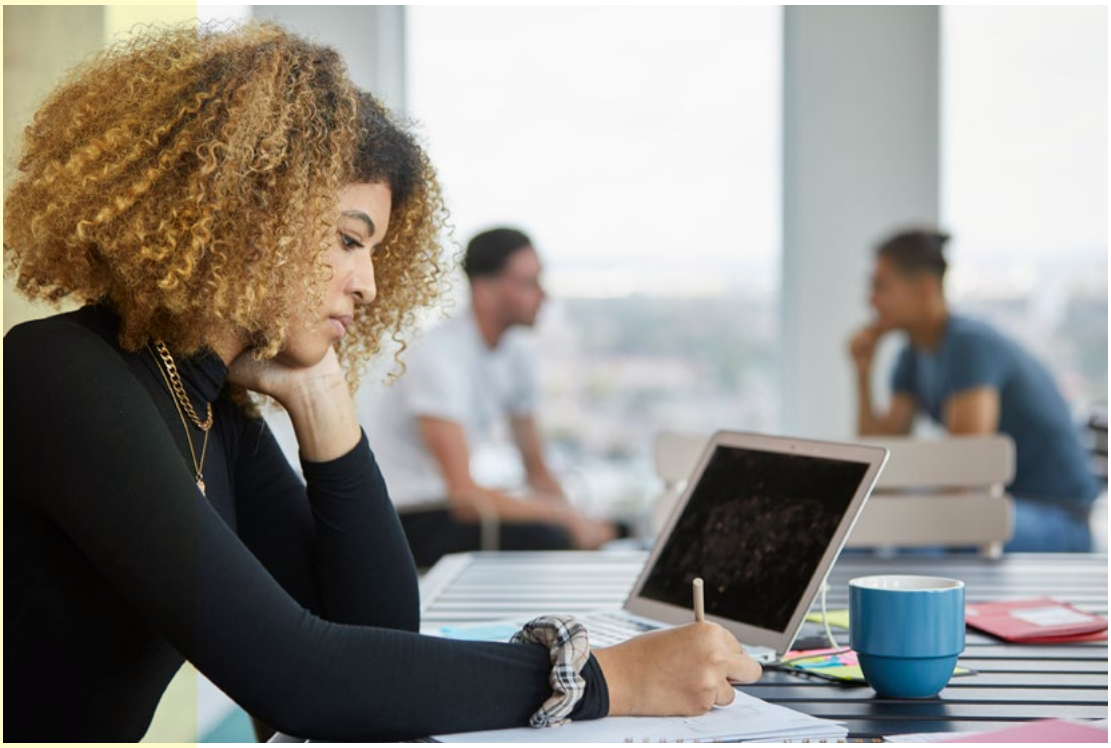
UPP Bond 1 Limited Half Year Summary

For the six months ended 28 February 2021



This Half Year Summary is being published by UPP Bond 1 Limited ('The Group Agent') on behalf of UPP Bond 1 Holdings Limited ('HoldCo'), UPP Bond 1 Issuer Plc ('Issuer'), UPP (Alcuin) Limited, UPP (Broadgate Park) Holdings Limited, UPP (Kent Student Accommodation) Limited, UPP (Nottingham) Limited, UPP (Oxford Brookes) Limited, UPP (Exeter) Limited and UPP (Plymouth Three) Limited ('The AssetCos') (together the 'Obligors') pursuant to the Common Terms Agreement ('CTA').

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Disclaimer

Forward-looking statements

Unless otherwise stated, the figures in the Summary reflect the position as at 28 February 2021. In addition, the Summary contains forward-looking statements that reflect the current judgment of the management of the Obligors regarding conditions that it expects to exist in the future. Forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will occur in the future and, accordingly, are not guarantees of future performance.

Management's assumptions rely on its operational analysis and expectations for the operating performance of each Obligor's assets based on their historical operating performance and management expectations as described herein. Factors beyond management's control could cause events to differ from such assumptions and actual results to vary materially from the expectations discussed herein. Investors are cautioned that the assumptions and forecast information included herein are not fact and should not be relied upon as being necessarily indicative of future results and are cautioned not to place undue reliance on such assumptions and forecast information. It should also be noted that the information in this Investor Report has not been reviewed by the Obligors' auditors.

Note on higher education sector

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This report is not intended as an offer for sale or subscription of, or solicitation of any offer to buy or subscribe, any security of UPP Bond 1 Issuer Plc or any other member of the UPP Group nor should it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whomsoever.

HALF YEAR SUMMARY

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

1.0

General overview

Photo credit: Robert Greshoff

GENERAL OVERVIEW

UPP Bond 1 Holdings Limited

UPP Bond 1 Holdings Limited results for the six months ended 28 February 2021

Financial highlights for the six months ended 28 February 2021

£'000	February 2021	February 2020	Change %
Turnover	33,804	33,571	0.7
Gross profit	23,415	23,316	0.4
EBITDA*	21,813	21,937	(0.7)
EBITDA margin*	64.5%	65.3%	

**Earnings before interest, tax, depreciation and amortisation (EBITDA) before sinking fund expenditure*

Business highlights

- Occupancy for 2020/21 of 96.8% (2019/20: 99.6%)
- Turnover up by 0.7% to £33.8 million (2019/20: £33.6 million), reflecting RPI-linked annual term rental income increases offsetting lower occupancy at UPP (Kent Student Accommodation) Limited of 68%
- Gross profit of £23.4 million (2019/20: £23.3 million)
- EBITDA margin of 64.5% (2019/20: 65.3%)
- Both Historic and Projected Senior Debt Service Coverage Ratios for February 2021 test date above lock-up triggers
- UPP (Kent Student Accommodation) Limited reported occupancy of 68% triggering a Level 2 Phase 1 Monitoring Trigger Event with subsequent enhanced reporting as required by the Monitoring Services Agreement
- At UPP (Plymouth Three) Limited, enhanced monitoring continues to progress effectively and additional investment in works to improve the quality of the AssetCo accommodation is having a positive impact on occupancy
- Recognising the pressures faced by our university partners, the Company and the wider Group offered a package to support our partners through the pandemic

Elaine Hewitt
Chief Executive Officer

"During the six months ending 28 February 2021 UPP Bond 1 Holdings Limited has demonstrated positive performance in light of the wider impact of restrictions imposed to mitigate the COVID-19 pandemic. In what has proved a challenging period for our operational teams and our partnerships, turnover increased 0.7% from £33.6 million to £33.8 million. EBITDA at £21.8 million remained in line with projections.

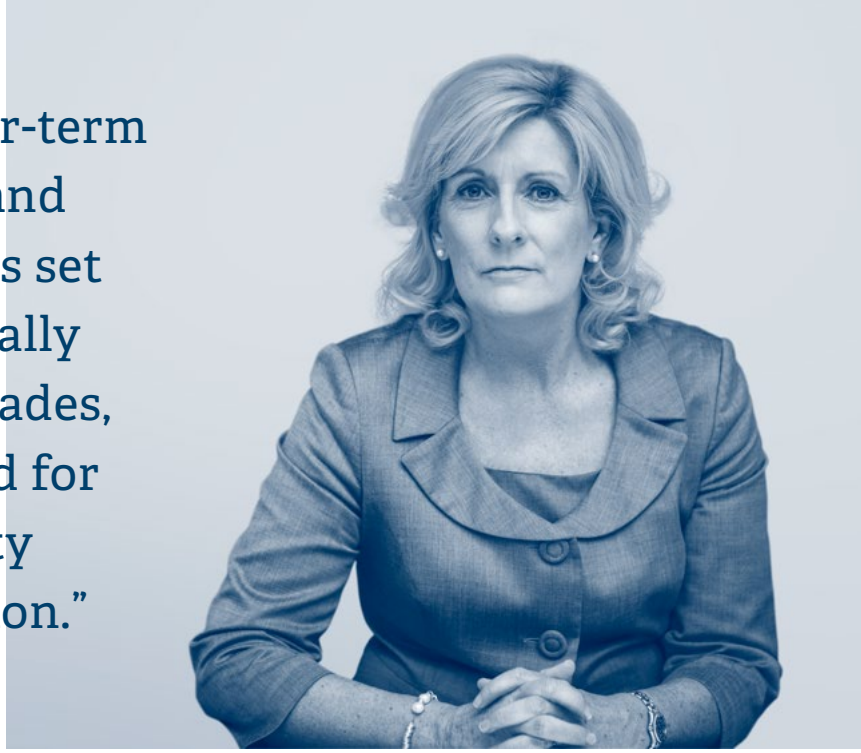
With occupancy of 96.8%, the performance of UPP Bond 1 Holdings Limited has remained resilient during a period of considerable disruption across higher education.

