments for concession arrangements		(132,461)	(108,359)
Acquisition of subsidiary, net of cash acquired		-	(65,024)
Payments to acquire tangible fixed assets		(325)	(580)
Net cash flow used in investing activities		**(129,407)**	**(170,408)**

Consolidated statement of cash flow (continued)

	Notes	Year ended 31 August 2019 £'000	Year ended 31 August 2018 £'000
Financing activities			
New debt drawn		123,354	131,677
Repayment of senior debt		(11,026)	(9,398)
Repayment of fixed rate debt		(4,008)	(3,691)
Repayment of index-linked debt		(9,144)	(8,199)
Interest paid		(52,656)	(54,802)
Dividends paid		(8,000)	-
Finance lease payments		1,356	(1,291)
Capital contributions		-	33,000
Issue of share capital		14,750	-
Net cash flow from / (used in) financing activities		**54,626**	**87,296**
Increase / (decrease) in cash and cash equivalents		**23,570**	**4,649**
Cash and cash equivalents at 1 September	35	**207,781**	**203,132**
Cash and cash equivalents at 31 August	35	**231,351**	**207,781**

The notes on pages 33 to 105 form part of these financial statements.

The financial statements were approved and authorised for issue by the Board on 31 January 2020 and were signed on its behalf by:

Henry Gervaise-Jones
Director

Photo credit: Robert Greshoff

Company's statement of cash flow

For the year ended 31 August 2019

	Year ended 31 August 2019 £'000
Loss for the financial year	**10,696**
Adjustments for:	**-**
Tax on loss on ordinary activities	1,451
Net interest revenue	(12,202)
Operating profit	**(55)**
Increase / (decrease) in creditors due within one year	37
Net cash inflow from operating activities	**(18)**
Investing activities	
Interest received	
Investment in subsidiaries	(14,750)
Net cash flow used in investing activities	**(14,750)**
Financing activities	
New debt drawn	8,030
Dividends paid	(8,000)
Issue of share capital	14,750
Net cash flow from / (used in) financing activities	**14,780**
Increase / (decrease) in cash and cash equivalents	**12**
Cash and cash equivalents at 1 September	**-**
Cash and cash equivalents at 31 August	**12**

The Company has not presented cash flow for the year ended 31 August 2018 because there were no cash movements in that period in the Company.

Notes to the financial statements

For the year ended 31 August 2019

1. General information

UPP REIT Holdings Limited ('the Company') is a close-ended UK REIT and the Parent of the UPP REIT Holdings Group ('the Group'). The Company was incorporated on 18 April 2017. As a result of the Group restructuring in February 2018, the Company became the Parent Company of UPP Group Holdings Limited, trading as University Partnerships Programme ('UPP'). Until February 2018, the Group's parent company was Student UK TopCo Limited and the consolidated financial statements of the Group had been prepared under Student UK TopCo Limited's name. Reference to 'the Group' within these financial statements relates to Student UK TopCo Limited for the period from 1 September 2017 until 28 February 2018 and to UPP REIT Holdings Limited for the period from 1 March 2018 until 31 August 2019.

The consolidated financial statements of UPP REIT Holdings Limited and its subsidiaries (the Group) for the year ended 31 August 2019 were authorised for issue in accordance with a resolution of the Directors on 31 January 2020. UPP REIT Holdings Limited is a private company limited by shares and incorporated on 18 April 2017 in Jersey, with company number 123688. The registered office is 13 Castle Street, St Helier, Jersey, JE4 5UT.

The Group's principal activity is the development, funding, construction and operation (including facilities management) of student accommodation under the University Partnerships Programme.

2. Accounting policies

2.1. Basis of preparation

The Company's financial statements and consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as endorsed by the EU and in accordance with the Companies (Jersey) Law 1991.

The financial statements have been prepared on the historical cost basis except for derivative instruments that have been measured at fair value.

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

The preparation of consolidated financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group and Company's accounting policies (see note 6).

2.2. 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.

2.3. Basis of consolidation

The Group financial statements consolidate the financial statements of UPP REIT Holdings Limited and its subsidiary undertakings using the business combination under common control method from the date control passes to the Group. All subsidiaries have a reporting date of 31 August, besides UPP (Lancaster) Holdings Limited with a reporting date of 30 September.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

2.4. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. All contingent consideration is measured at fair value with the changes in fair value in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held, over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating unit (CGU)'s that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

2.5. Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.6. Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within 12 months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2.7. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed as either finite or indefinite. The Group does not have intangible assets with an indefinite useful life. Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category consistent with the function of the intangible assets.

The economic useful life of intangible assets is three to five years. The economic useful life of intangible assets relating to service concession arrangements is in line with the terms of each service concession.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the statement of profit or loss when the asset is derecognised.

2.8. Property, plant and equipment

Property, plant and equipment are stated at historical cost or valuation, less accumulated depreciation and any provisions for impairment. Historical cost includes all attributable expenditure, including borrowing costs incurred during construction, calculated as a proportion of total finance costs based on the number of rooms in construction over the total number of rooms.

Photo credit: Robert Greshoff

Depreciation is calculated so as to write off the cost of the 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 three to ten years for fixtures and fittings.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate. Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets, and are recognised in profit or loss within other income or other expenses.

2.9. Service concession arrangements

The Group contracts with public benefit bodies to construct (or upgrade) student accommodation and operates and maintains the infrastructure asset for a specified period of time, often for its entire useful life. The Group recognises its agreements with universities as service concession arrangements. The consideration received may result in the recognition of a financial asset or an intangible asset.

The Group recognises a financial asset if it has an unconditional contractual right to receive cash or another financial asset from, or at the direction of, the grantor, in return for constructing or upgrading the public sector asset and then operating and maintaining the asset for the specified period of time. This category includes guarantees by the universities to pay for any shortfall between amounts received from the users of the public service and a specified or determinable amount.

An intangible asset is measured at the fair value of consideration transferred to acquire the asset, which is the fair value of the consideration received or receivable for the construction services delivered. The intangible asset is amortised over its expected useful life on a straight-line basis.

The Group recognises an intangible asset if it receives only a right to charge for the use of the public sector asset that it constructs or upgrades and then must operate and maintain for a specified period of time. A right to charge users is not an unconditional right to receive cash because the amounts are contingent on the extent to which the public uses the service.

In the financial asset model, the amount due from the grantor meets the definition of a receivable which is measured initially at fair value. It is subsequently measured at amortised cost. The amount initially recognised plus the cumulative interest on that amount is calculated using the effective interest rate (EIR) method.

Any asset carried under concession arrangements is derecognised on disposal or when no future economic benefits are expected from its future use or disposal or when the contractual rights to the financial asset expire.

2.10. Operating lease

The Group is leasing a property under operating lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

2.11. Revenue

Student accommodation rental income

The Group manages student accommodation under service concession, followed by a period in which the Group maintains and services the infrastructure. These concession arrangements set out rights and obligations related to the infrastructure and the service to be provided. Rental income comprises direct lets to students and leases to universities and commercial tenants.

Performance obligations that relate to rental revenue is an operating and maintenance activity in respect of concession assets that covers the following activities:

- provide the services to ensure that the accommodation is always available during each academic year; or
- provide alternative accommodation whenever a need for it may arise.

Included in the rental contract is the use of broadband facilities, shared kitchens and communal areas. The Group does not offer these services as stand-alone products. The Group does not consider these services to be individually material and has, consequently, bundled these obligations as a single contract.

As set out above, the right to consideration gives rise to an intangible asset, or financial asset:

Intangible asset

- Revenue from the concession arrangements earned under the intangible asset model consists of the fair value of contract revenue, which is deemed to be the fair value of consideration transferred to acquire the asset and payments actually received from the users. Construction revenue is receivable during the construction phase of the contract and rental income from student accommodation is receivable during the operational phase of the contract
- Construction revenue is recognised by reference to the stage of completion of the contract activity at the year end. In applying the percentage of completion method, revenue recognised corresponds to the total contract revenue multiplied by the actual completion rate based on the total contract costs incurred to date and the estimated costs to complete
- Rental income receivable during the operational phase of the contract is recognised on a straight-line basis over the term accounting period

Financial asset

- Revenue from the concession arrangements earned under the financial asset model consists of (i) the fair value of the amount due from the grantor and (ii) interest income related to the capital investment in the project
- During the construction phase, the fair value of the amount due from the grantor represents the cost arising on the construction of the asset plus a margin
- Interest income is measured using the effective-interest method and recorded when the asset is set up during construction as well as during the operational phase of the contract

Construction services

Performance obligations that relate to the construction revenue is a construction activity in respect of its obligations to design, build and finance a new asset that it hands over to the grantor that covers following activities:

- design, construction, completion, commissioning and testing of the works;
- appoint the construction contractor under the construction contract;
- develop and finalise the design and specification of the works; and
- undertake routine repair and maintenance of the property and assets up to when it is fully constructed.

Revenue in respect of fees chargeable to universities for development is recognised as the contract progresses. The revenue recognised reflects the proportion of the work carried out at the balance sheet date measured based on costs incurred to date as a proportion of total budgeted costs.

The Group considers the various stages of construction as described above and deems that the services being offered by the entity are a series of distinct goods or services as described in IFRS 15. These services meet the criteria of being a performance obligation

satisfied over time and the same method is used to measure the entity's progress towards complete satisfaction of the performance obligation to transfer each distinct service.

Revenue on construction is recognised at cost with no margin, as profitability is considered to be negligible with no interim services provided during construction and the risk fully passed down to the building contractor. If it is expected that the development will result in a loss, all of the loss is recognised when foreseen.

During the construction phase, the service concession grantor gives the Group non-cash consideration in the form of an intangible asset, being a licence to charge users of the public service, in exchange for construction services. The operator measures the intangible asset initially at cost, being the amount of the contract asset recognised during the construction phase in accordance with IFRS 15.

Facilities management services

For facilities management services that are not covered under service concession arrangements, a separate contract is signed between the Group and the university. The contract sets out the service level agreements on the activities performed by the Group in order to fulfil the contract requirements.

Performance obligations that relate to the facilities management services revenue is student accommodation management that covers following activities:

- management and administration
- residents' satisfaction
- response and reactive maintenance
- general building (including residence maintenance)
- cleaning
- waste disposal
- management of the provision of energy or utilities
- provision of security services
- utilities monitoring

The services being offered by the Group are considered to be a series of distinct goods or services. The Group evaluates the promise to provide facilities management services for a specified contract term and the same measure of progress towards complete satisfaction of the performance obligation is used. This is because the Group is providing the same service of 'student accommodation management' each period. As a conclusion, the Group identifies one performance obligation identified in the contract. Turnover in respect of facilities management services provided to entities outside of the Group is recognised on the basis of the amount receivable in respect of the accounting period.

Management and development

Performance obligations that relate to the management and development revenue is a construction-related activity to carry out a ground, physical, geophysical, environmental and archaeological investigation and to inspect and examine the property and its surroundings in order to commence construction work. It also covers initial development of the design and specification of the works.

