

Registered No: 08253967

UPP Bond 1 Holdings Limited

For the year ended 31 August 2022

**Annual report and Consolidated financial
statements**

UPP Bond 1 Holdings Limited

Consolidated financial statements

for the year ended 31 August 2022

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UPP Bond 1 Holdings Limited

Directors and advisors

Directors

MC Bamford
S Boorne
E Hewitt
Intertrust Directors 1 Limited

Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Registered office

First Floor
12 Arthur Street
London
EC4R 9AB

UPP Bond 1 Holdings Limited

Directors' report

for the year ended 31 August 2022

The directors present their report and consolidated financial statements for the year ended 31 August 2022.

Principal activity of the business

UPP Bond 1 Holdings Limited (“the Company”) is the parent company of UPP Bond 1 Holdings Limited group (“the Group”). The Company’s principal activity is that of a holding company for its subsidiary undertakings. The principal activity of the subsidiary undertakings is the operation of student accommodation and the provision of related facilities management services for seven AssetCos; consisting of 11,699 rooms (2021: 11,693). In the financial year ended 31 August 2022 the AssetCos achieved 99.8% occupancy (2021 – 96.6%) for the 2021/22 financial year.

Financial risk management objectives and policies

The Group’s financial risk management objectives and policies are considered to be of strategic significance and are therefore detailed in the Strategic Report on pages 6 to 8.

Going concern

The financial statements have been prepared on a going concern basis, which the directors consider to be appropriate for the following reasons.

In preparing these financial statements, the directors have considered the impact of the current inflationary environment on the ability of the Group and Company to continue as a going concern by preparing a cash flow forecast through to 31 August 2024, modelling a severe but plausible downside scenario that demonstrates that the Group and Company is expected to have sufficient funds to meet its obligations as they fall due over the period of at least 12 months from the date of approval of the financial statements.

A key feature of the Group’s contractual arrangements with the universities, is that the university counterparty bears the risk of in-year rental income collection once students have been contracted for the rooms. In addition, there are contractual mechanisms in place that allow for rental uplifts as a result of inflation.

For the 2022/23 academic year, the Group has secured sufficient occupancy to remain compliant with its financial covenants. The directors anticipate that the Group’s university counterparties will meet their payment obligations as they fall due, even in the severe but plausible downside scenario and, as a result, the risk around revenues leading to non-compliance with financial covenants for the 2022/23 year remains low. The directors consider the Group’s costs to be reasonably controllable and, whilst there are likely to be increased costs arising from inflationary pressures and geopolitical issues, these are either likely to be offset by cost savings elsewhere or not considered sufficient to threaten the viability of the business.

The Directors believe that the fundamentals of the student accommodation market remain strong and support the long-term success of the business.

The Directors have received a letter of support and confirmation from UPP Group Limited that financial support will be provided to the Group and Company, such that it is able to meet its liabilities as they fall due, for a period not less than twelve months from the date of approval of these financial statements.

On this basis, the directors are confident that the Group and Company will have sufficient funds to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements, and therefore have prepared the financial statements on a going concern basis.

Dividend

The directors did not declare any dividends for the year (2021: £Nil).

UPP Bond 1 Holdings Limited

Directors' report (continued)

for the year ended 31 August 2022

Directors and their interests

The directors holding office during the year ended 31 August 2022 and subsequently are:

E Hewitt
H Gervaise-Jones – resigned on 29 April 2022
S Boorne – appointed on 29 April 2022
MC Bamford – appointed on 3 October 2022
Intertrust Directors 1 Limited

At 31 August 2022, none of the directors had any beneficial interests in the shares of the Company or in any of the Group companies.

Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK General Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company for that year.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions, disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, and Corporate Governance Statement that complies with that law and those regulations.

UPP Bond 1 Holdings Limited Directors' report (continued) for the year ended 31 August 2022

Future developments

Occupancy for the 2022/23 financial year has been secured at 99.6% which has exceeded the directors' expectations.

Statement of Disclosure of Information to Auditor

The directors confirm that:

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

Qualifying third party indemnity provisions

During the year and up to the date of this report, the Company and the Group has maintained liability insurance and third-party indemnification provisions for its directors, under which the Company and the Group has agreed to indemnify the directors to the extent permitted by law in respect of all liabilities to third parties arising out of, or in connection with, the execution of their powers, duties and responsibilities of the Company and the Group.