The Company recognised the pressures faced by partners during the pandemic and enhanced its service offering to ensure Covid-19 secure accommodation. A range of commercial and financial support options were offered which are now being explored further with each partner given significant financial pressures on universities.

Academic demand for UK HE remains strong with data from the Universities and Colleges Admissions Service (UCAS), based on the 15 January 2021 deadline, identifying that a total of 616,360 people had applied to study – a significant increase of more than 8% on the equivalent point in the 2020 cycle. Whilst Brexit has had a negative impact on the number of EU applicants so far in this cycle, an increase in domestic applicants of 11.6% and in international students of 17.1% year on year, demonstrate the continuing strength of the sector.

Photo credit: Robert Greshoff

"In terms of the longer-term market outlook, demand for higher education is set to increase exponentially over the next two decades, underscoring the need for additional high-quality student accommodation."



At the time of writing, there remain contingent risks to occupancy - disclosures on which are outlined in this summary. Notwithstanding these, the Directors are of the opinion that a combination of mitigating activity undertaken by Government and the sector; the capacity of universities to refocus their recruitment; and the credit positive elements of the Company's business model have the capacity to significantly ameliorate risks to short-term occupancy.

In terms of the longer-term market outlook, there remains strong demographic and supply evidence to suggest that demand both for UK higher education and residential accommodation will continue."

Enquiries

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Photo credit: Robert Greshoff

1.1 Summary of the UPP Group business

UPP Group (defined as UPP Group Holdings Limited and its subsidiaries) is the leading provider of on-campus student accommodation infrastructure and support services within the UK. We have over 36,000 rooms in operation or under construction through long-term partnerships with 15 world-leading universities, of which 11,693 are rooms operated by the AssetCos.

The key features of UPP Group's cash-generative business model, based on bespoke partnerships with the universities and including the seven AssetCos, are:

- An integrated service model for universities encompassing the funding, design, construction and operation of student accommodation
- A business model underpinned by long-term contracts (typically in excess of 40 years) with all partner universities
- Annual rent increases for the life of the project linked to the Retail Price Index ('RPI')
- Outside of London, a restrictive covenant regime that limits long-term competing university supply in order to maintain healthy demand dynamics
- Partnerships with leading institutions targeted on the basis of its own rigorous selectivity criteria
- Accommodation is always located on, or very near to, campus, which is the preferred location for target cohorts of first-year domestic and international undergraduate and postgraduate students
- Average occupancy over the last five years has been in excess of 99.4% across the AssetCos
- Credit and void risk is passed to the university partner
- UPP's accommodation is marketed at the agreed rent concurrent to, and at least on an even-handed basis with, a university's own stock
- An ability to pass certain cost increases related to utilities, insurances, changes in law and variations through to student rents to the extent that they are not covered by the annual RPI-linked uplift
- Facilities management costs are subject to periodic benchmarking exercises

1.2 Summary of bond issuance

On 5 March 2013, UPP Bond 1 Issuer Plc issued a £382.1 million secured bond listed on the Irish Stock Exchange. The bond was secured against the income from the properties at the University of York, the University of Nottingham, Nottingham Trent University, the University of Kent, Oxford Brookes University and the University of Plymouth ('the AssetCos'). UPP Bond 1 Holdings Limited is a wholly-owned subsidiary of UPP Group and was initially set up to be the intermediate holding Company for the six AssetCos.

This issuance comprised two tranches:

- £307.1 million 4.9023% amortising fixed-rate bond due 2040
- £75.0 million 2.7921% amortising index-linked bond due 2047

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

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

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

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

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

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

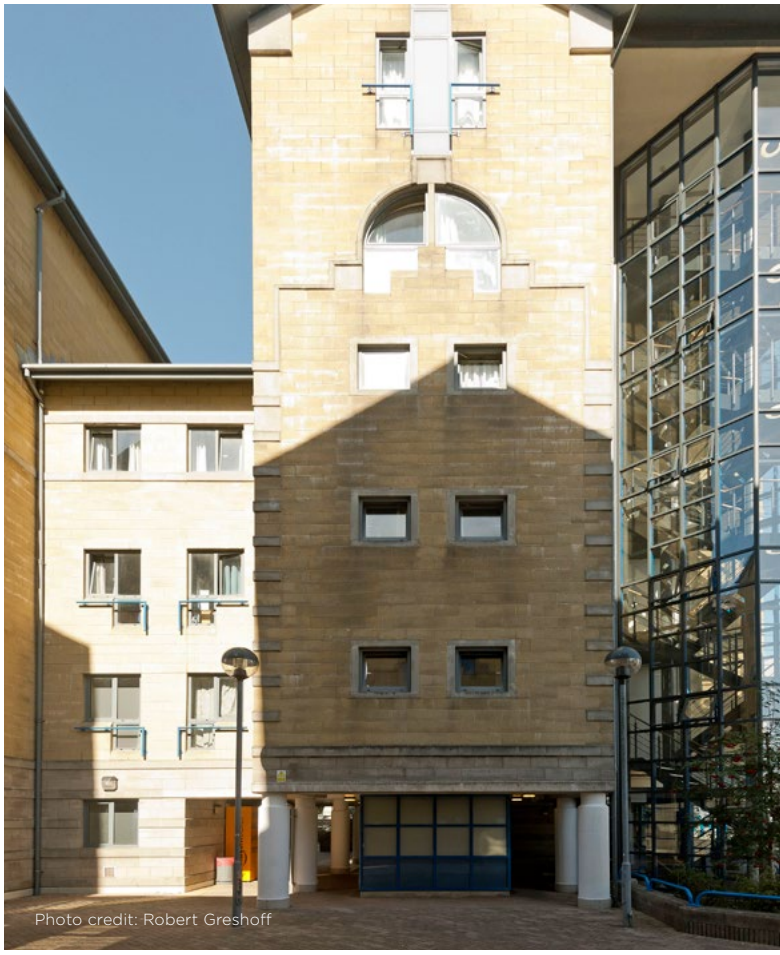
Photo credit: Robert Greshoff

2.0

Trading update

Photo credit: Robert Greshoff

2.1 Business Developments

Despite challenging operating conditions, the results for the six months ended 28 February 2021 continue to demonstrate the resilience of the UPP business model, which delivers returns based on stable, long-term, RPI-linked revenues.

The principal activities of the Group during the six months continue to be the development, funding, construction, and operation - including facilities management (FM) - of student accommodation. While the wider UPP Group has continued to deliver new accommodation with existing partners, increasing the number of operational beds under management, there have been no additions to the UPP Bond 1 portfolio in the reporting period.

During the period, UPP Bond 1 Holdings Limited ('the Company') saw turnover increase by 0.7% to £33.8 million (2019/20: £33.6m) with contractual rental increases being applied across the Bond portfolio. Gross profit also grew to £23.4 million, with the Company maintaining a healthy EBITDA margin of 64.5%. The operational performance remained strong given the impact of the COVID-19 pandemic, achieving 96.8% occupancy during the six months and with all Terms One and Two rents received from university partners.

UPP began the year with a successful student intake across the portfolio, with all accommodation made COVID-19 secure and bespoke arrivals plans in place with each of our partners. As part of these preparations, the British Safety Council was invited to undertake an independent assessment of our COVID-19 secure arrangements for which an assurance statement of compliance was received.