Revenue in respect of fees chargeable to universities for management and development is recognised as the contract progresses. The revenue recognised reflects the proportion of the work carried out at the balance sheet date measured based on costs incurred to date as a proportion of total budgeted costs.

The Group considers the services offered by the entity as a series of distinct goods or services as described in IFRS 15. These services meet the criteria of being a performance obligation satisfied over time and the same method is used to measure the entity's progress towards complete satisfaction of the performance obligation to transfer each distinct service.

Revenue on management and development is recognised at cost with no margin as profitability is considered to be negligible. If it is expected that the development will result in a loss, all of the loss is recognised when foreseen.

2.12. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets are classified, at initial recognition, as financial assets measured at amortised cost, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at amortised cost are the financial asset held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. After initial measurement, such financial assets are subsequently measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.

This category generally applies to trade and other receivables and to service concession financial assets.

Financial assets at fair value through other comprehensive income are the financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through profit or loss, unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Group may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in a hedge relationship. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognised in profit or loss. The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss or financial liabilities subsequently measured at amortised cost. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated

at the initial date of recognition. The Group has not designated any financial liabilities as at fair value through profit or loss.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised, as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. The effect of derecognition of financial liabilities is recognised in retained earnings. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification, it is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Impairment of financial assets

The Group assesses expected credit losses at each reporting date. A loss allowance is calculated as follows:

- 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument). A loss allowance for lifetime expected credit losses is calculated for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition.

For financial assets carried at amortised cost, the Group assesses whether expected credit loss exists individually for financial assets that are individually significant. Expected losses are discounted to the reporting date using the EIR of the asset (or an approximation thereof) that was determined at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases, the previously recognised impairment loss is increased or decreased by adjusting the allowance account.

2.13. Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group has entered into inflation-linked swaps (RPI swaps) and interest rate swaps (IR swaps) with external parties to manage its exposure to changes in inflation and the London Inter-bank Offered Rate (LIBOR) rates respectively.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income (OCI) and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk)
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting of changes in fair value or cash flows, and are assessed on an ongoing basis to determine that they have been highly-effective throughout the financial reporting periods for which they were designated.

The Group has not designated any derivatives as fair-value hedges or hedges of a net investment in a foreign operation.

Cash flow hedges

The Group applies hedge accounting for transactions entered into to manage the cash flow exposures of borrowings and rental income. The Company designates all its derivative financial instruments which meet the qualifying conditions for hedge accounting as cash flow hedges. IR swaps are held to manage the LIBOR rate exposures of the senior bank debt by swapping the LIBOR-linked interest payments for fixed-rate interest payments. Inflation swaps are held to manage the Group's exposure to changes in RPI. The Group's net rental income from student accommodation is exposed to the RPI changes. The swap contracts manage the exposure to RPI by swapping RPI annual rate changes with a fixed rate.

The effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income (OCI) in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss as other operating expenses. The ineffective portion relating to RPI swaps is recognised in revenue and the ineffective portion relating to IR swaps is recognised in finance costs.

Amounts recognised as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast revenue occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in OCI remains separately in equity until the forecast transaction occurs.

2.14. Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset or CGU's fair value less costs of disposal and its value in use. It is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in the statement of profit or loss in those expense categories consistent with the function of the impaired asset.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

2.15. 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 Consolidated 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 Company's cash management.

2.16. Finance costs

Financing costs, comprising interest payable on loans, secured and unsecured notes and the costs incurred in connection with the arrangement of borrowings, are recognised in profit or loss using the EIR 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 the change in fair value of hedging instruments that are recognised in profit or loss.

2.17. Borrowing costs

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

2.18. Taxation

Income tax on the profit for the year comprises current and deferred tax. Current tax is the tax payable on the taxable income for the year and any adjustment in respect of previous years. Deferred tax is provided in full using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the asset is realised or the liability is settled. No provision is made for temporary differences:

- arising on the initial recognition of assets or liabilities, other than on a business combination, that affect neither accounting nor taxable profit; or
- relating to investments in subsidiaries to the extent that they will not reverse in the foreseeable future.

2.19. Defined contribution pension scheme

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

2.20. 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 balance sheet 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. The Group engages independent actuaries to calculate the obligation on an annual basis. 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').

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 'remeasurement 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:

- the increase in net pension benefit liability arising from employee service during the period; and
- the cost of plan introductions, benefit changes, curtailments and settlements.

2.21. Long-term incentive scheme

The Group operates a long-term incentive scheme for certain employees within the Group. The amount of any awards receivable by the employees will depend on the results of the entity and the overall growth of the Business over a period of 10 years. In certain circumstances, a specific event can trigger an earlier payment. Amounts representing the associated employment expense are included in the profit and loss account.

2.22. Share-based payments

On 1 December 2018, the Group introduced a new, long-term incentive plan that covers cash-settled share-based payments as well as cash benefits. Accounting policies in relation to the incentive plan are summarised below:

A liability is recognised for the fair value of cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense. The fair value is expensed over the period until the vesting date, with recognition of a corresponding liability.

The amount recognised as an expense is adjusted to reflect the number of awards for which the related service is expected to be met.

2.23. Long-term incentive cash payments

The Group's obligation with respect to long-term employee benefits is calculated as the amount of future benefits that employees have earned in return for their service. This amount is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

3. Impact of new accounting standards and changes in accounting policies

IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers both became effective on 1 January 2018.

IFRS 9

The Group adopted IFRS 9 in its last annual financial statements for the year ended 31 August 2018.

IFRS 15

The application of IFRS 15 did not result in a significant impact on revenue recognition within the consolidated financial statements.

The Group earns revenue from the following activities:

- Student accommodation rental income
- Construction services fees
- Management and development services
- Facilities management services

IFRS 16

Management is not expecting any material differences that might arise from adoption of IFRS 16.

4. Early adoption of Amendments to IFRS 9, IAS 39 and IFRS 7

In July 2017, the Financial Conduct Authority in the UK (FCA), the governing body responsible for regulating LIBOR, announced that it will no longer compel or persuade the panel banks to make LIBOR submissions after 2021. As LIBOR is calculated based on the rates submitted by the panel banks, the declaration by FCA is expected to result in LIBOR ceasing to be a reliable benchmark.

Market participants have noted a number of potential accounting and tax issues that may arise as a result of the transition to risk-free rates (RFRs), including those related to the

areas of the recognition and derecognition of assets and liabilities, the measurement of assets and liabilities and hedge accounting.

In September 2019, The International Accounting Standards Board (IASB) published the Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) that highlights potential effects the LIBOR reform could have on financial reporting. The amendments have been endorsed by the EU as of 16 January 2020. The Group has chosen to early adopt the exemptions permitted by the amendments to IFRS 7 and IFRS 9.

The amendments are relevant to the Group given that it applies hedge accounting to its benchmark interest rate exposures. The Group has floating rate debt, linked to GBP LIBOR, which it cash flow hedges using interest rate swaps. The amendments permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms.

The Group will retain the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges that are subject to interest rate benchmark reforms even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

The impact and relevant disclosures of the above amendments have been presented in note 23.

5. Impact of accounting standards and interpretations in issue but not yet effective

At the balance sheet date there are a number of new standards and amendments to existing standards in issue but not yet effective. The Group has not early-adopted the new or amended standards in preparing these consolidated financial statements.

IFRS 16 Leases – effective for periods beginning on or after 1 January 2019

The International Accounting Standards Board issued a new lease standard, IFRS 16, to replace the existing lease standard (IAS 17) from 1 January 2019, with early adoption possible before that date for entities that have also early-adopted IFRS 15 - the new revenue standard which comes into effect from 1 January 2019.

A key change arising from IFRS 16 is that lessees are required to recognise a lease liability reflecting future lease payments and a right-of-use asset for lease contracts, subject to exceptions for short-term leases and leases of low-value assets.

Based on its assessment to date, the Group does not expect the application of IFRS 16 to result in a significant impact on its consolidated financial statements.

IFRIC Interpretation 23 – Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

Based on its assessment to date, the Group does not expect the application of IFRIC Interpretation 23 to result in a significant impact on its consolidated financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

These amendments had no impact on the consolidated financial statements of the Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement. This should be done using the actuarial assumptions used to remeasure the net defined benefit liability (asset), reflecting the benefits offered under the plan and the plan assets after that event. An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset), reflecting the benefits offered under the plan and the plan assets after that event and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the consolidated financial statements of the Group as it did not have any planned amendments, curtailments, or settlements during the period.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

Annual Improvements 2015-2017 Cycle

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

IFRS 11 Joint Arrangements

An entity that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset, when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

6. 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:

Valuation of RPI and IR swaps

Derivatives are initially recognised at fair value at the date a derivative is entered into and are subsequently remeasured 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 another one with the same remaining terms. To that end, a calibration of usual valuation models has been performed on trade date for each derivative to determine an initial spread to be added onto market conditions applied at each year end. Those market interest 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.

For further information on the estimation uncertainty at the end of the reporting period, refer to note 37.1

Impairment of non-financial assets

The Group assesses at each reporting date whether an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. If it is not possible to estimate the recoverable amount of the individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. The recoverable amount of an asset or CGU 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 is reversed in a subsequent period only if the reasons for the impairment loss have ceased to apply. For further information on the estimation uncertainty at the end of the reporting period, refer to note 37.3.

Defined benefit pension scheme

The cost of defined benefit pension plans and other post-employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of these plans, such estimates are subject to significant uncertainty. In determining the appropriate discount rate, management considers the interest rates of high-quality corporate bonds in the respective currency, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The mortality rate is based on publicly available mortality tables. Future salary increases and pension increases are based on expected future inflation rates. For further information on the estimation uncertainty at the end of the reporting period, refer to note 28.

The below relate to key judgements made by management in the year:

Capitalisation of costs and construction margin

During the period of construction, all costs incurred as a direct result of financing, designing and constructing the student accommodation, including finance costs, have been capitalised.

Revenue on construction is recognised at cost with no margin, as profitability is considered negligible with no interim services provided during construction and the risk fully passing down to the building contractor.

Taxation

The Group is a Real Estate Investment Trust (REIT). As a result, the Group does not pay UK corporation tax on its profits and gains from the qualifying rental business in the UK. Non-qualifying profits and gains of the Group

continue to be subject to corporation tax as normal. In order to maintain Group REIT status, certain ongoing criteria must be met.

The main criteria are as follows:

- at the start of each accounting period, the assets of the tax-exempt business must be at least 75% of the total value of the Group's assets;
- at least 75% of the Group's total profits must arise from the tax-exempt business; and
- at least 90% of the notional taxable profit of the property rental business must be distributed.

The Directors intend that the Group should continue as a REIT for the foreseeable future, with the result that deferred tax is no longer recognised on temporary differences relating to the property rental business.