Independent auditor

KPMG LLP was reappointed in the year as auditor of the Company in accordance with section 487 of the Companies Act 2006.

On behalf of the Board



MC Bamford
Director
13 December 2022

UPP Bond 1 Holdings Limited

Strategic report

for the year ended 31 August 2022

Results and review of the business

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

The level of performance of the business, in particular achieving 99.8% occupancy across the subsidiary undertakings and the year-end financial position were in accordance with the directors' expectations. The directors anticipate that the future level of activity will be in accordance with their expectations and consider that the project will yield returns in line with current forecasts.

The UK Higher Education (HE) sector continues to maintain its reputation as a leading global destination for students. Applicant data published by UCAS following the 30 June 2022 main scheme deadline identifies more than 683,650 applicants were seeking a university place for the academic year 2022/23. This was an increase of 1,640 applicants year on year, with a total of 3,049,000 individual applications made via UCAS. Whilst applications from the UK, overall, were down -1% to 548,780, demand from English and Welsh students continued to increase, up by 1% in each case. In terms of the key demand cohort for the Company's accommodation (i.e. first year undergraduates), the overall application rate for UK 18-year-olds reached 44.1%, representing a record high. UCAS have identified that this is likely to lead to record numbers of students starting higher education for 2022/23.

Whilst applications from EU students continue to decline by -18% or 4,960 applicants, demand from outside the EU has more than compensated for this, increasing by 9% or the equivalent of 9,440 extra applicants. Nearly 135,000 international students had applied by the main scheme deadline – an overall net increase of 3% year on year. Key growth markets include China, India and Nigeria. Applicant numbers from China have increased 10% – there are now 31,400 applicants from China. Applicant numbers from India have grown by 20% (+1,950), whilst applications from Nigeria have increased by 58% from 3,360 to 5,290. On this basis, the overall demand outlook appears very positive and in line with projected demographic increases in the number of 18-year-olds over the coming decade. There continues to be an existing structural under-supply of purpose build student accommodation as developers fail to keep pace with rising student enrolment – a situation likely to be exacerbated by an increasingly inflationary outlook.

As detailed in the Principal Risks and Uncertainties section, the Board continues to closely monitor demand and inflation risk and its impact on the Group.

UPP Bond 1 Holdings Limited

Strategic report

for the year ended 31 August 2022 (continued)

Results and review of the business (continued)

The Group's loss for the year before tax attributable to shareholders and reported in the financial statements is £13,028,000 (2021: loss £40,609,000).

Key performance indicators

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

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

	2021/22	2020/21
Average Applications : Acceptance ratio	5.78:1	5.86:1

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

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

	2021/22	2020/21
Average occupancy across the facilities	99.8%	96.6%

The target occupancy levels across the facilities is 98-99%, as such the directors are satisfied that the movements noted above are within target levels for the recovery of credit extended to the Group.

Principal risks and uncertainties

Financial risk management objectives and policies

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

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

Interest rate risk

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

Inflation rate risk

The Group funds its financing activities through the provision of student accommodation and rental income received on this accommodation. Growth in rental income is linked to the movement in RPI and the Group manages the exposure to this index through a mix of inflation-linked debt and the use of RPI swaps to hedge a portion of the fixed rate debt servicing costs. The Group is monitoring the current inflationary environment very closely and is working to mitigate the impact on its cost base. The contractual mechanisms relating to rental income increases and the controllable nature of most costs provide means of managing this risk.

UPP Bond 1 Holdings Limited

Strategic report

for the year ended 31 August 2022 (continued)

Principal risk and uncertainties (continued)

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and debt servicing and to invest cash assets safely and profitably. The Group's facility agreements require adequately funded reserve accounts which provide further mitigation against liquidity risk. The maturity of borrowings is set out in note 19 to the financial statements.

Demand risk

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

Portfolio risk

The assets of the Group are in the student market and any unexpected material decline in student numbers could impact upon financial performance. The Group seeks to mitigate this risk by building strong long-term relationships with each of its university partners and ensuring up to date in depth market analysis is completed each year to enable the Group to review its strategic position. The criteria with which the Group selects partners includes creditworthiness and a strong profile with which to attract students over the long term.