In addition to making sure all accommodation has remained open, continuity of service has been maintained and students have been well looked after. UPP has absorbed all relevant costs associated with providing COVID-19 secure assurance and has invested more heavily in technology to support digitally enhanced student experience activities so that our remaining resident students are able to enjoy an immersive experience during their time on campus, despite the constraints. We continue to work with our partners to prioritise the safety and wellbeing of our residents and our teams, and to support students in self-isolation.

Whilst there remains some uncertainty regarding how the situation will develop, at the time of writing, the Company can confirm that lettings for the academic year 2021/22 are in line with expectations.

The Group has continued its focus on the long-term strategic management of assets under operation and has advanced a full defects management programme across the portfolio. The Directors are reviewing opportunities for additional equity investment in the AssetCos to further enhance the accommodation offering. Should these plans be developed further, the Directors will engage with the Monitoring Adviser as appropriate. In terms of the performance of individual AssetCos for the academic year 2020/21, the Company continues to manage the following issues;

- UPP (Exeter) Limited
  A repairs programme is underway following the controlled explosion of a World War II bomb discovered on a construction site adjacent to the University. This damaged a number of windows and elements of cladding at the AssetCo. The costs of this damage are expected to be covered by insurance.

- UPP (Kent Student Accommodation) Limited
  During the period, the AssetCo reported occupancy of 68% triggering a Level 2 Phase 1 Monitoring Trigger Event with subsequent enhanced reporting as required by the Monitoring Services Agreement. This fall in occupancy can largely be attributed to a decline in postgraduate enrolments at the University – a cohort subject to greater demand elasticity than UK undergraduate numbers – as a result of the COVID-19 pandemic.


Photo credit: Robert Greshoff

Uncertainty over the ability of international students to travel to the UK significantly disrupted the sector late in the sales cycle. In line with the Common Terms Agreement, the Kent AssetCo and UPP Bond 1 Limited have developed a remedial plan in relation to the Trigger Level 2, Phase 1 Monitoring Trigger Event which includes a proposed cure period and specific measurable milestones ('Performance Objectives') to rectify the situation. The AssetCo provides quarterly reports to Monitoring Adviser, Bishopsfield Capital Partners Limited, outlining its actual performance against its Performance Objectives.

- UPP (Nottingham) Limited
  Following the issuing of a consent request and subsequent Monitoring Adviser Recommendation in relation to UPP (Nottingham) Limited and Nottingham Trent University on 18 August 2020, the Company and the University entered a Triparty Agreement in relation to an underwrite of the accommodation on the basis of the Company's expectation that the AssetCo accommodation would achieve 100% occupancy during the 2020/21 and 2021/22 academic years. The AssetCo is fully occupied for 2020/21, without needing to utilise this underwrite, and expects to be fully occupied for 2021/22.

  The Company believes that the University will be in a position to demonstrate satisfaction of the required tests in relation to Relevant Arrangements in future and continues to work with the University to ensure adherence to the terms of the Primary FM Agreement.

  The Company is also working with the University to ensure it receives the information required to monitor the University's compliance with the various Primary Agreement tests.

- UPP (Plymouth Three) Limited
  At UPP (Plymouth Three) Limited, enhanced monitoring in relation to the AssetCo, conducted since 1 September 2019, continues to progress effectively. This has been underway following the decision to transfer an exceptional £2.9 million to the Maintenance Reserve Account as an investment into the portfolio and the occurrence of a Trigger Level 2, Phase 1 Monitoring Trigger Event. The additional investment in these works to improve the quality of the AssetCo accommodation is having a positive impact on occupancy, which has continued to improve - reporting 97.8% for the financial year 2019/20 and 99.7% for 2020/21.

  During 2020, intrusive survey works identified defects in the cladding on the Francis Drake hall of residence at the AssetCo. Temporary remedial works were completed prior to students arriving to ensure that the building was safe for occupation, with further initial remedial works being completed at the end of the 2020 calendar year and early in 2021. The Company is now assessing the appropriate permanent remedial works, with a view to commencing those works during summer 2021. Currently, design, cost, and programme reviews are progressing as required in order to appoint a contracting team to deliver these works.

  A conservative estimate of expenditure, £4.2m, has been included in the forward-looking ratios to 28 February 2022. The Company is also considering its recourse options against the original build contractor but has not included an assumption of potential recovery in the ratios. This anticipated expenditure results in a Projected AssetCo DSCR of 0.31 for UPP (Plymouth Three) Limited and the Company will engage with the Monitoring Adviser to put in place an appropriate monitoring regime as required and to procure any necessary consents relating to the above.

2.2 General Overview

UK higher education (HE) continues to see strong rates of academic demand both domestically and from overseas, with the UK remaining the most popular global destination for international students outside the United States.

For the academic year 2020/21, UCAS data as at 4 September 2020 (the end of Clearing) identified an overall increase in placed applicants of 4% year on year to 508,090. The 2020 clearing cycle proved to be a particularly active period following the adoption of centre assessed grades. A combination of the end of the first UK COVID-19 lockdown and more students in the system allowed many institutions to increase placed applicant numbers. Overall, this saw an increase in both UK and non-EU placed applicants of 4% and 7% respectively. There was, however, a 5% decrease in applicants placed from EU countries.

The benefit of increased numbers of placed applicants did, however, vary according to institutional entry tariff. Universities classified as high tariff saw placed applicant numbers increase by 11% to 169,570, with medium tariff universities growing by 1%. The number of placed applicants at lower tariff institutions remained at the same level. Those placed to their firm choice institution were up 5% to 397,990 and represent approximately two-thirds of those placed. The COVID-19 pandemic did impact on the number of applicants seeking to defer. Year on year, these were up by 8% to 27,630, however, this represents only 2,000 students.

The most recent comparative applicant data for the UCAS 15 January deadline suggests that both the impact of Brexit and COVID-19 has not materially diluted academic demand in the UK. Overall applicant numbers showed an increase of 8% to more than 616,000. Applicant numbers from the UK were up by 12%, an increase of +52,520, whilst applicants from outside the EU (excluding UK) increased by 17% (+12,530). EU student applicant numbers, post-Brexit, were down by 40%, the equivalent of 17,000 students. This was less than anticipated by sector modelling undertaken by the Higher Education Policy Institution (HEPI) and London Economics (https://www.hepi.ac.uk/2019/08/08/what-will-brexit-mean-for-student-demand/), resulting in a net increase across the sector as whole of 48,000 extra applicants year on year

An important element of the data has been the continuing increase in demand from 18-year-old applicants. The participation rate for this UK first-year cohort has been increasing consistently over the last decade and for the 2021 applicant cycle increased again, by 11.4% which is significantly higher than the 2% projected.

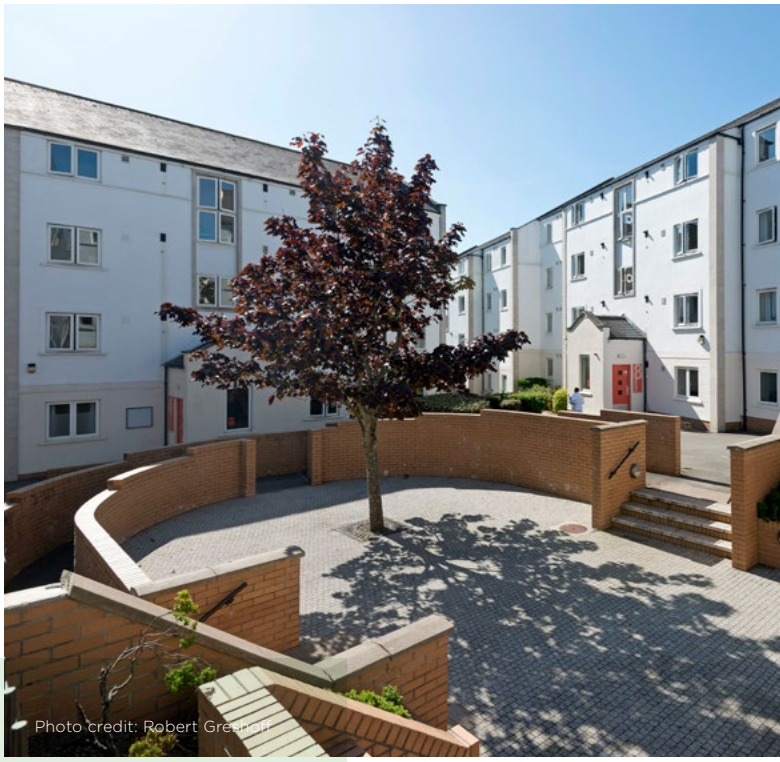

Photo credit: Robert Greenall

Figure 2.21 - Applicants for all courses by domicile group (15 January 2021 deadline)