Deferred tax assets and liabilities require management judgement in determining the amounts, if any, to be recognised. In particular, judgement is required when assessing the extent to which deferred tax assets should be recognised, taking into account the expected timing and level of future taxable income. Deferred tax assets are only recognised when management believes they will be recovered against future taxable profits.

There were no significant judgements and estimates taken in preparing the Company's financial statements.

7. Segment information

For management purposes, the Group is organised into business units based on their services and has three reportable segments as follows:

- SPVs – performing development, funding, construction and the operation of student accommodation under the University Partnerships Programme (UPP)
- UPP Residential Services Limited (URSL) – providing facilities management services to SPVs
- UPP Projects Limited (UPL) – securing of long-term bespoke partnership agreements to design, build and finance student accommodation and related academic infrastructure

The Group's management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on an arms-length basis.

All segments operate and perform all transactions in the United Kingdom.

Other operations include financing and general Group management that is not considered by management as a separate reporting segment.

Notes to the financial statements

Segment information (continued)

Year ended 31 August 2019	Note	SPVs £'000	URSL £'000	UPL £'000	Total segments £'000	Adjustments and eliminations £'000	Consolidated £'000
Rental and other income – external		253,392	4,194	482	258,068	-	258,068
Rental and other income – internal	A	-	25,554	8,500	34,054	(34,054)	-
Cost of sales	B	(143,056)	(24,887)	(3,874)	(171,817)	28,144	(143,673)
Gross profit		**110,336**	**4,861**	**5,108**	**120,305**	**(5,910)**	**114,395**
Operating expenses	B	(41,807)	(4,141)	(3,582)	(49,530)	(14,535)	(64,065)
Operating profit		**68,529**	**720**	**1,526**	**70,775**	**(20,445)**	**50,330**
Finance income		**3,964**	**-**	**-**	**3,964**	**235**	**4,199**
Senior financing interest		(69,823)	-	-	(69,823)	-	(69,823)
Other interest payable and similar charges	C	(3,193)	-	-	(3,193)	-	(3,193)
Finance cost total		**(73,016)**	**-**	**-**	**(73,016)**	**-**	**(73,016)**
Other operating expenses		-	-	-	-	-	-
Segment profit / (loss) on ordinary activities before taxation		**(523)**	**720**	**1,526**	**1,723**	**(20,210)**	**(18,487)**
Tax on loss on ordinary activities		2,142	(261)	-	1,881	(1,881)	-
Segment profit / (loss) for the financial year		**1,619**	**459**	**1,526**	**3,604**	**(22,091)**	**(18,487)**
Total assets	D	1,988,385	35,121	1,110	**2,024,616**	41,121	**2,065,737**
Total liabilities	D	2,224,261	16,207	8,858	**2,249,326**	(253,839)	**1,995,487**

Notes to the financial statements

Segment information (continued)

Year ended 31 August 2018	Note	SPVs £'000	URSL £'000	UPL £'000	Total segments £'000	Adjustments and eliminations £'000	Consolidated £'000
Rental and other income – external		235,084	4,658	7,354	247,096	-	247,096
Rental and other income – internal	A	-	24,462	2,042	26,503	(26,503)	-
Cost of sales	B	(123,804)	(13,217)	(6,014)	(143,035)	2,674	(140,361)
Gross profit		**111,280**	**15,903**	**3,382**	**130,564**	**(23,829)**	**106,735**
Operating expenses	B	(50,759)	(10,702)	(2,483)	(63,944)	4,880	(59,064)
Operating profit		**60,521**	**5,201**	**899**	**66,620**	**(18,949)**	**47,671**
Finance income		**3,057**	**-**	**-**	**3,057**	**611**	**3,668**
Senior financing interest		(73,612)	-	-	(73,612)	(239)	(73,851)
Other interest payable and similar charges	C	(25,360)	-	-	(25,360)	(12,100)	(37,460)
Finance cost total		**(98,972)**	**-**	**-**	**(98,972)**	**(12,339)**	**(111,311)**
Other operating expenses		-	-	-	-	-	-
Segment profit / (loss) on ordinary activities before taxation		**(35,394)**	**5,201**	**899**	**(29,295)**	**(30,677)**	**(59,972)**
Tax on loss on ordinary activities		2,312	(578)	(1,242)	492	(382)	110
Segment profit / (loss) for the financial year		**(33,082)**	**4,623**	**(343)**	**(28,803)**	**(31,059)**	**(59,862)**
Total assets	D	1,866,869	29,336	4,659	**1,900,864**	62,702	**1,963,566**
Total liabilities	D	2,029,115	11,207	13,930	**2,054,252**	(230,120)	**1,824,132**

Segment information (continued)

Notes to the segment information:

A. Rental and other income

Adjustments and eliminations represent intercompany transactions that are eliminated on the consolidation level. Those transactions are mainly transactions held between URSL and each SPV. There is also elimination of UPL income that represents internal revenue from new development projects agreed. This income is eliminated against SPVs' assets..

B. Cost of sales and operating expenses

Adjustments and eliminations represent intercompany transactions that are eliminated on the consolidation level. Those transactions are mainly transactions held between URSL and each SPV. The adjustments and eliminations line also represents administrative costs that are not allocated to any of the segments.

C. Other interest payable and similar charges

Adjustments and eliminations mainly represent financing costs payable to Shareholders that are not allocated to any of the segments.

D. Total assets and total liabilities

Adjustments and eliminations related to total assets mainly represent assets related to the Group management companies (such as UPP Group Limited) and represent goodwill and cash allocated to those companies. Adjustments and eliminations related to total liabilities represent mainly UPP Bond I Issuer PLC liabilities and accruals and trade creditors related to Group management activities.

8. Turnover

Turnover represents the amounts derived from the provision of services which fall within the Group's ordinary activities, stated net of value added tax.

The Group operates in in three main areas of activity - that of the provision of student accommodation, construction services, and the provision of facilities management services and management and development services.

Group turnover arises wholly in the UK and is split as below:

	Year ended 31 August 2019	Year ended 31 August 2018
	£'000	£'000
Student accommodation rental income	172,414	158,723
Construction services	80,978	76,362
Management and development services	482	7,354
Facilities management services	4,194	4,657
	258,068	**247,096**


Eleanor
Rosa
House

Notes to the financial statements

Turnover (continued)

In the following table, revenue from contracts with customers is disaggregated by service lines. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segments (see Note 7).

		SPVs	URSL	UPL	Total segments	Adjustments and eliminations	Consolidated
Year ended 31 August 2019	Note	£'000	£'000	£'000	£'000	£'000	£'000
Student accommodation rental income		172,414	-	-	172,414	-	172,414
Construction services		80,978	-	-	80,978	-	80,978
Management and development services		-	-	482	482	-	482
Management and development services - intragroup		-	-	8,500	8,500	(8,500)	-
Facilities management services		-	4,194	-	4,194	-	4,194
Facilities management services – intragroup		-	25,554	-	25,554	(25,554)	-
Total		**253,392**	**29,748**	**8,982**	**292,122**	**(34,054)**	**258,068**
Revenue as reported in Segments	7	253,392	29,748	8,982	292,122	(34,054)	258,068
Year ended 31 August 2018							
Student accommodation rental income		158,722	-	-	158,722	-	158,722
Construction services		76,362	-	-	76,362	-	76,362
Management and development services		-	-	7,354	7,354	-	7,354
Management and development services - intragroup		-	-	2,042	2,042	(2,042)	-
Facilities management services		-	4,658	-	4,658	-	4,658
Facilities management services - intragroup		-	24,462	-	24,462	(24,462)	-
Total		**235,084**	**29,120**	**9,396**	**273,600**	**(26,504)**	**247,096**
Revenue as reported in Segments	7	235,084	29,120	9,396	273,600	(26,504)	247,096

Turnover (continued)

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	31 August 2019	31 August 2018
	£'000	£'000
Receivables, which are included in 'trade and other receivables'	7,129	5,406
Contract assets	2,531	3,626
Contract liabilities	(2,196)	(2,452)

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

The contract liabilities primarily relate to the advance consideration received from customers. This will be recognised as revenue when the service is provided and is expected to be recognised as revenue in the next financial year. The whole amount of contract liability balance at the beginning of the period was recognised as revenue during the year.

The Group issues invoices for rental serviced to universities on regular basis as per agreement with the university (which varies from quarterly to three times per year). The invoices for rental services are raised up front for the period agreed with the university. The payments are typically done within one month of the issuance of the invoice.

The Group issues invoices for facilities management services on a monthly basis after the services are performed. The payments are typically done within one month of the issuance of the invoice.

During the construction phase, the service concession grantor gives the Group non-cash consideration in the form of an intangible asset - being a licence to charge users of the public service - in exchange for construction services. Therefore, there are no revenue cash flows or invoicing activities in relation to construction services revenue.

9. Operating expenses

The operating profit is stated after charging:

	Note	Year ended 31 August 2019 £'000	Year ended 31 August 2018 £'000
Depreciation of property, plant and equipment	18	35,655	30,810
Salaries and other employee costs recognised in operating expenses		16,997	16,587
External consultancy		2,035	2,999
Goodwill impairment		1,996	1,996
Insurance		1,794	1,677
Rent		1,043	637
Auditor remuneration	11	429	425
Amortisation of computer software	17	146	472
Other administrative costs		3,970	3,461
		64,065	**59,064**

10. Directors' remuneration

Directors and certain senior employees who have authority and responsibility for planning, directing and controlling the activities of the Group are considered to be key management personnel. Total remuneration in respect of these individuals is as follows:

	Year ended 31 August 2019 £'000	Year ended 31 August 2018 £'000
Emoluments	426	569
Social security costs	341	414
Company contributions to defined contribution schemes	5	41
Compensation for loss of office	4	12
	776	**1,036**

Directors' remuneration (continued)

The amounts included above in respect of the highest paid Director are as follows:

	Year ended 31 August 2019	Year ended 31 August 2018
	£'000	£'000
Emoluments	505	423
Company contributions to defined contribution schemes	-	36
	505	**459**

11. Auditor's remuneration

	Year ended 31 August 2019	Year ended 31 August 2018
	£'000	£'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	25	57
Fees payable to the Company's auditor and its associates for other services:		
The audit of the Company's subsidiaries pursuant to legislation	404	368
	429	**425**

12. Employee information

	2019 Number	2018 Number
The average number of persons employed by the Group during the year was as follows:		
Management and operations	135	131
Site managers (full-time)	21	22
Administration, maintenance and cleaning (full and part-time)	671	624
	827	**777**

Employee information (continued)

The employment costs of all employees included in note 12 were as follows:

	Year ended 31 August 2019	Year ended 31 August 2018
	£'000	£'000
Wages and salaries	28,985	27,930
Social security costs	2,489	2,412
Pension costs – defined contribution	2,086	573
Pension costs – defined benefit	39	51
	33,599	**30,966**

The above salary costs are presented on the 'Cost of sales' and 'Operating expenses' lines.

Long-term Incentivisation Scheme

No payments were made under the long-term incentivisation scheme during the year (2018: £nil).