Climate Change

The Board recognises the impact that its activities have on the natural environment and the likely impact of climate change. As part of its wider ESG strategy, the Group has committed itself to a high-level vision of respecting the environment and positively contributing to the communities within which we work. Sustainability initiatives enhance the resilience of our assets and represent the responsible course of action both for the Group and our Stakeholders. Engaging with employees and our supply chain, the Group seeks to facilitate a positive contribution to the community. The Board remains mindful of the risks relating to climate change and continue to consider how it might mitigate these risks in its decision making. Further details of the Group's approach to Climate Change can be found in the s.172 statement below.

On behalf of the Board



MC Bamford
Director
13 December 2022

UPP Bond 1 Holdings Limited

Section 172(1) Statement

for the year ended 31 August 2022

The revised UK Corporate Governance Code ('2018 Code') was published in July 2018 and applies to accounting periods beginning on or after January 1, 2019. The Companies (Miscellaneous Reporting) Regulations 2018 ('2018 MRR') require Directors to explain how they considered the interests of key stakeholders and the broader matters set out in section 172(1) (A) to (F) of the Companies Act 2006 ('S172') when performing their duty to promote the success of the Company under S172. This includes considering the interest of other stakeholders which will have an impact on the long-term success of the Company. This S172 statement, which is reported for the first time, explains how Directors of UPP REIT Holdings Limited ('UPP'):

- Have engaged with employees, suppliers, customers, regulators and others; and
- Have had regard to employee interests, the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that, including on the principal decisions taken by the Company during the financial year.

The S172 statement focuses on matters of strategic importance to UPP and the level of information disclosed is consistent with the size and the complexity of the Business.

General confirmation of Directors' duties

The Board of UPP has a clear framework for determining the matters within its remit and has approved Terms of Reference for the matters delegated to its Committees. Certain financial and strategic thresholds have been determined to identify matters requiring Board consideration and approval. The Schedule of Delegation sets out the approval process across the broader business.

When making decisions, each Director ensures that he/she acts in the way he/she considers, in good faith, would most likely promote the Company's success for the benefit of its members as a whole and in doing so have regard (among other matters) to:

S172(1) (A) "The likely consequences of any decision in the long term"

The Directors understand the business and the evolving higher education environment within which the Company operates. Established in 1998, UPP operates a long-term partnership model which involves a high degree of alignment between the success of our university partners and the sector more generally. Directors understand that it is their responsibility to operate residential accommodation in a positively impactful manner, not simply to ensure that the asset can revert to the university in good order at the end of each concession, but more widely because it seeks to reduce the impact of our activities on the natural environment and its resources, as well as the communities within which it operates. The Company operates in one sector only and it is within that context that it seeks to increase long-term value for shareholders, recognising that the long-term success of our business is dependent on our stakeholders and the external impact of our business activities on society.

The Directors recognise how our operations are viewed by different parts of society and that some decisions they take today may not align with all stakeholder interests, however, we seek to actively engage with our stakeholders and articulate the basis of our decision making.

S172(1) (B) "The interests of the Company's employees"

The Directors recognise that UPP employees are fundamental and core to our business and the delivery of our strategic ambitions. The success of our business depends on attracting, retaining and motivating employees. From ensuring that we remain a responsible employer, from pay and benefits to our health, safety and workplace environment and wider wellbeing, the Directors factor the implications of decisions on employees and the wider workforce, where relevant and feasible.

UPP Bond 1 Holdings Limited

Section 172(1) Statement (continued)

for the year ended 31 August 2022

S172(1) (C) “The need to foster the Group’s business relationships with suppliers, customers and others”

Delivering our strategy requires strong mutually beneficial relationships with our partners, customers, suppliers and Government. Our Business Code of Ethics has at its core our values – namely Sustainability, Community, Partnership, Innovation and Respect. Driven from the top of the Business, the behaviours expected of all our teams are underpinned by our policies and working procedures which are, in turn, designed to guide us in how we act with integrity, judgement and good conscience. The Business Code of Ethics is reviewed by the Executive Leadership Team periodically and assessments are made of how and with whom we do business. We engage directly with our university partners through Board meetings of our Special Purpose Vehicles (SPVs) and through Partnership Board meetings. This provides the opportunities to discuss and assess the needs of customers in the context of the wider business strategy.