App. Domicile	2016	2017	2018	2019	2020	2021
England	408,990	385,870	374,440	373,740	373,860	415,470
Northern Ireland	20,400	19,479	18,530	17,910	17,400	18,780
Scotland	45,420	44,530	44,900	43,340	42,530	49,360
Wales	21,130	19,620	19,100	18,850	18,430	21,120
UK	**495,940**	**469,490**	**457,070**	**453,840**	**452,220**	**504,740**
EU (excl. UK)	45,220	42,070	43,510	43,890	43,030	26,010
Non-EU	52,560	52,630	58,450	63,690	73,080	85,610
Total	**593,720**	**564,190**	**559,030**	**561,420**	**568,330**	**616,360**

(Source: UCAS)

In terms of enrolments, the most recent data published by the Higher Education Statistics Agency (HESA), covering the academic year 2019/20, identifies that full-time student numbers increased by 74,925 to 2,015,320 (+3.9%). This means that over the last five years, the full-time total demand pool for accommodation has increased by 230,000 students, whilst new beds becoming operational has been circa 150,000. Total full-time first-year enrolment was also up by 58,000 year on year – a total of 140,000 extra on 2015/16.

Enrolments for full-time, first-year undergraduate students, which form the key demand pool for on-campus accommodation, were up 4.4% (+25,000) to 594,850, having witnessed sustained annual growth over the last five years. Growth in first-year postgraduate enrolments have proved stronger still and are up 33,000 year on year, and 90,000 on the academic year 2015/16. Over the period, this represents a 42.8% increase as more recognise the value of postgraduate qualifications in improving employability.

In terms of the longer-term market outlook, there continues to be strong evidence to suggest that demand both for UK HE and residential accommodation will continue. Demand modelling by HEPI to 2030 has identified that the demographic decline in 18-year-olds in the UK, which halted in 2019, will be followed by an increase in the young population of circa 23% during the next decade. This will lead to a minimum increase in demand for HE of 50,000 places on the basis of demography alone and up to 350,000 places assuming increases in participation.
(https://www.hepi.ac.uk/2018/03/15/demand-higher-education-2030/).

Globally, demand for higher transnational education is also set to increase. The number of young people aged 25 to 34 years old with a tertiary qualification increased by nearly 45% in OECD and G20 countries between 2005 and 2013. OECD projections expect this increase to continue until at least 2030, which will see those with a degree qualification increase from less than 14% at the start of the century to more than 45% by 2030. This will underpin the continued global mobility of students from which UK HE, as the most popular destination for international students outside the United States, will benefit. (http://www.oecd.org/education/skills-beyond-school/EDIF%2031%20(2015)--ENG--Final.pdf).

It also remains the case that there is strong demand to study away from home. More than 1.18m students study outside of their home region. Research has also identified that despite increases in the cost of study, there remains continuity in the proportion of students choosing to live on campus rather than at home. More than 80% of students still live away from home and this figure has remained constant despite increases in the cost of participation. (https://www.hepi.ac.uk/wp-content/uploads/2019/11/HEPI_Somewhere-to-live_Report-121-FINAL.pdf).

Finally, there remains a significant structural shortfall in residential supply, with a total of 681,000 purpose built bed spaces available for more than 2m full-time students. Despite the development of an estimated 327,000 bed spaces over the last decade, demand for accommodation continues to increase more rapidly than supply. (https://www.cushmanwakefield.com/en/united-kingdom/insights/uk-student-accommodation-report).

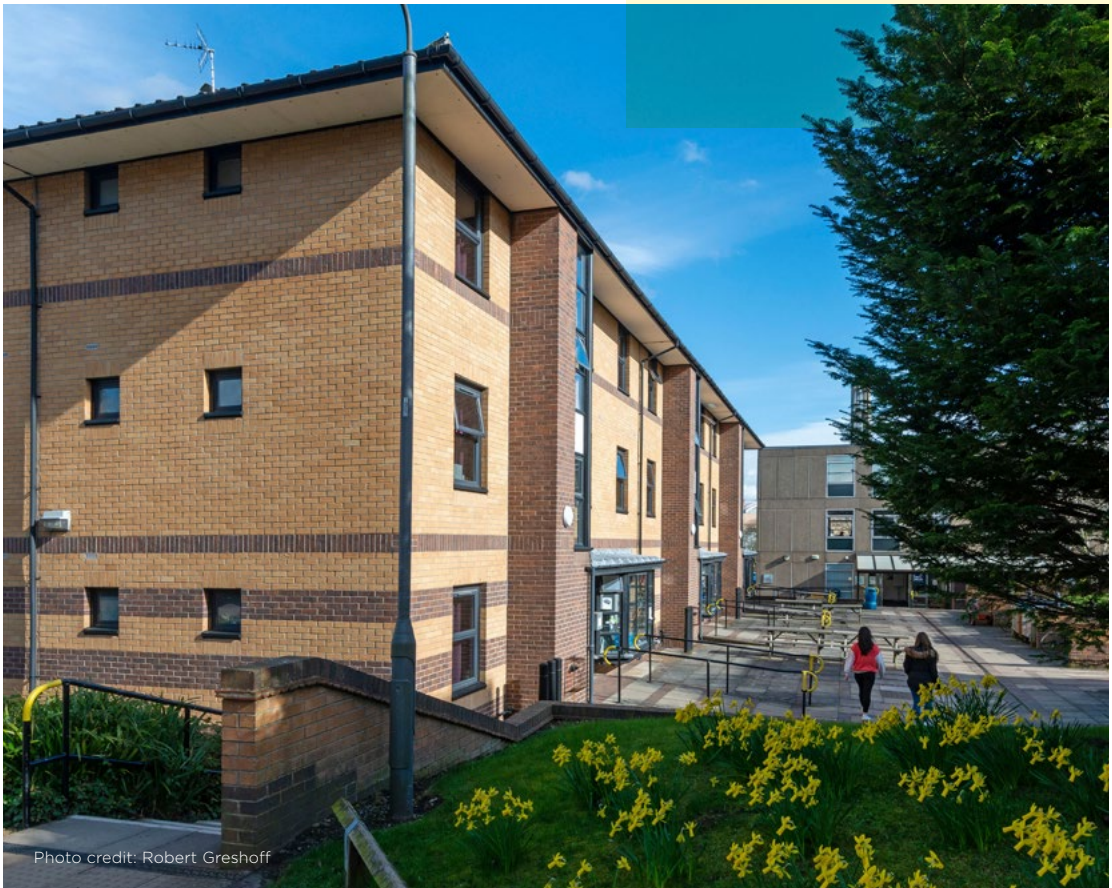

Photo credit: Robert Greshoff

3.0

Financial highlights

For the six months ended 28 February 2021

Photo credit: Robert Greshoff

FINANCIAL HIGHLIGHTS

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

- Occupancy of 96.8% achieved across the seven AssetCos
- Turnover of £33.8 million, up 0.7% on a like-for-like basis
- EBITDA before sinking fund of £21.8 million
- Healthy cash balance of £53.0 million, made up largely of liquidity reserve accounts and amounts payable to the holder of subordinated loan notes

For the period from 1 September 2020 through to 28 February 2021, the Bond portfolio has performed in line with expectations. The historic Average Debt Service Coverage Ratio (ADSCR) of 1.37 for the 12-month period to 28 February 2021 was comfortably above lock-up triggers set at 1.15.

Occupancy for the 2020/21 academic year has been secured at 96.8% across the portfolio. As such, rental receipts are now fixed for the year - as are the majority of costs, with the exception of utilities.