13. Interest and similar income

	Year ended 31 August 2019	Year ended 31 August 2018
	£'000	£'000
Interest received on cash balances	995	130
Interest income on finance receivable	3,204	3,040
Finance gain on fair value movements on swaps	-	498
	4,199	**3,668**

14. Interest and similar expense

	Year ended 31 August 2019	Year ended 31 August 2018
	£'000	£'000
Financial liabilities measured at amortised cost		
Bank loan interest	25,080	32,356
Interest payable on senior secured notes	13,592	15,288
Interest payable on index-linked facilities	30,935	26,338
Subordinated loan note interest	1,983	2,036
Interest due on loan from Shareholders	-	35,243
Financial liabilities measured at fair value		
Fair value movements on swaps	1,387	-
Other charges		
Interest on net defined pension liability	39	50
	73,016	**111,311**

Included within the interest payable on index-linked facilities is £16,888k (2018: £17,719k) that relates to the inflation uplift on the index-linked facilities.

15. Tax on loss on ordinary activities

The tax (credit) / charge is made up as follows:

	Year ended 31 August 2019	Year ended 31 August 2018
	£'000	£'000
Current tax:		
Current tax on income for the year	**-**	-
Total current tax credit	**-**	-
Deferred tax:		
Current year	-	(110)
Total deferred tax	**-**	**(110)**
Tax (credit) / charge on loss on ordinary activities	**-**	**(110)**

Tax on loss on ordinary activities (continued)

Tax included in the Group statement of total other comprehensive income

	Year ended 31 August 2019	Year ended 31 August 2018
	£'000	£'000
Deferred tax:		
Current year	-	(12,774)
Total deferred tax	**-**	**(12,774)**
Total tax credit	**-**	**(12,774)**

Factors affecting current tax charge / (credit) for the year

The tax assessed for the year is higher (2018: higher) than the standard rate of corporation tax in the UK of 19.0% (2018: 19.0%). The differences are explained below:

	Year ended 31 August 2019	Year ended 31 August 2018
	£'000	£'000
Loss on ordinary activities before tax	**(18,487)**	**(59,972)**
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.0% (2018: 19.0%)	(3,513)	(11,401)
Effects of:		
Expenses not deductible for tax purposes/(non-taxable income)	6,352	9,765
Movement in deferred tax not recognised	634	2,153
Exempt property rental (profits)/(losses) in the year	(3,473)	(627)
Current tax (credit) / charge for the year	**-**	**(110)**

Factors that may affect future tax charges

UPP REIT Holdings Limited is a Real Estate Investment Trust. As a result, the Group does not pay UK corporation 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 UK corporation tax as normal.

A deferred tax asset of £72,741k (2018: £72,551k) in respect of available tax losses has not been recognised at 31 August 2019. This is due to there being no persuasive and reliable evidence available at this time of suitable profits to offset these losses.

There will be a reduction in the corporation tax rate from the current rate of 19.0% to 17.0% with effect from 1 April 2020.

16. Intangible assets – Service Concession Arrangements

	Service concession arrangements	Assets in the course of construction	Total
Cost	£'000	£'000	£'000
At 1 September 2018	1,382,151	171,293	1,553,444
Additions	-	122,738	122,738
Transfer	222,752	(222,752)	-
At 31 August 2019	**1,604,903**	**71,279**	**1,676,182**
Amortisation			
At 1 September 2018	60,673	-	60,673
Charge during the year	29,000	-	29,000
At 31 August 2019	**89,673**	**-**	**89,673**
Net book value			
At 31 August 2019	**1,515,230**	**71,279**	**1,586,509**
At 31 August 2018	1,321,478	171,293	1,492,771
Cost			
At 1 September 2017	1,305,026	88,860	1,393,886
Additions	77,125	82,433	159,558
At 31 August 2018	**1,382,151**	**171,293**	**1,553,444**
Amortisation			
At 1 September 2017	29,443	-	29,443
Charge during the year	31,230	-	31,230
At 31 August 2018	**60,673**	**-**	**60,673**
Net book value			
At 31 August 2018	**1,321,478**	**171,293**	**1,492,771**
At 31 August 2017	1,275,583	88,860	1,364,443

Included in intangible assets are properties being managed under service concession arrangements. Assets under construction are scheduled to become operational in September 2020 and in September 2021. Additions in assets under construction comprise of all the costs incurred for asset construction during the financial year.

Service concession arrangement assets include net finance costs up to the date of completion of £42,287k (2018: £42,287k). An amount of £nil (2018: £nil) was capitalised during the year.

The assets under construction were tested for impairment. The impairment assessment was performed in relation to the SPVs as at the reporting date using contractual cash flows and discount rates specific to the SPVs. These calculations have been based on a full year forecast at the point of first full operation, extrapolated over the remaining service concession arrangement period using a 2.5% – 3.5% growth rate. The growth rate reflects basically the projected RPI index. The growth is based on the financial models for the service concession arrangement prepared by the Group based on the agreements made with universities.

17. Intangible assets – other

	Computer software	Goodwill	Total
Cost	£'000	£'000	£'000
At 1 September 2018	1,461	143,479	144,940
Additions	820	-	820
At 31 August 2019	**2,281**	**143,479**	**145,760**
Amortisation and impairment			
At 1 September 2018	686	32,688	33,374
Amortisation	146	-	146
Impairment charge	-	1,996	1,996
At 31 August 2019	**832**	**34,684**	**35,516**
Net book value			
At 31 August 2019	**1,449**	**108,795**	**110,244**
At 31 August 2018	775	110,791	111,566

Photo credit: Robert Greshoff

17. Intangible assets – other (continued)

	Computer software	Goodwill	Total
Cost	£'000	£'000	£'000
At 1 September 2017	797	143,479	144,276
Additions	664	-	664
At 31 August 2018	**1,461**	**143,479**	**144,940**
Amortisation and impairment			
At 1 September 2017	214	30,692	30,906
Amortisation	472	-	472
Impairment charge	-	1,996	1,996
At 31 August 2018	**686**	**32,688**	**33,374**
Net book value			
At 31 August 2018	**775**	**110,791**	**111,566**
At 31 August 2017	583	112,787	113,370

An amount of £137,259k in goodwill arose on the acquisition of subsidiary undertakings in September 2012 - £7,220k on the acquisition of minority interests in UPP (Alcuin) Limited and UPP (Nottingham) Limited, previously held by the University of York and Nottingham Trent University respectively in March 2013.

The carrying amount of goodwill is allocated to the individual SPVs in the SPV operating segments where the goodwill arose from. The goodwill was tested for impairment at that level. The impairment assessment was performed in relation to the SPVs as at the reporting date using contractual cash flows and discount rates specific to the SPVs. These calculations have been based on a full year forecast at the point of first full operation, extrapolated over the remaining service concession arrangement period using a 2.5% - 3.5% growth rate. The growth rate reflects basically the projected RPI index. The growth is based on the financial models for the service concession arrangement prepared by the Group based on the agreements made with universities.

The main assumptions for the financial models are:

- RPI projections that affect net revenue projections at 2.5% - 3.5%; and
- Occupancy rate that affects net revenue projected. Current occupancy rate assumed is 98.0%-100.0%

The assumptions are calculated based on historical knowledge and external information relating to the macroeconomic environment and higher education market.

Financial models are reviewed and updated by management on an annual basis and also reviewed against historical performance.

Intangible assets - other (continued)

During the financial year ended 31 August 2019, the Group has recognised a goodwill impairment of £1,996k (2018: £1,996k). This impairment loss relates fully to the SPV segment. The recoverable value of the goodwill as at 31 August 2019 is £108,795k (2018: £110,791k). The impairment charge is a result of further incremental reductions in the cash flows which are greater than those previously assumed.

The computer software relates to purchased, as well as internally generated, computer software costs. The computer software is being amortised evenly over its useful life between three to five years.

18. Property, plant and equipment

	Fixtures and fittings	Total
	£'000	£'000
Cost or valuation		
At 1 September 2018	5,838	5,838
Additions	325	325
Disposals	-	-
At 31 August 2019	**6,163**	**6,163**
Depreciation		
At 1 September 2018	4,316	4,316
Charge during the year	314	314
At 31 August 2019	**4,630**	**4,630**
Net book value		
At 31 August 2019	**1,533**	**1,533**
At 31 August 2018	1,522	1,522
Cost or valuation		
At 1 September 2017	5,763	5,763
Additions	78	78
Disposals	(3)	(3)
At 31 August 2018	**5,838**	**5,838**

Property, plant and equipment (continued)

	Fixtures and fittings	Total
	£'000	£'000
Depreciation		
At 1 September 2017	4,191	4,191
Charge during the year	125	125
At 31 August 2018	**4,316**	**4,316**
Net book value		
At 31 August 2018	**1,522**	**1,522**
At 31 August 2017	1,572	1,572

19. Current trade and other receivables

	31 August 2019	31 August 2018
	£'000	£'000
Trade debtors	4,196	5,406
VAT recoverable	1,170	4,109
Prepayments and accrued income	2,531	3,626
	7,897	**13,141**

20. Current trade and other payables

	31 August 2019	1 September 2018
	£'000	£'000
Trade creditors	15,664	18,070
Amounts owed to related parties	230	733
Other taxes and social security	1,045	876
Accruals and deferred income	46,353	39,188
	63,292	**58,867**

21. Financial assets

		31 August 2019	1 September 2018
	Note	£'000	£'000
Derivatives designated as hedging instruments	23		
RPI swaps		16,408	26,248
Derivatives not designated as hedging instruments	23		
RPI swaps		5,889	7,276
Financial assets at amortised cost			
Financial receivables – service concession arrangements		102,984	103,261
Trade and other receivables	19	4,252	4,388
Cash at bank and in hand	35	231,351	207,781
		360,884	**348,954**
Total current		235,603	212,169
Total non-current		125,281	136,785

Derivatives designated as hedging instruments reflect the positive change in the fair value of IR and RPI swap contracts, designated as cash flow hedges to hedge highly probable revenue changes due to RPI changes and to hedge interest expense changes due to interest rate changes.

Derivatives not designated as hedging instruments reflect the positive change in fair value of those RPI swap contracts, which are not designated in a hedge relationship, but are nevertheless intended to reduce the level of revenue changes due to RPI changes.

The service concession arrangement asset includes net finance costs of £ 1,119k (2018: £1,119k).

The terms of the finance agreement provide that the lender will seek repayment of the finance only to the extent that sufficient funds are generated by specific assets financed and will not seek recourse to the Company in any other form.

Financial assets (continued)

Parent Company financial assets

	31 August 2019	31 August 2018
	£'000	£'000
Loan receivables	196,813	184,611
Trade and other receivables	16	16
Cash and cash equivalents	12	-
	196,841	**184,627**
Total current	28	16
Total non-current	196,813	184,611

Trade and other receivables consist of unpaid share capital.