The Group has engagement plans for all its stakeholders, with each relationship owned by one or more member of the Executive Leadership Team. These are “live” documents allowing the Group to respond as the needs of each stakeholder change over time. Directors receive information updates on a variety of topics that indicate and inform how these stakeholders have been engaged.

More detail on our Business Code of Ethics can be found on the UPP website at <https://www.upp-ltd.com/wp-content/uploads/2018/10/Our-Code-of-Business-Ethics.pdf>

S172(1) (D) “The impact of the Group’s operations on the community and the environment”

Sustainability sits at the heart of the UPP Business Strategy and the Group’s values. Driven by the Executive Leadership Team, sustainability initiatives are a critical part of the operating model, enhancing the resilience of our assets and representing the responsible course of action both for the Group, our Shareholders - who have a long-term investment - and for wider society.

In the current year the Group took the formal step to be accountable on its Net Zero carbon footprint, publicly committing to achieving this by 2035 using the Science Based Targets initiative. Furthermore the wider UPP Group continued to report under GRESB (the Global Real Estate Sustainability Benchmark). The Group also seeks to collaborate with our partner universities to share innovation and help them achieve their objectives, whilst engaging with employees and our supply chain will help facilitate a positive contribution to the communities within which we operate.

As part of the Group’s wider Environmental, Social and Governance (ESG) activities, the impact of our operations is reviewed as an important element of the regular monthly meetings of the Executive Leadership Team and as part of quarterly meetings of the UPP Group Holdings Limited Board.

More detail on the Group’s approach to sustainability <https://www.upp-ltd.com/our-approach/esg/>

S172(1) (E) “The desirability of the Group maintaining a reputation for high standards of business conduct”

UPP has a vision to be the leading provider of campus accommodation working as a true partner to universities. Maintaining a reputation for high standards of conduct in a single sector represents a critical element to achieving this. All of the transactions undertaken by the Group are pursued on an open book basis and typically through tenders advertised via the Official Journal of the European Union (OJEU). All transactions are independently assessed on the basis of value for money and contract award notices (Standstill Letters) are open to challenge.

A clear framework of expectations in relation to business contact is in place and this is periodically reviewed and updated where required. These include published policies with respect to Anti-Bribery, Modern Slavery, Gifts and Hospitality and Code of Business.

The Board of UPP Group Holdings Limited, a parent of the Group (the UPP Board), is informed and monitors compliance with these policies and relevant governance standards help assure that the decisions that are taken promote high standards of business conduct.

UPP Bond 1 Holdings Limited

Section 172(1) Statement (continued) for the year ended 31 August 2022

S172(1) (F) “The need to act fairly as between members of the Group”

The Directors of the Group actively consider which course of action is most effective at delivering the UPP Business strategy, after weighing all the relevant factors and with due consideration of the likely impact on stakeholders. In doing so, our Directors act fairly with the Group’s members, but are not required to balance the Group’s interest with those of other stakeholders, and this can occasionally mean that the interests of certain stakeholders may not be fully aligned.

Culture

The UPP Board recognises its critical role in assessing and monitoring that our desired culture – expressed in our values – is reflected in the attitudes and behaviours of our teams. Moreover, it understands its role in demonstrating these, both through the activities we pursue and stakeholder relationships. The Code of Business Ethics, Gifts and Hospitality and Anti-Bribery Policies help everyone at UPP to act in line with these values and comply with relevant laws and regulations.

UPP is committed to the health, safety and wellbeing of our teams and the Group has a broad ESG workstream designed to help protect people and the environment and the communities within which we work. We also strive to maintain a diverse and inclusive culture.

The Board considers the Group’s annual Speak Out employee survey to be one of its principal tools to measure employee engagement, motivation, affiliation and commitment to UPP. It provides insights into employee views and has a consistently high response rate. The Board also utilises this engagement to understand how survey outcomes are being leveraged to strengthen the culture and values of UPP. During the year the Group launched a new Equality, Diversity and Inclusion network and became a member of Inclusive Employers, the UK’s first and leading membership organisation for employers looking to build inclusive workplaces.