Photo credit: Robert Greshoff

3.1 AssetCo Consolidated Profit and Loss Account for the six months ended 28 February 2021

	Feb 2021	Feb 2020	Change %
	£'000	£'000	
Turnover	33,804	33,571	0.7
Cost of sales	(10,389)	(10,255)	(1.3)
Gross profit	23,415	23,316	0.4
Gross profit margin	69.3%	69.5%	
Overheads	(1,601)	(1,379)	(18.5)
EBITDA before sinking fund expenditure	21,813	21,937	(0.7)
EBITDA margin	64.5%	65.3%	
Sinking fund expenditure	(695)	(2,360)	70.5
EBITDA	21,118	19,577	7.7

Financial highlights

- Turnover up 0.7%, primarily due to RPI-linked rental increases
- Total occupancy for 2020/21 of 96.8% (2019/20: 99.6%)
- Strong gross profit and EBITDA margins in line with expectations

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

Turnover increased by 0.7% on a like-for-like basis, primarily due to contractual rental increases. For the six months ended 28 February 2021, occupancy was 96.8%. Turnover for the period is £33.8 million.

Cost of sales is made up of facilities management costs, employee costs, utilities and internet access costs which increased by 1.3% to £10.4 million (2019: £10.3 million). Facilities management costs and employee costs are subject to RPI increases year on year.

Overheads have increased by 18.5% to £1.6 million (2020: £1.4 million) explained by additional cost variations expenditure for balcony works at Alcuin and Plymouth and student space refurbishment at Nottingham Trent.


Photo credit: Robert Greshoff

In total, EBITDA before sinking fund decreased by 0.7% to £21.8 million (2020: £21.9 million). Sinking fund costs consist of items throughout the accommodation that reach the end of their economic life and require replacement. Whilst sinking fund expenditure is highly predictable and modelled in line with the relevant replacement period for each item, it is not necessarily comparable from one year to the next. Accordingly, the amount charged to the Profit and Loss account, while visible, can vary substantially between years and, as such, EBITDA before sinking fund expenditure is the preferred key performance indicator.

3.2 Sinking fund and operational performance

On 1 August 2019, ParentCo submitted a consent request in relation to an investment made by UPP (Plymouth Three) Limited to accelerate planned maintenance and refurbishment works. Shareholders elected to fund £2.9 million additional investment and consequently developed a remedial plan in full consultation with the Monitoring Adviser. This investment resulted in a Level 2, Phase 1 Monitoring Trigger Event which is being resolved in line with the provisions of the Common Terms Agreement.

Included in the remedial plan is a proposed cure period and specific measurable milestones ('Performance Objectives') to rectify the situation. The AssetCo provides quarterly reports to Monitoring Adviser, Bishopsfield Capital Partners Limited, outlining its actual performance against its Performance Objectives. The Monitoring Adviser in turn is required to provide a quarterly review report to the Issuer, the Issuer Security Trustee and the Issuer Secured Creditors stating its views and analysis of the Trigger Level 2, Phase 1 Monitoring Trigger Event.

During 2017, UPP (Exeter) Limited successfully reached agreement with the contractor in relation to a latent defect identified in its newly built accommodation during the year ended 31 August 2015. A programme of remediation works to rectify the latent defect is currently underway which continued throughout 2019/20 and concluded in January 2021.

4.0

Ratio calculations

Photo credit: Robert Greshoff

As set out in Paragraph 2 of Part 2 of Schedule 9 of the CTA, the ratio calculations as at 28 February 2021 are:

4.1 Historic Senior DSCR (for the 12 months to 28 February 2021)

£'000	Consolidated
Turnover	67,687
Cost of sales	(19,470)
Overheads	(2,879)
EBITDA pre-sinking fund	**45,338**
Sinking fund	(2,118)
EBITDA	**43,220**
CAFDS adjustment [1]	(2,207)
CAFDS	41,013
Debt service	29,981
Historic Senior DSCR	**1.37**

4.2 Projected Senior DSCR (for the 12 months to 28 February 2022)

£'000	Consolidated
Turnover	69,067
Cost of sales	(20,430)
Operating expenses	(2,769)
EBITDA pre-sinking fund	**45,868**
Sinking fund	(9,787)
EBITDA	**36,081**
CAFDS adjustment [1*]	754
CAFDS	36,835
Debt service	30,334
Projected Senior DSCR	**1.21**

4.3 Historic AssetCo DSCR

UPP (Alcuin) Limited	1.37
UPP (Broadgate Park) Holdings Limited	1.35
UPP (Kent Student Accommodation) Limited	1.15
UPP (Nottingham) Limited	1.39
UPP (Oxford Brookes) Limited	1.35
UPP (Plymouth Three) Limited	1.31
UPP (Exeter) Limited	1.45

4.4 Projected AssetCo DSCR

UPP (Alcuin) Limited	1.38
UPP (Broadgate Park) Holdings Limited	1.32
UPP (Kent Student Accommodation) Limited	1.16
UPP (Nottingham) Limited	1.35
UPP (Oxford Brookes) Limited	1.38
UPP (Plymouth Three) Limited*	0.31
UPP (Exeter) Limited	1.43

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

*Projected Senior AssetCo DSCR calculations include a significant projected spend on remedial works of £4.2m at UPP (Plymouth Three) Limited. This relates to works that are expected to be carried out between 1 March 2021 and 28 February 2022.

Photo credit: Robert Greshoff

Compliance Certificate

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

c.c. Bishopsfield Capital Partners Limited as Monitoring Adviser

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

Date: 29 April 2021

Dear Sirs

Common Terms Agreement dated 5 March 2013 between, among others, the Issuer, the AssetCos, the Issuer Security Trustee and the Issuer Note Trustee (the "CTA")

Capitalised terms not defined in this certificate have the meaning given to them in the CTA.

1. We refer to the CTA.
2. This is a Compliance Certificate delivered by the Issuer and the Group Agent pursuant to paragraph 7.3 of Part 1 of Schedule 6.
3. We confirm that the ratios (together the "Ratios") contained herein are as detailed in the tables below.

Historic Ratios	12 months ended 28 February 2021	
	Applicable Ratio	Actual Ratio
Historic AssetCo DSCR		
UPP (Alcuin) Limited	1.15	1.37
UPP (Broadgate Park) Limited	1.15	1.35
UPP (Kent Student Accommodation) Limited	1.15	1.15
UPP (Nottingham) Limited	1.15	1.39
UPP (Oxford Brookes) Limited	1.15	1.35
UPP (Plymouth Three) Limited	1.15	1.31
UPP (Exeter) Limited	1.15	1.45
Historic Senior DSCR	1.15	1.37

Projected Ratios	Projected for Relevant Calculation Period/Date	
	Applicable Ratio	Actual Ratio
Projected AssetCo DSCR		
UPP (Alcuin) Limited	1.15	1.38
UPP (Broadgate Park) Limited	1.15	1.32
UPP (Kent Student Accommodation) Limited	1.15	1.16
UPP (Nottingham) Limited	1.15	1.35
UPP (Oxford Brookes) Limited	1.15	1.38
UPP (Plymouth Three) Limited	1.15	0.31
UPP (Exeter) Limited	1.15	1.43
Projected Senior DSCR	1.15	1.21

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

5. We confirm that all forward-looking financial ratio calculations and projections:

   (a) have been made on the basis of assumptions made in good faith and arrived at after due and careful consideration;

   (b) are consistent and updated by reference to the most recently available financial information required to be produced by the AssetCos under Schedule 8 (Covenants of AssetCos) to the CTA and delivered together with this Compliance Certificate;

   (c) are consistent with the Accounting Standards (insofar as such Accounting Standards reasonably apply to such calculations and projections); and

6. We set out below the computation of the following Ratios set out in Paragraph 2 above for your information:

   (a) Historic AssetCo DSCR means, in respect of any AssetCo as at the Test Date, the ratio of:

      i. the aggregated Net Cash Flow in respect of such AssetCo for the 12 months ended (the "Test Period") ended on 28 February 2021 (the "Test Date"); to

      ii. the AssetCo Debt Service Requirement in respect of such AssetCo for the Test Period ended on the Test Date.