The unsecured loans to a subsidiary undertaking are for an amount of £109,018k, which was advanced on 5 March 2013 by Student UK TopCo Limited. This loan bears interest at 12.75% and is repayable in March 2023.

On 1 March 2018, as a result of the Group restructure, Student UK TopCo Limited transferred this loan receivable balance, plus accrued interest up to that date, to the Company by way of an in-specie dividend.

The fair value of the loan is £185,372k. This valuation is treated as Level 2 in the fair value hierarchy. The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate.

22. Financial liabilities

	31 August 2019	31 August 2018
	£'000	£'000
Borrowings		
Senior secured notes	500,285	512,469
Senior debt	554,180	557,584
Senior index-linked debt	581,957	450,571
Non-recourse bank debt finance	80,801	81,086
Secured subordinated loan notes	29,562	23,712
Secured bridge funding loan notes	-	5,100
Derivatives designated as hedging instruments		
Interest rate swaps	176,165	133,122
RPI swaps	4,620	-
Financial liabilities at amortised cost		
Trade and other payables	15,895	18,803
	1,943,465	**1,782,447**
Total current	50,712	49,552
Total non-current	1,892,753	1,732,895

22.1. Interest-bearing loans and borrowings

Senior debt

The senior debt facilities above are secured under a number of debenture deeds. Under the terms of the debentures, the finance providers have security by way of a first legal mortgage over all estates or interests in any freehold or leasehold properties and buildings, finance receivable assets and fixtures on those properties.

Senior secured notes

On 5 March 2013, a Group subsidiary, UPP Bond 1 Issuer PLC, issued £307,100k of fully-amortising fixed rate senior secured notes and £75,000k 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 fellow Group companies 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 £75,000k and repayments are scheduled to commence in August 2038.

Interest-bearing loans and borrowing (continued)

On 9 December 2014, UPP Bond 1 Issuer PLC issued £149,700k of fully-amortising index-linked senior secured notes, also listed on the Irish Stock Exchange. Proceeds of this issuance were on-lent on the same terms and conditions to a fellow Group undertaking to enable that company to repay its short-term senior bank facility and associated costs.

The senior secured notes issued are secured against the assets of UPP Bond 1 Issuer PLC and the other wholly-owned subsidiaries of UPP Bond 1 Limited.

Senior index-linked debt

On 14 October 2013, a Group subsidiary entered into an RPI index-linked senior facility. The facility is fully-amortising by August 2056 with a real interest rate of 2.322% increasing semi-annually with RPI. The notional amount of this facility was £40,497k and repayments commenced in February 2016.

On 4 July 2014, a Group subsidiary entered into an RPI index-linked senior facility. The facility is fully-amortising by August 2057 with a real interest rate of 1.792% increasing semi-annually with RPI. The notional amount of this facility was £113,816k and repayments commenced in February 2017.

On 7 April 2016, a Group subsidiary issued £67.3 million of 1.030% RPI index-linked loan notes. The proceeds of this issuance were used to repay the existing senior bank debt funding. The loan notes are fully-amortising by August 2049 with a real interest rate of 1.0302% increasing semi-annually with RPI. The notional amount of this facility is £67,322k and repayments commenced on 28 August 2016.

On 21 December 2016, a Group subsidiary entered into an RPI index-linked senior facility. The facility is fully-amortising by August 2062 with a real interest rate of 0.16% increasing semi-annually with RPI. The notional amount of this facility was £86,809k and repayments are scheduled to commence in February 2020.

On 25 May 2017, a Group subsidiary entered into an RPI index-linked senior facility. The facility is fully-amortising by August 2058 with a real interest rate of 0.45% increasing semi-annually with RPI. The notional amount of this facility was £127,636k and repayments are scheduled to commence in February 2020.

On 5 February 2018, a Group subsidiary issued £63,000k of fully-amortising index-linked loan notes in two tranches. The facility is fully-amortising by August 2062 with a real interest rate of 0.207% – Tranche A and 1.203% - Tranche B, increasing semi-annually with RPI. The notional amount of this facility was £63,000k and repayments are scheduled to commence in February 2018.

On 28 June 2018, a Group subsidiary issued £15,761k of fully-amortising index-linked loan notes. The facility is fully-amortising by August 2065 with a real interest rate of 0.044% increasing semi-annually with RPI. The notional amount of this facility was £37,185k and repayments are scheduled to commence in February 2021. An amount of £21,424k remains undrawn as at 31 August 2018 and is scheduled to be fully drawn down by 29 February 2020.

On 10 January 2019, a Group subsidiary issued £50,841k of fully-amortising RPI index-linked loan notes. The index-linked senior loan notes are fully amortising by 2066 with a real interest rate of 0.2% increasing semi-annually by RPI. The notional amount of these notes at issuance was £50,841k and the principal amount repayable increases semi-annually by RPI. Repayments are scheduled to commence in February 2022.

On 28 February 2019, the LLP issued £10,546,000 of fully-amortising RPI index-linked loan notes. The index-linked senior loan notes are fully amortising by 2065 with a real interest rate of 0.080% increasing semi-annually by RPI. The notional amount of these notes at issuance was £10,546,000 and the principal amount repayable increases semi-annually by RPI. Repayments are scheduled to commence in February 2021.

Interest-bearing loans and borrowing (continued)

On 28 August 2019, the LLP issued £9,992,000 of fully-amortising RPI index-linked loan notes. The index-linked senior loan notes are fully amortising by 2065 with a real interest rate of 0.100% increasing semi-annually by RPI. The notional amount of these notes at issuance was £9,992,000 and the principal amount repayable increases semi-annually by RPI. Repayments are scheduled to commence in February 2021.

On 28 August 2019, the LLP issued £39,939k of fully-amortising RPI index-linked loan notes. The index-linked senior loan notes are fully amortising by 2066 with a real interest rate of 0.2% increasing semi-annually by RPI. The notional amount of these notes at issuance was £39,939k and the principal amount repayable increases semi-annually by RPI. Repayments are scheduled to commence in February 2022. An amount of £34,299k remains undrawn as at 31 August 2019 and is scheduled to be fully drawn by September 2020.

The facilities above are secured under a number of debenture deeds. Under the terms of the debentures, the finance providers have security by way of a first legal mortgage over all estates or interests in any freehold or leasehold properties and buildings, finance receivable assets and fixtures on those properties.

Non-recourse finance facilities

The finance providers only have recourse over the assets of the Company or companies on which they are providing finance, with no recourse to other Group companies (see note 15).

The key terms of the facilities are:

	Coupon rate	Final repayment dates
Fixed-term loan	13.15%	July 2022
Fixed through an IR swap	4.695%, plus margin until Sept 2017, 5.910% thereafter	September 2044
Inflation-linked loan	Real interest rate of 0.207% – Tranche A and 1.203% – Tranche B increasing semi-annually by RPI	August 2062

Secured subordinated loan notes

The subordinated loan note funding has been provided by Nottingham Trent University, the University of Reading and the University of London.

The loan notes are subject to the same security as the senior debt facilities but are subordinated to the right of payment of senior debt providers. The weighted average rate is 11.12% per annum for a weighted average period of 40 years. The final repayment dates on the subordinated loan notes range between August 2048 and August 2069.

Bridge funding loan notes

The bridge funding loan note funding has been provided by the University of London and the University of Hull. The loan notes are subject to the same security as the senior debt facilities but are subordinated to the right of payment of senior debt providers.

The loan notes were to be repaid by 31 August 2019. These loan notes were repaid by the proceeds of subordinated loan notes issued in those companies.

23. Hedging activities and derivatives

Derivatives not designated as hedging instruments

The Group uses inflation swaps to manage some of the inflation-related risk in relation to revenue. These contracts are not designated as cash flow hedges and are entered into for the period consistent with the length of the service concession arrangement contract.

Cash flow hedges

The Group uses RPI swaps and IR swaps to manage some of the inflation risk in relation to the Group's revenue and to manage interest rate risk in relation to the debt costs. The derivative contract lengths are aligned with the length of the service concession arrangement contract in relation to the RPI swaps and with the length of the debt contracts in relation to IR swaps.

Due to the nature, timing and hedging relationship, the Group qualified all IR swaps hedges to the same risk category. Due to the nature, timing and hedging relationship, the Group qualified all RPI swap hedges to the same risk category.

	31 August 2019		31 August 2018	
	£'000		£'000	
	Assets	Liabilities	Assets	Liabilities
IR swaps designated as hedging instrument	-	(176,165)	-	(133,122)
RPI swaps designated as hedging instrument	16,408	(4,620)	26,248	-
RPI swaps not designated as hedging instruments	5,889	-	7,276	-
	22,297	**(180,785)**	**33,524**	**(133,122)**

Hedging activities and derivatives (continued)

The Group chooses to adopt hedge accounting for all its derivative financial instruments which meet the qualifying criteria for hedge accounting and reflect all movements in the fair value of these derivative financial instruments, plus the associated movement in deferred tax through the cash flow hedge reserve as follows:

	31 August 2019	31 August 2018
	£'000	£'000
Fair value of derivatives used for hedging		
Creditors: amounts falling due after one year	(180,785)	(133,122)
Debtors: amounts falling due after one year	16,408	26,248
Movement in fair value of derivatives used for hedging		
Recognised profit / (loss) through OCI:		
Owners of the Parent Company	(56,587)	(106,875)
Non-controlling interest	(915)	501
Fair value of derivatives not used for hedging		
Creditors: amounts falling due after more than one year	-	-
Debtors: amounts falling due after one year	5,889	7,276
Movement in fair value of derivatives not used for hedging		
Recognised profit / (loss) through the Income Statement	(1,387)	498

The amounts at the reporting date relating to items designated as hedged items were as follows:

	31 August 2019	31 August 2018
	£'000	£'000
Interest rate risk		
Cash flow hedge reserve	(43,042)	27,076
RPI risk		
Cash flow hedge reserve	(14,460)	7,568

Hedging activities and derivatives (continued)

Interest Rate Benchmark Reform (IBOR reform)

The Group is exposed to LIBOR, within its hedge accounting relationships, which are subject to interest rate benchmark reform, The hedged items include issued sterling floating rate debt.

The Group's management is currently consulting with the institutions with which the Group has LIBOR-related financial instruments. The discussions with our counterparties are in early stages. The Group's management is also assessing the potential impact of the reform on the Group's financial statements. Based on discussion with the counterparties and market commentary, the Board currently anticipates that there will be a solution provided to entities with LIBOR-hedged cash flows which reflects the position intended by the original documentation.

Details of the hedging instruments and hedged items in scope of the IFRS 9 amendments due to interest rate benchmark reform, by hedge type, are listed in note 37.1. The terms of the hedged items listed match those of the corresponding hedging instruments.

The Group will continue to apply the amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms, with respect to the timing and the amount of the underlying cash flows that the Group is exposed, ends. The Group has assumed that this uncertainty will not end until the Group's contracts that reference LIBOR are amended to specify the date on which the interest rate benchmark will be replaced, the cash flows of the alternative benchmark rate and the relevant spread adjustment. This will, in part, be dependent on the introduction or amendments of fall-back clauses, which have yet to be added to the Group's contracts, and the negotiation with lenders and bondholders.