Stakeholder engagement (including employee engagement)

The UPP Board recognises the important role that UPP has to play in society and the Group is deeply committed to public collaboration and stakeholder engagement. UPP only works in one sector – UK higher education – and in doing so also recognises that its interests align with many of the universities with which it works.

We have categorised our key stakeholders into six groups. Where appropriate, each group is considered to include both current and potential stakeholders:

- a. Employees
- b. Partners (Existing/Potential) and their students
- c. Shareholders
- d. Investors
- e. Government, Regulators, Policy Bodies
- f. Suppliers and Strategic Partners

The Group believes that it is critical that we work with all our stakeholders particularly given the ongoing changes taking place in how UK higher education is funded and delivered. The Board understands the importance of engagement with all of its stakeholders and gives appropriate weighting to the outcome of its decisions for the relevant stakeholder in weighing up how best to promote the success of the Group.

UPP Bond 1 Holdings Limited

Section 172(1) Statement (continued) for the year ended 31 August 2022

The Board regularly discusses issues concerning employees, university partners and their students, our shareholders, suppliers, sector regulators and the wider community and environment. It takes the needs of these stakeholders into account in its discussions and in its decision-making processes. In addition to this, the Board seeks to understand the interests and views of the Group's stakeholders by engaging with them directly when required. The below summarises the key stakeholders and how we engage with each:

Stakeholders	Engagement
Employees	<p data-bbox="842 551 1422 611">Our employees are critical to the success of the Business.</p> <p data-bbox="842 645 1422 887">We aim to be a responsible employer in our approach to remuneration, paying a minimum of the Living Wage. We continue to engage with our teams across the country to ascertain which training and development opportunities should be made available to improve our productivity and to invest in the potential of individual employees.</p> <p data-bbox="842 920 1422 1128">The Group has a well-established employee wellbeing programme which focuses not just on behavioural health and safety, but on the physical and emotional wellbeing of our teams. A wellbeing Portal is made available for all staff which provides a toolkit of resources, including a dedicated mental health helpline.</p> <p data-bbox="842 1162 1422 1312">We actively seek feedback from our teams and annual Performance and Development Reviews are used to ensure that a two-way dialogue on performance and development needs is maintained.</p> <p data-bbox="842 1346 1422 1496">A further approach taken is through our annual Speak Out employee survey. This allows the Board to assess the success of our engagement, and employee participation represents a parent company key performance indicator.</p> <p data-bbox="842 1529 1422 1800">Feedback is also sought on the basis of monthly All-Team Video Conference calls with our Chief Executive Officer (CEO) and Executive Leadership Team. This provides an opportunity to share information with employees and a question and answer session enables any employee who wishes to join the call to ask any question to the CEO and the Executive Leadership Team.</p> <p data-bbox="842 1861 1422 1984">The Group seeks to create and inspire an inclusive culture with our intranet – Campus – which provides a platform for all our teams to share news and information across the Business.</p> <p data-bbox="842 2018 1422 2074">Our WrapUPP weekly all-employee email enables us to share news, announcements and</p>