   (b) Historic Senior DSCR means, as at the Test Date, the ratio of:

      i. the aggregated Net Cash Flow in respect of all AssetCos for the Test Period ended on the Test Date; to

      ii. the aggregated AssetCo Debt Service Requirement in respect of all AssetCos for the Test Period ended on the Test Date.

   (c) Projected AssetCo DSCR means, in respect of any AssetCo as at the Test Date, the ratio of:

      i. the aggregated Net Cash Flow in respect of such AssetCo projected for the Test Period following the Test Date; to

      ii. the AssetCo Debt Service Requirement of such AssetCo projected for the Test Period immediately following the Test Date.

(d) Projected Senior DSCR means, as at the Test Date, the ratio of:

i. the aggregated Net Cash Flow in respect of all AssetCos projected for the Test Period immediately following the Test Date; to

ii. the aggregated AssetCos Debt Service Requirement in respect of all AssetCos projected for the Test Period immediately following the Test Date.

7. We also confirm that:

(a) to the best of the knowledge and belief of the signatories to this Compliance Certificate having made all due enquiries, no Default has occurred and is continuing other than as previously notified or waived;

(b) to the best of the knowledge and belief of the signatories to this Compliance Certificate having made all due enquiries, no Monitoring Trigger Event has occurred and is continuing with the exception of the Plymouth AssetCo Monitoring Trigger Event and the Kent AssetCo Monitoring Trigger Event (both of which are continuing) and the new Monitoring Trigger Event resulting from the UPP (Plymouth Three) Limited Projected AssetCo DSCR notified herein, for which a Remedial Plan will be developed in cooperation with the Monitoring Adviser;

With regard to the Plymouth AssetCo, the Trigger Level 2, Phase 1 Monitoring Trigger Event notified on 31 August 2019 is ongoing, and the following steps are being taken to remedy the referenced Monitoring Trigger Event:

- A remedial plan setting out the cure period and measurable milestones (the "Plymouth Remedial Plan") has been implemented in full consultation with the Monitoring Adviser in line with the provisions in the CTA.
- The Plymouth AssetCo and ParentCo are continuing to ensure that the milestones outlined in the Plymouth Remedial Plan are achieved and that, where the Monitoring Adviser has sought clarifications, these are actioned accordingly.
- The Plymouth AssetCo is continuing to provide quarterly reports to the Monitoring Adviser outlining its actual performance against the agreed performance objectives set out in the Plymouth Remedial Plan. The Monitoring Adviser in turn, is continuing to provide its quarterly review reports stating its views and analysis of the Trigger Level 2, Phase 1 Monitoring Trigger Event as required. These reports are available per the notification to the Noteholders dated 17 December 2019
- The Monitoring Advisor undertook a site visit in October 2020 to review the additional works (accompanied by WSP) and met virtually with a representative of the University of Plymouth.

With regard to the Kent AssetCo, the Trigger Level 2, Phase 1 Monitoring Trigger Event notified on 15 December 2020 is ongoing, and the following steps are being taken to remedy the referenced Monitoring Trigger Event:

- A remedial plan setting out the cure period and measurable milestones (the "Kent Remedial Plan") has been implemented in full consultation with the Monitoring Adviser in line with the provisions in the CTA.
- The Kent AssetCo provided its first quarterly report to the Monitoring Adviser on 2 March 2021 outlining actual performance against the agreed performance objectives set out in the Kent Remedial Plan. The Monitoring Adviser has since, provided its quarterly review report stating its views and analysis of the Trigger Level 2, Phase 1 Monitoring Trigger Event as required. This report is available per the notification to the Noteholders dated 26 March 2021.

- The Kent AssetCo will continue to provide quarterly reports to the Monitoring Adviser outlining its actual performance against the agreed performance objectives set out in the Kent Remedial Plan. The Monitoring Advisor is looking to undertake a site visit in the autumn of 2021.

(c) to the best of the knowledge and belief of the signatories to this Compliance Certificate having made all due enquiries, no Lock-Up Event has occurred and is continuing;

(d) to the best of the knowledge and belief of the signatories to this Compliance Certificate having made all due enquiries, the Group is in compliance with the Hedging Policy; and

(d) this Compliance Certificate is accurate in all material respects.

Yours faithfully

Elaine Hewitt
Director

Henry Gervaise-Jones
Director

For and on behalf of UPP Bond 1 Limited
For and on behalf of UPP Bond 1 Issuer Plc

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Unaudited consolidated financial accounts for UPP Bond 1 Holdings Limited

For the six months ended 28 February 2021

Photo credit: Robert Greshoff

Unaudited consolidated financial statements

For the six months ended 28 February 2021

Basis of reporting

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

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

Photo credit: Robert Greshoff

Group income statement

For the six months ended 28 February 2021

	Notes	**Unaudited Six months ended 28 February 2021**	Unaudited Six months ended 29 February 2020
		£'000	£'000
Turnover	5	**33,804**	33,571
Cost of sales		**(10,389)**	(10,255)
Gross profit		**23,415**	23,316
Operating expenses		**(6,487)**	(7,642)
Operating profit	7	**16,928**	15,674
Interest receivable and similar income	8	**140**	50
Interest payable and similar charges	9	**(19,565)**	(17,878)
Loss on ordinary activities before taxation		**(2,497)**	(2,154)
Tax credit/(charge) on loss on ordinary activities	10	**-**	-
Loss for the financial period		**(2,497)**	(2,154)

The above results all relate to continuing operations.

Group statement of comprehensive income

For the six months ended 28 February 2021

	Unaudited Six months ended 28 February 2021	Unaudited Six months ended 29 February 2020
	£'000	£'000
Loss for the financial period	**(2,497)**	(2,154)
Fair value movements on RPI swaps	**794**	9,217
Re-measurement (loss)/gain recognised on defined benefit pension scheme*	**-**	-
Total other comprehensive income	**794**	9,217
Total comprehensive income for the period	**(1,703)**	7,063

*Year end adjustment only

Group statement of changes in equity

For the six months ended 28 February 2021

Attributable to owners of the Parent

	Share capital	Revaluation reserve
	£'000	£'000
At 1 September 2019	55,570	21,348
Loss for the financial period	-	-
Other comprehensive income	-	-
Balance at 29 February 2020	55,570	21,348
At 1 March 2020	55,570	21,348
Loss for the financial period	-	-
Other comprehensive income	-	22,251
At 31 August 2020	55,570	43,599
At 1 September 2020	55,570	43,599
Loss for the financial period	-	-
Other comprehensive income	-	-
Balance at 28 February 2021	**55,570**	**43,599**

Other reserve

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

Other reserve	Cash flow hedge reserve	Profit and loss account	Total equity
£'000	**£'000**	**£'000**	**£'000**
-	13,342	(60,476)	29,784
-	-	(2,154)	(2,154)
-	9,217	-	9,217
-	22,559	(62,630)	36,847
-	22,559	(62,630)	36,847
-	-	(11,489)	(11,489)
-	(32,496)	-	(12,489)
-	(9,937)	(75,119)	14,113
-	(9,937)	(75,119)	14,113
-	-	(2,497)	(2,497)
-	794	-	794
-	**(9,143)**	**(77,616)**	**12,410**

Group statement of financial position

As at 28 February 2021
Company registration number: 08253967

	Notes	**Unaudited Six months ended 28 February 2021** £'000	Unaudited Six months ended 29 February 2020 £'000
Fixed assets			
Intangible assets	11	**115,326**	119,268
Tangible assets	12	**569,480**	550,696
		684,806	669,964
Current assets			
Debtors: amounts falling due within one year	13	**4,084**	5,179
Debtors: amounts falling due after one year	14	**–**	30,629
Cash at bank and in hand		**52,985**	53,895
		57,069	89,703
Creditors: amounts falling due within one year	15	**(36,205)**	(37,951)
Net current liabilities		**20,864**	51,752
Total assets less current liabilities		**705,670**	721,716
Creditors: amounts falling due after more than one year	16	**(691,101)**	(682,987)
Net assets excluding pension liability		**14,569**	38,729
Provisions for liabilities	17	**(2,159)**	(1,882)
Net assets		**12,410**	36,847