Liquidity maturity analysis for derivatives

The table below summarises the maturity profile of the Group's derivative financial liabilities based on contractual undiscounted payments:

		Contractual cash flows			
	Carrying amount	Less than 1 year	1-2 years	2-5 years	More than 5 years
31 August 2019	**180,785**	12,402	12,803	37,888	140,146
31 August 2018	**133,122**	8,689	11,246	30,252	111,200

For information on the impact of accounting standards and interpretations in issue but not yet effective on hedging activities and derivatives, refer to note 4. Further information on financial risk management related to hedging activities and derivatives is in note 37.

24. Fair value measurement

The following table provides the fair value measurement and hierarchy of the Group's financial assets and liabilities:

	31 August 2019		31 August 2018	
	£'000		£'000	
	Book value	Significant observable inputs Level 2	Book value	Significant observable inputs Level 2
Financial assets				
Derivatives designated as hedging instruments				
RPI swaps	16,408	16,408	26,248	26,248
Derivatives not designated as hedging instruments				
RPI swaps	5,889	5,889	7,276	7,276
Financial assets at amortised cost				
Financial receivables – service concession arrangements	102,984	102,984	103,261	103,261
Trade and other receivables	4,252	*	4,880	*
Cash at bank and in hand	231,351	*	207,781	*
	360,884		**349,446**	
Financial liabilities				
Borrowings				
Senior secured notes	500,285	527,646	512,469	531,656
Senior debt	554,180	551,698	557,584	496,094
Senior index-linked debt	581,957	528,563	450,571	422,816
Non-recourse bank debt finance	80,801	62,992	81,086	64,186
Secured subordinated loan notes	29,562	22,846	23,712	17,281
Secured bridge funding loan notes	-	-	5,100	5,119
Derivatives designated as hedging instruments				-
Interest rate swaps	176,165	176,700	133,122	133,122
RPI swaps	4,620	4,620		
Financial liabilities at amortised cost				
Trade and other payables	15,895	*	18,803	*
	1,443,180		**1,782,447**	

* The fair values for financial instruments such as short-term trade receivables and payables are a reasonable approximation of fair value.

24.1. Valuation techniques and significant unobservable inputs

Type	Valuation technique
Derivative instruments	The fair value of the derivative IR swap contracts and inflation swap contracts are estimated by discounting expected future cash flows using market interest rates and market inflation rates
Financial receivable – service concession arrangements Trade and other receivables Cash at bank and in hand Trade and other payables	The fair value of the Group's cash and cash equivalents and trade payables and receivables are not materially different from those at which they are carried in the financial statements due to the short-term nature of these instrument
Borrowings	The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate

25. Provisions for liabilities

	Dilapidations
	£'000
At 1 September 2018	126
(Credited) / charged to profit and loss account	17
At 31 August 2019	**143**
At 1 September 2017	110
(Credited) / charged to profit and loss account	16
At 31 August 2018	**126**

26. Called-up share capital

	31 August 2019	31 August 2018
	£'000	£'000
Allotted, called up and fully paid		
1,000,000 ordinary shares of £1 each	1,032	1,000

As a result of the Group restructure in February 2018, the Company became the Parent Company of UPP Group Holdings Limited, trading as UPP. Until February 2018, the Group's parent company was Student UK TopCo Limited, and the consolidated financial statements of the Group have been prepared under Student UK TopCo Limited's name.

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

Parent Company called-up share capital

	31 August 2019	31 August 2018
	£'000	£'000
Allotted, called up and fully paid		
1,000,000 ordinary shares of £1 each	1,032	1,000

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

27. Reserves

Revaluation reserve

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

Other reserve

Other reserve relates to deferred tax liability on fair value adjustments arising on business combinations prior to transition to IFRS on 1 September 2016.

Capital reserve

The capital contributions relate to benefits assigned by The Alma Mater Fund LP, which retains the risks associated with the benefits. These have been received in cash and are non-refundable.

The £143k (2018: £143k) of the capital contributions received by UPP Group Holdings Limited during the year relate to benefits assigned by a previous controlling party, The Alma Mater Fund LP, which retains the risks associated with the benefits.

Cash flow hedge reserve

Cash flow hedge reserve records the fair value movements on the derivatives' financial instruments and the deferred tax associated with these.

Retained earnings

As at 31 August 2017, UK Student TopCo Limited ('SUKT') was the Parent Company of the Group. On 27 February 2018, its direct subsidiary Student UK AcqCo Limited ('SUKA'), novated to SUKT its obligations under the Shareholder debt due for no consideration. This has been represented as a capital contribution of £606,940k made by SUKT to SUKA. This amount consists of borrowings as at 31 August 2018 of £571,697k and £35,243k of interest accrued until the end of February 2018. SUKT initially recorded the Shareholder debt novated from SUKA at its fair value assumed to represent the total value of UPP Group in the amount of £459,742k. Subsequently, Shareholders released SUKT from its obligations under the Shareholder debt, in consideration for new ordinary shares issued by SUKT. The remaining part of the debt waived has been recognised as capital contribution in retained earnings to the amount of £179,462k.

Profit and loss account

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

28. Retirement benefit schemes

Defined contribution scheme

The Group operates a defined contribution retirement benefit scheme for all employees, complying with automatic enrolment legislation from October 2013. The total cost charged to the profit and loss account of £2,086k (2018: £573k) represents a pre-determined amount of the employee's salary paid into the scheme. As at 31 August 2019, £nil (2018: £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 next contribution is 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 were as follows:

	31 August 2019	31 August 2018
	£'000	£'000
Rate of inflation	3.2%	3.2%
Rate of increase in salaries	3.8%	3.8%
Rate of increase in pensions	2.3%	2.3%
Discount rate for liabilities	1.8%	2.6%

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

	31 August 2019	31 August 2018
	£'000	£'000
Retiring today		
Males	21.7	22.7
Females	24.4	25.6
Retiring in 20 years		
Males	23.3	24.9
Females	26.2	28.0

Retirement benefit schemes (continued)

Amounts recognised in the income statement are as follows:

	Year ended 31 August 2019	Year ended 31 August 2018
	£'000	£'000
Service cost	88	88
Net interest on the defined liability	38	50
Administrative expenses	1	1
	127	**139**

Amount taken to other comprehensive income is as follows:

	Year ended 31 August 2019	Year ended 31 August 2018
	£'000	£'000
Return on scheme assets in excess of interest	69	125
Other actuarial gains / (losses) on assets	-	-
Change in demographic assumptions	260	-
Experience gain / (loss) on defined benefit obligation	-	-
Change in financial assumptions	(652)	438
Re-measurement of the net assets / (defined liability)	**(323)**	**563**

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

	31 August 2019	31 August 2018
	£'000	£'000
Present value of the defined benefit obligation	(5,328)	(4,824)
Fair value of scheme assets	3,446	3,329
Net defined benefit liability	**(1,882)**	**(1,495)**

Defined benefit obligation reconciliation is as follows:

	2019	2018
	£'000	£'000
At 1 September	4,824	5,188
Current service cost	64	88
Interest cost	124	128
Change in financial assumptions	652	(438)
Estimated benefits paid net of transfers in	(110)	(154)
Change in demographic assumptions	(260)	-
Experience gain/(loss) on defined benefit obligation	-	-
Past service cost	24	-
Contributions by scheme participants	10	12
At 31 August	**5,328**	**4,824**

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

	2019	2018
	£'000	£'000
At 1 September	3,329	3,198
Interest on assets	86	79
Return on assets less interest	69	125
Other actuarial gains/(losses)	-	-
Contributions	73	82
Administration expenses	(1)	(1)
Benefits paid	(110)	(154)
At 31 August	**3,446**	**3,329**

The estimated amounts of contributions expected to be paid to the scheme during the financial year ending 31 August 2020 is nil (2019: £70k).

Retirement benefit schemes (continued)

A sensitivity analysis on the major assumptions is presented below:

	£'000	£'000	£'000
Adjustment to discount rate	+0.1pp	none	-0.1pp
Present value of total obligation	5,236	5,328	5,422
Projected service cost	71	72	74
Adjustment to long-term salary increases	+0.1pp	none	-0.1pp
Present value of total obligation	5,337	5,328	5,319
Projected service cost	72	72	72
Adjustment to pension increases and deferred revaluation	+0.1pp	none	-0.1pp
Present value of total obligation	5,412	5,328	5,246
Projected service cost	73	72	71
Adjustment to life expectancy assumptions	+1 year	none	-1 year
Present value of total obligation	5,564	5,328	5,102
Projected service cost	73	72	71

29. Loss per share

The calculation of loss per share has been based on the following profit attributable to ordinary shareholders and a weighted-average number of ordinary shares outstanding.

	Year ended 31 August 2019	Year ended 31 August 2018
Loss attributable to ordinary shareholders (£'000)		
Basic	(17,777)	(58,538)
Diluted	(17,777)	(58,538)
Weighted average number of shares (000s)		
Basic	1,019	1,000
Diluted	1,019	1,000

Loss per share (continued)

	Year ended 31 August 2019	Year ended 31 August 2018
Issued ordinary shares at 1 September	1,000,000	1
Effect of shares issued in February 2018		999,999
Effect of shares issued in January 2019	18,667	
Issued ordinary shares at 31 August	**1,018,667**	**1,000,000**

As a result of the Group restructure in February 2018, the Company became the Parent Company of UPP Group Holdings Limited, trading as UPP. Until February 2018, the Group's parent company was Student UK TopCo Limited and the consolidated financial statements of the Group have been prepared under Student UK TopCo Limited's name.

30. Share-based payments

On 1 December 2018, the Group introduced a new share-based payment scheme for the Executive Leadership Team as part of its remuneration package. This programme was introduced by UPP Group Holdings Limited. New shares in UPP Group Holdings Limited, under the programme, will vest if certain conditions, including a defined growth in the valuation of the Business, are met. In addition, participants in this programme must be employed until the end of agreed vesting periods. At the end of the long-term incentive plan term, each participant will have the option to sell their vested shares at a price based upon the valuation of the Business at that time.

The key terms and conditions related to the grant under this programme are as follows:

Grant date:	1 December 2018
End date:	31 August 2021
Employees entitled:	Executive Leadership Team
Instruments granted:	845 shares of UPP Group Holdings Limited
Fair value at grant date:	£523.9 per share
Expected volatility:	58%
Expected life:	2.75 years
Expected dividends:	nil

Vesting date	Amount	Conditions
1 September 2019	10% of shares vesting	Service until 1 September 2019 and minimum increase in business valuation of 10.5%
1 September 2020	15% of shares vesting	Service until 1 September 2020 and minimum increase in business valuation of 10.5%
1 September 2021	75% of shares vesting	Service until 1 September 2021 and minimum increase in business valuation of 10.5%

On 1 December 2018, each participant in the scheme purchased shares based on the market value price calculated as at that date. There were 845 shares issued at a nominal of value £1 each and an unrestricted market value of £524 per share (the total value of shares issued was £443k). Each participant also received an interest-free loan of the amount equal to the value of the shares bought. The loans are repayable when the participant sell their shares or earlier if a participant ceases employment with the business.