UPP Bond 1 Holdings Limited

	<p>reminders with our employees, all in one place, as well as activities happening across UPP and ways that teams can get involved.</p> <p>As part of the UPP Foundation – the independent charity majority-funded by the Group – employees are encouraged to support a charity of their choice and the Foundation will match fund chosen fundraising events decided by the UPP Gives employee fundraising committee.</p> <p>During the year the Group launched a new Equality, Diversity and Inclusion network and became a member of Inclusive Employers, the UK’s first and leading membership organisation for employers looking to build inclusive workplaces.</p> <p>The Group continues to find new ways of encouraging our teams to have a voice.</p>
Partners (existing/potential)	<p>Partnership is the most important of the Group values and sits at the core of everything we do.</p> <p>The UPP model is based exclusively on establishing long-term relationships with UK universities to develop on-campus infrastructure utilising long dated bond debt in the form of publicly listed bonds or private placements.</p> <p>As a direct result of this long-term model, the interests of the Group and our university partners – and indeed the wider sector – are closely aligned.</p> <p>The Group seeks to engage with its partners on multiple levels. Typically, the Group will hold relationships at both senior and operational levels and on a variety of frequencies – day-to-day operational contact, as well as more formal pre-arranged meetings. These include Partnership Board Meetings and formal SPV Board meetings depending on the specifics of each Project Agreement. In the case of the latter, these allow for engagement on the key risks facing each company and will have set agenda.</p> <p>In recent years, the Group has established a dedicated function for engaging with our university partners – UPP Management – which employs Partnership Directors and is responsible for the long-term strategic management of the assets and relationships. We discuss all investment decisions with our partners and seek their input on a regular basis.</p> <p>We have implemented a governance framework including our Code of Business Ethics and policies on Anti-Bribery and Gifts and Hospitality.</p>
Shareholders	<p>The Board seeks to behave in a responsible manner towards both of its shareholders. It communicates information relevant to its</p>

UPP Bond 1 Holdings Limited

	<p>shareholders on a regular basis and provides opportunities for shareholders to engage with its Executive Leadership Team. Such opportunities include quarterly Board Meetings, Investment Committees and other Committees of the Board (e.g. Remuneration, Risk and Audit).</p>
<p>Investors</p>	<p>The Group seeks to communicate with investors in a transparent manner and on a regular basis. In addition to fulfilling its reporting obligations for its listed entities on an annual and half-yearly basis, the Group seeks to provide investors with regular trading updates and information relating to demand for its assets. In the case of UPP Bond 1 PLC, it also communicates with investors via a Monitoring Advisor who annually reviews the performance of the assets and administers Group requests of investors and any relevant voting matters.</p> <p>The senior management of the Group make themselves available to individual investors where information on a variety of topics is requested.</p>
<p>Government, Regulators, Policy Bodies</p>	<p>The Group works in one sector only, and this means that establishing a good relationship with the sector regulator – the Office for Students (OfS) – is vital.</p> <p>The Group has a well-developed public affairs strategy and engages with Senior Officers of the OfS both on a corporate basis but also through the UPP Foundation, the independent charity established and majority-funded by the Group.</p> <p>We work with Government – most frequently the Department for Education – on matters of accommodation policy and student experience. This is a proactive, transparent and reciprocal relationship to share best practice.</p> <p>It is the intention of the Group to behave responsibly and to ensure that the management team operates the Business in a responsible manner, acting with the high standards and good governance expected by the wider higher education sector and Government.</p> <p>In doing so, we believe we will achieve our long-term business strategy and further develop our reputation in the sector. We have a risk and control framework to ensure that the Group complies with all legal and regulatory requirements relating to the provision of accommodation for students. This includes complying with relevant accredited network codes of practice.</p> <p>In our public affairs work, we also have close relationships with leading sector policy bodies such as Universities UK and the Higher Education Policy Institute. This enables us to</p>

UPP Bond 1 Holdings Limited

	understand the longer-term risks and issues to the sector and engage in future policy making.
Suppliers	<p>The Group works with a wide range of suppliers in the UK and elsewhere. We remain committed to being fair and transparent in our dealings with all of our suppliers.</p> <p>The Group has procedures requiring due diligence of suppliers as to their internal governance including, for example, their anti-bribery and corruption practices, data protection policies and modern slavery matters. The Group has systems and processes in place to ensure suppliers are paid in a timely manner.</p>

On behalf of the Board



MC Bamford
Director
13 December 2022

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

Opinion

We have audited the financial statements of UPP Bond 1 Holdings Limited (“the company”) for the year ended 31 August 2022 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheet, the Consolidated and Company Statements of Changes in Equity, the Consolidated Statement of Cash Flows and related notes, including the accounting policies in note 2.

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 2022 and of the group’s loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company’s financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements (“the going concern period”).

In our evaluation of the directors’ conclusions, we considered the inherent risks to the group’s business model and analysed how those risks might affect the group and company’s financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified and concur with the directors’ assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the group or the company’s ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the group or the company will continue in operation.