Group statement of financial position (continued)

Share capital and reserves			
Called-up share capital	18	**55,570**	55,570
Revaluation reserve		**43,599**	21,348
Cash flow hedge reserve		**(9,143)**	22,559
Profit and loss account		**(77,616)**	(62,630)
		12,410	36,847

Photo credit: Robert Greshoff

Group statement of cash flows

For the six months ended 28 February 2021

	Notes	**Unaudited Six months ended 29 February 2021**	Unaudited Six months ended 28 February 2020
		£'000	£'000
Net cash flow inflow from operating activities	19(a)	**30,846**	31,816
Investing activities			
Interest received		**140**	50
Interest paid		**(10,431)**	(8,822)
Net cash flow from investing activities		**(10,291)**	(8,772)
Financing activities			
Cash outflow from repayment of fixed-rate debt		**(6,133)**	(5,912)
Cash outflow from repayment of index-linked debt		**(2,680)**	(2,617)
Net cash flow from financing activities		**(8,813)**	(8,529)
Increase in cash and cash equivalents		**11,742**	14,515
Cash and cash equivalents at 1 September 2020		**41,243**	39,380
Cash and cash equivalents at 28 February 2021	19(b)	**52,985**	53,895

Notes to the unaudited consolidated financial statements

For the six months ended 28 February 2021

1. Company information

UPP Bond 1 Holdings Limited is a limited liability company incorporated in England. The registered office is 12 Arthur Street, London, EC4R 9AB.

2. Basis of preparation

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

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

Basis of consolidation

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

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

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

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

Going concern

In preparing these financial statements, the Directors have considered the impacts of the Covid-19 pandemic on the ability of the Group to continue as a going concern by preparing a cash flow forecast through to 31 August 2022, modelling a severe but plausible downside scenario which demonstrates that the Group is expected to have sufficient funds to meet their liabilities as they fall due over the period of 12 months from the date of approval of the financial statements

A key feature of the Group's contractual arrangements is that University counterparties bear the risk on in-year rental income once students have contracted for the rooms. The effectiveness of this contractual protection was confirmed through the challenging circumstances that arose during the third term when multiple partners chose to waive rents for students that departed early but continued to meet their payment obligations to the Group

For the 2020/21 academic year the Group has secured sufficient lettings to remain compliant with funding covenants. The Directors anticipate that the Group's University counterparties will meet their payment obligations as they fall due even in the severe plausible downside and, as a result, revenue risk for the 2020/21 year is considered low. The Directors consider that the Group's costs are reasonably controllable and while there are likely to be increased costs arising from changes to the operating practices to respond to Covid-19, these may be offset by cost savings elsewhere and are not sufficient to threaten the viability of the business.

3. Judgements and key sources of estimation uncertainty

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

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

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

Revaluation of the principal assets

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

Valuation of RPI swaps

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

In estimating the fair value of the RPI swaps, the Group incorporates credit valuation adjustments to appropriately reflect both its own non-performance risk and the respective counterparty's non-performance risk in the fair value measurements, which are subjective in nature and require significant judgement. In adjusting the fair value of its derivative contracts for the effect of non-performance risk, the Group has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Goodwill useful economic life

The Group establishes a reliable estimate of the useful economic life of goodwill arising on business combinations. Goodwill attributed to subsidiary undertakings is amortised on a straight-line basis over the remaining lease period on the principal asset held by each subsidiary.

This period of amortisation represents the period over which each subsidiary undertaking acquired will continue to generate operating cash flows. For further details refer to note 11.

Impairment of non-financial assets

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

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

Defined benefit pension scheme

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

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

Presentation of the principal asset

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

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

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

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

Classification of index-linked financial instruments

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

Hedge accounting for inflation swaps

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

4. Principal accounting policies

(a) Tangible fixed assets

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

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

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

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

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

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

(b) Turnover

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

(c) Intangible assets

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

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

(d) Investment in subsidiaries

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

(e) Debtors

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

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

(f) Cash and cash equivalents

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

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

(g) Interest bearing loans and borrowings

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

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

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

(h) Creditors

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

(i) Derivative instruments

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

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

(j) Hedge accounting

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

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

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

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

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

(k) Finance costs

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

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

(l) Borrowing costs

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

(m) Taxation

(i) Current tax

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that that have been enacted or substantively enacted by the reporting date.

(ii) Deferred tax

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

Deferred tax assets that arise from trading operations of the Group are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

If and when all conditions for retaining tax allowances for the cost of a fixed asset have been met, the deferred tax is reversed.

Deferred tax is recognised when income or expenses from a subsidiary have been recognised, and will be assessed for tax in a future period, except where:

- the Group is able to control the reversal of the timing difference; and
- it is probable that the timing difference will not reverse in the foreseeable future.

A deferred tax liability or asset is recognised for the additional tax that will be paid or avoided in respect of assets and liabilities that are recognised in a business combination. The amount attributed to goodwill is adjusted by the amount of deferred tax recognised.

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

(n) Related party transactions

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

(o) Defined contribution pension scheme

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

(p) Defined benefit pension plan

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

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

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

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

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

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

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

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

(q) Interest income

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

5. Turnover

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

All turnover arose within the United Kingdom.

6. Directors' remuneration

The immediate subsidiary undertaking, UPP Bond 1 Limited, paid fees of £8,071 (2020: £7,637) to Intertrust Management Limited in respect of services performed in connection with the management of the affairs of the Group for the period up to 28 February 2021.

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

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

Photo credit: Robert Greshoff

7. Operating profit

The operating profit is stated after charging:

	Unaudited Six months ended 28 February 2021	Unaudited Six months ended 29 February 2020
	£'000	£'000
Depreciation	**2,220**	1,932
Amortisation of goodwill	**1,971**	1,971

8. Interest receivable and similar income

	Unaudited Six months ended 28 February 2021	Unaudited Six months ended 29 February 2020
	£'000	£'000
Bank interest	**140**	50

9. Interest payable and similar charges

	Unaudited Six months ended 28 February 2021	Unaudited Six months ended 29 February 2020
	£'000	£'000
Financial liabilities measured at amortised cost		
Fixed-rate senior secured notes	**6,962**	7,130
Index-linked senior secured notes	**3,340**	4,824
Unsecured loan notes	**9,529**	9,231
	19,831	21,185
Financial liabilities measured at fair value through profit or loss		
Fair value movement on RPI swaps	**(266)**	(3,307)
Interest on net defined pension liability*	**-**	-
	19,565	17.878

*Year end adjustment only

10. Tax on loss on ordinary activities

	Unaudited Six months ended 28 February 2021	Unaudited Six months ended 29 February 2020
	£'000	£'000
a) Analysis of tax credit for the year		
Current tax on income for the year	**-**	-
Deferred tax:		
Movement on fair value of swaps	**-**	-
Total deferred tax	**-**	-
Total tax (credit)/charge on losses on ordinary activities	**-**	-

b) Factors that may affect future tax charges

UPP REIT Holdings Limited is a Real Estate Investment Trust ("REIT"). As a result, the Group no longer pays 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.

11. Intangible fixed assets

	Goodwill
	£'000
Cost	
At 1 September 2020 and at 28 February 2021	**145,035**
Amortisation	
At 1 September 2020	(27,738)
Charge for the period	(1,971)
At 28 February 2021	**(29,709)**
Net book value	
At 28 February 2021	**115,326**
At 31 August 2020	117,297

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

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

12. Tangible fixed assets

	Assets for use in operating leases
	£'000
Cost or valuation	
At 1 September 2020 and at 28 February 2021	**571,700**
Depreciation	
At 1 September 2020	-
Charge during the period	(2,220)
At 28 February 2021	**(2,220)**
Net book value	
At 28 February 2021	**569,480**
At 31 August 2020	571,700

Assets used in operating leases were independently valued by Jones Lang LaSalle ('JLL'), Chartered Surveyors, on an existing-use basis at 31 August 2020 in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors. JLL have confirmed that the value as at that date was £571,700k.