The long-term incentive plan covers three financial years and will end at 31 August 2021.

Measurement of fair value

The fair value of the long-term incentive plan has been measured using a probability-weighted expected-returns methodology. Additional discounts for any lack of control over shares and lack of marketability (recognising the non-marketable uninfluential minority nature of the shares) were applied. The valuation estimate is based on three long cash flow forecasts (base, low and high scenarios). Cash flow forecasts have been developed for each component of the Business, taking into account a range of value drivers including:

- Individual occupancy
- RPI
- Rent levels
- Other revenue and operating costs assumptions

These forecasts have been discounted at the Group's estimated cost of equity.

The spread of outcomes of the base, low and high scenarios has been weighted by probability, which management believes captures the potential variation in its Business Plan.

31. Parent undertaking and controlling party

The Group and the Company is 60% owned by PGGM Infrastructure Fund ('PGGM'), on behalf of its pension fund clients. This entity is incorporated in The Netherlands. PGGM is the ultimate controlling party of the Group.

32. Related party transactions

As at 31 August 2018, the Directors consider that during the year, Nottingham Trent University, the University of Reading, the University of London and the University of Hull are the only related parties of the Group by virtue of their shareholdings in the Company: UPP (Clifton) Holdings Limited, UPP (Byron House) Holdings Limited, UPP (Reading I) Holdings Limited, UPP (Cartwright Gardens) Holdings Limited, UPP (Duncan House) Holdings Limited and UPP (Hull) Holdings Limited respectively.

Group

During the year, the Group has received capital contribution from its Shareholders PGGM and Okra Gee to the amount of £14,750k. This has been exchanged for 33 ordinary shares of the nominal value of £1.

During the year, the Group has paid a dividend of £8,000k to the Shareholders.

During the year, the Group incurred costs of £444k (2018: £611k) in respect of services provided by Nottingham Trent University in respect of UPP (Clifton) Holdings Limited and UPP (Byron House) Holdings Limited. An amount of £2.887k (2018: £2,778k) remains outstanding at the balance sheet date. An amount of £160k (2018: £712k) is included within creditors falling due within one year. An amount of £2,272k (2018: £2,066k) is included within creditors falling due after one year. During the year, the Group received income of £11,031k (2018: £9,130k) in respect of services provided by these companies to the University.

Loss per share (continued)

During the year, the Group incurred costs of £2,166k (2018: £2,143k) in respect of services provided by the University of Reading and received income of £29,985k (2018: £29,168k) in respect of services provided to the University. An amount of £964k (2018: £1,048k) remains outstanding at the balance sheet date and is included within debtors falling due within one year.

During the year, the Group incurred costs of £135k (2018: £130k) in respect of services provided by the University of London and received income of £10,198k (2018: £9,688k) in respect of services provided to the University. An amount of £2,519k (2018: £2,519k) remains outstanding at the balance sheet date and is included within creditors falling due after one year.

During the year, the Group incurred costs of £130k (2018: £nil) in respect of services provided by the University of Hull and received income of £nil (2018: £nil) in respect of services provided to the University. An amount of £2,645k (2018: £2,581k) remains outstanding at the balance sheet date. This is included within creditors falling due after one year.

Parent Company

As at 31 August 2018, the Company has a loan receivable from the subsidiary company UPP Group Limited. The unsecured loan to a subsidiary undertaking is for an amount of £109,018k which was advanced on 5 March 2013 by Student UK TopCo Limited. This loan bears interest at 12.75% and is repayable in March 2023.

During the year, the Company has received capital contribution from its Shareholders PGGM and Okra Gee to the amount of £14,750k. This has been exchanged for 33 ordinary shares of the nominal value of £1.

During the year, the Company has paid a dividend of £8,000k to its Shareholders.

During the year, the Company received a loan of £8,030k from its subsidiary company UPP Group Holdings Limited.

33. Investments

The Company owns 100% of the issued share capital in UPP Group Holdings Limited, which itself owns 100% of the issued share capital of UPP Group Limited.

Details of the trading subsidiaries in which UPP Group Limited holds 20% or more of the nominal value of any class of share capital (or effective interest in), and which are included within the consolidated results of these financial statements, are as follows:

Entity	Proportion	Shares held class	Nature of Business
UPP (Alcuin) Limited	100%	Ordinary	Student Accommodation
UPP (Lancaster) Holdings Limited	100%	Ordinary	Student Accommodation
UPP (Broadgate Park) Holdings Limited	100%	Ordinary	Student Accommodation
UPP (Nottingham) Limited	100%	Ordinary	Student Accommodation
UPP (Plymouth Three) Limited	100%	Ordinary	Student Accommodation
UPP (Kent Student Accommodation) Limited	100%	Ordinary	Student Accommodation
UPP (Loughborough Student Accommodation) Holdings Limited	100%	Ordinary	Student Accommodation
UPP Leeds Student Residences Limited	100%	Ordinary	Student Accommodation
UPP Loring Hall Limited	100%	Ordinary	Student Accommodation
UPP (Oxford Brookes) Limited	100%	Ordinary	Student Accommodation
UPP (Reading I) Holdings Limited	80%	Ordinary	Student Accommodation
UPP (Kent Student Accommodation II) Holdings Limited	100%	Ordinary	Student Accommodation
UPP (Clifton) Holdings Limited	80%	Ordinary	Student Accommodation
UPP (Exeter) Limited	100%	Ordinary	Student Accommodation
UPP (Byron House) Holdings Limited	80%	Ordinary	Student Accommodation
UPP (Kent Turing) Holdings Limited	100%	Ordinary	Student Accommodation
UPP (Cartwright Gardens) Holdings Limited	85%	Ordinary	Student Accommodation
UPP (Duncan House) Holdings Limited	85%	Ordinary	Student Accommodation
UPP (Hull) Holdings Limited	90%	Ordinary	Student accommodation
UPP (Swansea) Holdings Limited	100%	Ordinary	Student accommodation
UPP (Exeter 2) Holdings 1 Limited	100%	Ordinary	Student accommodation
UPP (Exeter 2) Holdings 2 Limited	100%	Ordinary	Student accommodation

Investments (continued)

Entity	Proportion	Shares held class	Nature of Business
UPP (East Park) Holdings 1 Limited	100%	Ordinary	Student accommodation
UPP (East Park) Holdings 2 Limited	100%	Ordinary	Student accommodation
UPP Bond 1 Issuer plc	100%	Ordinary	Provision of senior secured bond funding
UPP Projects Limited	100%	Ordinary	Partnerships development for the provision of student accommodation
UPP Residential Services Limited	100%	Ordinary	Provision of facilities management services
UPP (MidCo) Limited	100%	Ordinary	Holding Company

The proportion of voting rights held is in line with the proportion of shares held.

All subsidiaries listed above are registered at 40 Gracechurch Street, London, EC3V 0BT.

Notes to the financial statements

34. Non-controlling interests (NCI)

The following table summarises the information relating to each of the Group's subsidiaries that has material NCI, before any intra-group eliminations. There were no changes in the NCI percentages during the year.

	UPP (Byron House) Holdings Limited	UPP (Cartwright Gardens) Holdings Limited	UPP (Clifton) Holdings Limited	UPP (Reading I) Holdings Limited	UPP (Duncan House) Holdings Limited	UPP (Hull) Holdings Limited
31 August 2019	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
NCI percentage	**20%**	**15%**	**20%**	**20%**	**15%**	**10%**
Non-current assets	58,000	155,400	39,700	338,246	108,213	153,590
Current assets	3,714	8,821	6,052	11,554	18,742	13,300
Non-current liabilities	(75,001)	(151,409)	(39,619)	(287,824)	(109,066)	(156,913)
Current liabilities	(2,959)	(4,563)	(14,776)	(4,886)	(16,842)	(10,420)
Net assets	**(16,246)**	**8,249**	**(8,643)**	**57,090**	**1,046**	**(444)**
Net assets attributable to NCI	(3,361)	(1,324)	(1,806)	10,975	-	(270)
Revenue	6,207	10,154	4,796	30,141	-	4,220
Profit / (loss)	472	(1,187)	(10)	(2,391)	-	(1,461)
OCI	304	330	(4,348)	10	-	-
Total comprehensive income	**776**	**(857)**	**(4,358)**	**(2,381)**	**-**	**(1,461)**
Profit allocated to NCI	0	(293)	(2)	(478)	-	(217)
Total OCI allocated to NCI	155	(249)	(860)	(476)	-	(217)
Cash flows from operating activities	3,786	7,827	3,310	16,465	29,249	25,936
Cash flows from investment activities	14	(128)	13	23	(27,873)	(40,051)
Cash flows from financing activities (dividends to NCI: nil)	(4,616)	(7,224)	(3,085)	(16,675)	(14,301)	(21,954)
Net increase / (decrease) in cash and cash equivalents	(816)	475	238	(187)	(12,925)	(36,069)

Notes to the financial statements

Non-controlling interests (NCI) (continued)

	UPP (Byron House) Holdings Limited	UPP (Cartwright Gardens) Holdings Limited	UPP (Clifton) Holdings Limited	UPP (Reading I) Holdings Limited	UPP (Duncan House) Holdings Limited	UPP (Hull) Holdings Limited
31 August 2018	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)	(£'000)
NCI percentage	**20%**	**15%**	**20%**	**20%**	**15%**	**10%**
Non-current assets	58,000	155,400	39,700	338,466	80,340	115,167
Current assets	4,549	7,568	6,498	11,788	32,357	51,300
Non-current liabilities	(74,804)	(149,449)	(49,614)	(286,260)	(109,144)	(125,618)
Current liabilities	(4,768)	(4,415)	(925)	(4,527)	(2,506)	(39,832)
Net assets	**(17,023)**	**9,104**	**(4,341)**	**59,467**	**1,046**	**1,017**
Net assets attributable to NCI	(3,516)	(1,031)	(945)	11,451	-	(53)
Revenue	4,562	9,646	4,630	29,368	-	1,463
Profit / (loss)	(1,312)	(3,257)	(455)	(2,299)	-	(230)
OCI	670	14,571	133	15,333	-	-
Total comprehensive income	**(642)**	**11,314**	**(322)**	**13,034**	**-**	**(230)**
Profit allocated to NCI	(262)	(490)	(91)	(461)	-	(23)
OCI allocated to NCI	(128)	2,176	526	2,605	-	(23)
Cash flows from operating activities	3,129	7,367	3,025	15,810	891	7,303
Cash flows from investment activities	(29)	33	3	(131)	(26,483)	(56,204)
Cash flows from financing activities (dividends to NCI: nil)	(2,973)	(7,410)	(3,058)	(14,616)	3,653	52,085
Net increase / (decrease) in cash and cash equivalents	127	(10)	(30)	1,063	(21,939)	3,184

35. Cash and cash equivalents

	31 August 2019	31 August 2018
	£'000	£'000
Cash at bank and in hand	214,013	207,734
Short-term deposits	17,338	47
Cash and cash equivalents	**231,351**	**207,781**

The cash and cash equivalents disclosed above and in the statement of cash flows include £180,430k as at 31 August 2018 (£191,742k as at 31 August 2018) of restricted cash. This cash is subject to be used only by SPVs in line with the service concession agreements and are therefore not available for general use by the other entities within the Group.