Following an internal review of the assets used in operating leases, the Directors have concluded there is no impairment to the value as determined by JLL in 2020.

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

At 28 February 2021	**535,159**
At 31 August 2020	535,159

13. Debtors: amounts falling due within one year

	Unaudited 28 February 2021	Unaudited 29 February 2020
	£'000	£'000
Trade debtors	**60**	298
Amounts owed by subsidiary companies	**3,377**	4,231
Prepayments and accrued income	**647**	650
	4,084	5,179

14. Debtors: amounts falling due after one year

	Unaudited 28 February 2021	Unaudited 29 February 2020
	£'000	£'000
Derivative financial instruments	**–**	30,629
	–	30,629

15. Creditors: amounts falling due within one year

	Unaudited 28 February 2021	Unaudited 29 February 2020
	£'000	£'000
Fixed-rate senior secured notes	**7,531**	7,179
Index-linked senior secured notes	**5,720**	5,518
Trade creditors	**645**	873
Amounts owed to related parties	**4,294**	6,272
VAT payable	**21**	20
Accruals and deferred income	**17,994**	18,089
	36,205	37,951

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

	Unaudited 28 February 2021	Unaudited 29 February 2020
	£'000	£'000
Fixed-rate senior secured notes	**263,482**	270,135
Index-linked senior secured notes	**222,121**	224,557
Unsecured loan notes	**206,231**	200,992
	691,834	695,684
Less: included in creditors amounts falling due within one year	**(13,251)**	(12,697)
	678,583	682,987
Derivative financial instruments	**12,518**	–
	691,101	682,987

Maturity of debt		
Repayable within one year or on demand	**13,251**	12,697
Repayable in more than one year but less than two years	**13,989**	13,251
Repayable in more than two years but less than five years	**47,999**	44,833
Repayable in more than five years	**616,595**	624.903
	691,834	695,684
Less: included in creditors amounts falling due within one year	**(13,251)**	(12,697)
	678,583	682,987

Senior secured notes

On 5 March 2013 one of the Group's subsidiary undertakings, UPP Bond 1 Issuer plc, issued £307,100,000 of fully-amortising fixed-rate senior secured notes and £75,000,000 of fully-amortising RPI index-linked senior secured notes, listed on the Irish Stock Exchange. The proceeds of this issuance were on-lent on the same terms and conditions to six other subsidiary undertakings to enable them to repay their previous bank facilities and associated costs.

The fixed-rate senior secured notes are fully-amortising by 2040 and bear interest at 4.9023%, with repayments commencing on 30 August 2013.

The index-linked senior secured notes are fully-amortising by 2047 with a real interest rate of 2.7291% increasing semi-annually by RPI. The notional amount of these notes at issuance was £75,000,000 and repayments are scheduled to commence in August 2038.

On the same day the Group entered into derivative financial instruments, being RPI swaps. This is to manage the exposure to RPI movements on the underlying portion of revenue streams generated by the Group used to repay the fixed-rate senior secured notes.

On 9 December 2014, UPP Bond 1 Issuer plc, issued £149,700,000 of fully-amortising RPI index-linked senior secured notes, listed on the Irish Stock Exchange. The proceeds of this issuance were on-lent on the same terms and conditions to UPP (Exeter) Limited to enable the Company to repay its previous bank facilities and associated costs.

The index-linked senior secured notes are fully-amortising by 2049 with a real interest rate of 1.037% increasing semi-annually by RPI. The notional amount of these notes at issuance was £149,700,000 with repayments commencing in February 2015.

The senior notes above are secured under a debenture deed. Under the terms of the debenture, the finance provider, UPP Bond 1 Issuer plc, has security by way of a first legal mortgage over all estates or interests in the leasehold properties and buildings and fixtures on those properties, as well as security over all other assets of the Group by way of fixed and floating charges.

Unsecured loan notes

UPP Group Limited has provided unsecured loan notes of £146,669,000 (£21,308,000 issued on 9 December 2014) to the Group. These loan notes bear interest at 13.5% and are repayable by 2057. Payment of interest is subject to the Group passing lock-up tests and availability of cash reserves.

Derivative financial instruments

	Cash flow hedge reserve	Profit and loss account	Total
	£'000	£'000	£'000
Fair value of RPI swaps at 1 September 2020	(9,937)	(3,640)	(13,578)
Fair value movement in the period	794	266	1,060
Fair value of RPI swaps at 28 February 2021	**(9,143)**	**(3,374)**	**(12,518)**
Fair value at 1 September 2020	(9,937)	(3,640)	(13,578)
Fair value at 28 February 2021	**(9,143)**	**(3,374)**	**(12,518)**

17. Provisions for liabilities

	Pension Liability	Total
	£'000	£'000
At 1 September 2020	2,159	2,159
At 28 February 2021	**2,159**	**2,159**

18. Called-up share capital

	28 February 2021	29 February 2020
	£'000	£'000
Issued, allotted, called-up and fully paid		
55,570,409 Ordinary shares of £1 each	**55,570**	55,570

On 15 October 2012 the company issued 1 ordinary share of £1 each at par. On 16 January 2013 the company issued 50,000 ordinary shares of £1 each at par for cash consideration.

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

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

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

19. Notes to the statement of cash flows

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

	Unaudited Six months ended 28 February 2021	Unaudited Six months ended 29 February 2020
	£'000	£'000
Operating profit	**16,928**	15,674
Depreciation	**2,220**	1,932
Goodwill amortisation	**1,971**	1,971
Decrease/(increase) in debtors due within one year	**1,095**	1,277
Increase in creditors due within one year	**8,632**	10,962
Net cash inflow from operating activities	**30,846**	31,816

(b) Cash and cash equivalents comprise the following:

	At 28 February 2021	At 29 February 2020
	£'000	£'000
Cash at bank and in hand	**21,366**	24,659
Short-term deposits	**31,619**	29,236
Cash and cash equivalents	**52,985**	53,895

20. Financial risk management

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

Interest rate risk

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

Inflation rate risk

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

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

External hedge arrangements

- two 27 year RPI swaps with Royal Bank of Canada commencing in August 2013 and finishing in February 2040
- a 27 year RPI swap with Mitsubishi UFJ Securities International plc commencing in March 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.

Hedge arrangements with fellow group undertakings

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

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

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

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

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and debt servicing and by investing cash assets safely and profitably. The maturity of borrowings is set out in note 15 to the financial statements.

Terms and debt repayment schedule

	Currency	Effective interest rate (%)	Year of maturity	**Book value 2020**
				£'000
Fixed-rate senior secured notes	£	4.9023%	2040	**263,482**
Index-linked senior secured notes (issued 2013)	£	2.9105%	2047	**85,099**
Index-linked senior secured notes (issued 2014)	£	1.0520%	2049	**137,022**
Unsecured loan notes (issued 2013)	£	9.3700%	2056	**179,371**
Unsecured loan notes (issued 2014)	£	11.3800%	2051	**26,860**
				691,834

Demand risk

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

Portfolio risk

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

21. Financial instruments

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

	Carrying amount At 28 February 2021	Carrying amount At 29 February 2020
	£'000	£'000
Financial assets		
Financial assets measured at fair value:		
Derivative financial liabilities – RPI swaps	**–**	30,629
Financial liabilities		
Financial liabilities measured at amortised cost:		
Fixed-rate senior secured notes	**263,482**	270,135
Index-linked senior secured notes	**222,121**	224,557
Unsecured loan notes	**206,231**	200,992
Trade creditors	**645**	873
Other related party loans	**4,294**	6,272
Derivative financial liabilities – RPI swaps	**12,518**	–
Total financial liabilities measured at amortised cost	**709,291**	702,829

22. Parent undertaking and controlling party

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

The parent undertaking of the largest group of which the company is a member and of which group accounts are prepared is UPP REIT Holdings Limited.

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

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

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

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

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

www.upp-ltd.com