36. Reconciliation of movements of liabilities to cash flows arising from financing activities

	Total	Borrowings	Share capital	Share premium	Retained earnings
	£'000	£'000	£'000	£'000	£'000
31 August 2018		**1,630,522**	**1,000**	**458,767**	**(244,421)**
Financing activities					
New debt drawn	123,354	123,354	-	-	-
Repayment of senior debt	(11,026)	(11,026)	-	-	-
Repayment of fixed rate debt	(4,008)	(4,008)	-	-	-
Repayment of index-linked debt	(9,144)	(9,144)	-	-	-
Interest paid	(52,656)	(52,656)	-	-	-
Finance lease payments	1,356	1,356	-	-	-
Dividends paid	(8,000)	-	-	-	(8,000)
Capital contributions	14,750	-	32	14,718	-
Net cash flow from / (used in) financing activities	**54,626**	**47,876**	**32**	**14,718**	**(8,000)**
Interest expense		71,590	-	-	-
Interest income on finance receivable		(3,204)	-	-	-
Equity related other changes		-	-	-	(17,865)
31 August 2019		**1,746,784**	**1,032**	**14,718**	**(270,286)**

Reconciliation of movements of liabilities to cash flows arising from financing activities (continued)

During the financial year, the Group received £14,750k of capital contribution from its Shareholders that was used to incorporate new entities. The capital contribution was exchanged for the £32k of shares and £14,718k of share premium.

37. 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.

37.1. Market risk

Interest rate risk

The Group finances its operations through a mixture of equity, bank borrowings and secured listed bond notes. The Group's exposure to interest rate fluctuations on its bank borrowings is managed by the use of fixed-rate debt and IR swaps which fix variable interest rates for a period of time.

When the associated bank borrowings are fully repaid, the Group may be required to terminate the IR swaps earlier than they mature and may become liable to pay penalties. When this occurs the cost of this termination is taken to the profit and loss account on termination.

As at 31 August 2019 and 31 August 2018, the Group has entered into the following IR swaps with external parties:

- an IR swap with UPP (Loughborough) Limited, of £24,816k nominal amount, commencing in June 2009 and finishing in June 2039
- an IR swap with UPP (Loughborough) Limited, of £24,816k nominal amount, commencing in December 2010 and finishing in June 2039
- an IR swap with UPP (Lancaster) Limited, of £176,248k nominal amount, commencing in November 2010 and finishing in March 2042
- an IR swap with UPP (Clifton) Limited, of £33,097k nominal amount, commencing in November 2012 and finishing in May 2039
- an IR swap with UPP (Kent Student Accommodation II) Limited, of £19,690k nominal amount, commencing in October 2010 and finishing in August 2041
- an IR swap between UPP Leeds Student Residences Limited, of £24,944k nominal amount, commencing in June 2008 and finishing in August 2044

The Group adopts hedge accounting for all of the IR swaps noted above.

The hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments; or
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments.

The Parent Company is not exposed to material interest rate risk. The Company has a fixed interest loan receivable. No other Company's financial instruments are exposed to interest rate risk.

Market risk (continued)

Inflation rate risk

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

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

Hedge arrangements with external parties as at 31 August 2019 and 31 August 2018 are as follows:

- a 27-year RPI swap with £255k nominal amount, commencing in February 2014 and finishing in February 2040
- a 27-year RPI swap with £255k nominal amount, commencing in February 2014 and finishing in February 2040
- a 27-year RPI swap with £255k nominal amount, commencing in August 2013 and finishing in February 2040

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

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

- a 25-year RPI swap with UPP (Alcuin) Limited with payments/receipts commencing in February 2015 and finishing in August 2038, of £1,004k nominal amount
- a 27-year RPI swap with UPP (Broadgate Park) Holdings Limited with payments/receipts commencing in February 2015 and finishing in February 2040, of £1,752k nominal amount
- a 27-year RPI swap with UPP (Kent Student Accommodation) Limited with payments/receipts commencing in February 2015 and finishing in February 2040, £624k nominal amount
- a 27-year RPI swap with UPP (Nottingham) Limited with payments/receipts commencing in February 2015 and finishing in February 2040, of £1,784k nominal amount
- a 26-year RPI swap with UPP (Oxford Brookes) Limited with payments/receipts commencing in February 2014 and finishing in August 2039, of £765k nominal amount
- a 27-year RPI swap with UPP (Plymouth Three) Limited with payments/receipts commencing in February 2015 and finishing in February 2040, of £1,374k nominal amount

In addition, the Group has entered into five inflation swaps with external parties as follows:

- a 30-year RPI swap with UPP (Loughborough) Limited, of £454k nominal amount, commencing in June 2009 and finishing in June 2039
- a 29-year RPI swap with UPP (Loughborough) Limited, of £454k nominal amount, commencing in December 2010 and finishing in June 2039
- a 32-year RPI swap with UPP (Lancaster) Limited, of £2,567k nominal amount, commencing in November 2010 and finishing in March 2042
- a 27-year RPI swap with UPP (Clifton) Limited, of £603k nominal amount, commencing in November 2012 and finishing in May 2039

Market risk (continued)

- a 31-year RPI swap with UPP (Kent Student Accommodation II) Limited, of £873k nominal amount, commencing in October 2010 and finishing in August 2041

RPI swaps are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured 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, three of the RPI swaps noted above - at UPP (Kent Student Accommodation) Limited, at UPP (Plymouth Three) Limited and UPP (Kent Student Accommodation II) Limited – do not qualify for hedge accounting as the hedged item does not meet the qualifying criteria of being separately-identifiable and reliably-measurable and, as a result, any changes in fair values of the derivatives are recognised through the profit and loss and therefore introduce some volatility to the profit and loss. 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.

For swaps that are in a hedging relationship, the hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments; or
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments.

The sensitivity analysis below describes possible movements in inflation with all other variables held constant, showing the impact on profit before tax and equity.

		Effect on fair value of financial instruments	Effect on equity
		£'000	£'000
1 September 2018 – 31 August 2019			
Financial derivatives (RPI Swaps)	Increase of 25 basis points	(11,522)	(11,522)
	Decrease of 25 basis points	13,458	13,458
1 September 2017 – 31 August 2018			
Financial derivatives (RPI Swaps)	Increase of 25 basis points	(13,655)	(13,655)
	Decrease of 25 basis points	12,741	12,741

The Parent Company is not exposed to inflation rate risk.

Market risk (continued)

Demand risk

The Group is subject to risks arising from occupancy voids and lack of nominations by its 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 annually to enable the Group to review its strategic position.

37.2. 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 following are contractual maturities of debt liabilities at the reporting date. The amounts are gross and undiscounted and include the contractual interest payments.

	31 August 2019	31 August 2018
	£'000	£'000
Repayable within one year or on demand	36,204	50,725
Repayable in more than one year but less than two years	38,798	37,066
Repayable in more than two years but less than five years	134,529	120,963
Repayable in more than five years	1,718,039	1,443,513
	1,927,570	**1,652,267**

37.3. Credit risk

The Group is exposed to credit risk from its operating activities (primarily from trade receivables) and from its financing activities, including deposits with banks and derivatives.

The Group receives the majority of its revenue in the form of rents passing from universities.

Credit risk from balances with banks and derivatives is managed through the Group's treasury policy. The Group sets up deposits and swap instruments only with the banks that have sufficient credit ratings and monitors those ratings on regular basis.

The credit risk also relates to receivables from main counterparties which are universities. The Group manages credit risk by careful selection of the universities with which it chooses to partner and monitors the financial position of these universities on regular basis. As a research-led business, it applies its own methodology for understanding the long-term performance of potential partner institutions. The credit risk is assessed and managed by:

- its bespoke contractual arrangements with partner universities;
- managing demand, both operationally through its specialist asset management division, UPP Management, and its operations company, UPP Residential Services Limited;
- performing regular reviews of financial information of partner universities;
- performing regular reviews of higher education statistical data such as application rates, current university rankings that give an indication of future demand and the financial position of a specific university;
- analysing higher education reports and undertaking internal research by assessing demand for UK higher education from the perspective of UK and international students;
- performing macroeconomic research of UK and international higher education markets;
- analysing demographic data that has an impact on the higher education market;
- monitoring Office for Student reports, which acts as a regulator for universities;
- performing analysis of the occupancy ratios of the accommodation that the Group provides to partner universities;
- performing an analysis of aging of the receivables from universities; and
- maintaining close relationships with partner universities through regular dialogue and meetings.

On the basis of the following information:

- the stable financial situation of partner universities;
- a lack of information on potential worsening this situation in the foreseeable future; and
- that universities are considered to be public institutions and that their financial stability is guaranteed by the Office for Students,

management assesses that there is no material credit risk. The Group has not recognised expected credit loss in relation to financial receivables.

The carrying amount of financial assets represents the maximum credit exposure.

Gross carrying amount of financial assets by credit risk rating grades:

	Gross carrying amount as at 31 August 2019	Credit impaired	Gross carrying amount as at 31 August 2018	Credit impaired
	£'000		£'000	
Low risk	253,648	No	241,305	No
Fair risk	107,180	No	107,649	No
	360,828		**348,954**	

Low risk assets are assets receivable from institutions that are rated and their rating is equivalent to Standard and Poor credit rating in the range of BBB- to AAA.

Fair risk assets relate to receivables from public institutions with a stable financial situation and no record of payment delay over 30 days.

There is no collateral or other credit enhancements in relation to the financial assets.

The Parent Company is not exposed to significant credit risk. The loan asset is receivable from the Company's subsidiary, UPP Group Limited. The carrying amount of financial assets represents the maximum credit exposure. The Company did not recognise impairment in relation to the loan from UPP Group Limited.

38. Financial commitments

At 31 August 2019, the Group had an amount of £97,142k (2018: £89,231k) commitments contracted for but not provided for at that date. This related to the ongoing construction of rooms of student residential accommodation.

At 31 August 2019, the Group had future minimum lease payments under non-cancellable operating leases as follows:

Operating leases which expire:	Year ended 31 August 2019	Year ended 31 August 2018
	Land and buildings	Land and buildings
	£'000	£'000
Not later than one year	486	486
After one year but not more than five years	120	606

At 31 August 2019, the Group had no financial commitments other than the operating lease set out above.

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