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the directors and inspection of policy documentation as to the group’s high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the group’s channel for “whistleblowing”, as well as whether they have knowledge of any actual, suspected or alleged fraud;
- Reading Board minutes;
- Considering remuneration incentive schemes and performance targets for management;
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as valuation of service concession arrangements and valuation of derivative financial instruments.

On this audit we do not believe there is a fraud risk related to revenue recognition because the Group’s and Company’s income primarily arises from contracts with universities with fixed periodic payments, and revenue is recognised over time but which is non-judgemental, straight forward and limited opportunity for manipulation.

We did not identify any additional fraud risks. We performed procedures including:

- identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and journal entries made to unrelated account; and
- assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards) and from inspection of the group’s regulatory and legal correspondence and discussed with the directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies’ legislation), distributable profits and taxation legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: property laws and building legislation, health and safety, employment laws, anti-bribery, other worker laws, recognising the nature of the group’s activities.

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

Fraud and breaches of laws and regulations – ability to detect (continued)

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations (continued)

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws or regulation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required 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. We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 3, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and 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 they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.



**Craig Steven-Jennings (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants
15 Canada Square
London
E14 5GL

13 December 2022

UPP Bond 1 Holdings Limited

Group income statement

for the year ended 31 August 2022

		Year Ended 31 August 2022	Year Ended 31 August 2021
	Notes	£'000	£'000
Turnover	5	71,496	67,806
Cost of sales		<u>(20,191)</u>	<u>(19,871)</u>
Gross profit		51,305	47,935
Operating expenses		(20,083)	(18,930)
Provisions	24	<u>(7,500)</u>	<u>(3,999)</u>
Operating profit	7	23,722	25,006
Interest receivable & similar income	10	195	144
Interest payable & similar charges	11	<u>(43,922)</u>	<u>(68,668)</u>
Loss on ordinary activities before taxation		(20,005)	(43,518)
Tax credit on loss on ordinary activities	12	<u>4,373</u>	<u>2,909</u>
Loss for the financial year		(15,632)	(40,609)
Loss for the financial year attributable to:			
Equity owners of the parent		<u>(15,632)</u>	<u>(40,609)</u>

The above results all relate to continuing operations.

The notes on pages 27 to 54 form part of these financial statements.

UPP Bond 1 Holdings Limited

Group statement of comprehensive income

for the year ended 31 August 2022

		Year Ended 31 August 2022 £'000	Year Ended 31 August 2021 £'000
	Notes		
Loss for the financial year		<u>(15,632)</u>	<u>(40,609)</u>
Fair value movements on RPI swaps	19	(19,801)	(8,409)
Gain on revaluation of principal asset	14	60,858	4,164
Re-measurement loss recognised on defined benefit pension scheme	23	1,908	231
Total other comprehensive income / (loss)		<u>42,965</u>	<u>(4,014)</u>
Total comprehensive income / (loss) for the period		<u>27,333</u>	<u>(44,623)</u>
Income/ (loss) attributable to:			
Equity owners of the parent		<u>27,333</u>	<u>(44,623)</u>

The notes on pages 27 to 54 form part of these financial statements.

UPP Bond 1 Holdings Limited

Group statement of financial position as at 31 August 2022

	Notes	31 August 2022 £'000	31 August 2021 £'000
Fixed assets			
Intangible fixed assets	13	109,548	113,355
Tangible fixed assets	14	627,400	571,700
		<u>736,948</u>	<u>685,055</u>
Current assets			
Debtors: amounts falling due within one year	16	8,545	6,981
Cash at bank and in hand	22b	52,727	50,992
		<u>61,272</u>	<u>57,973</u>
Current liabilities			
Creditors: amounts falling due within one year	18	(30,877)	(30,172)
		<u>30,395</u>	<u>27,801</u>
Net current assets			
		<u>767,343</u>	<u>712,856</u>
Total assets less current liabilities			
Non-current liabilities			
Creditors: amounts falling due after more than one year	19	(863,293)	(838,074)
Defined benefit pension liability	23	(193)	(1,999)
Provisions	24	(7,740)	(3,999)
		<u>(103,883)</u>	<u>(131,216)</u>
Net liabilities			
Share capital and reserves			
Called up share capital	20	55,570	55,570
Revaluation reserve	21	106,669	47,023
Cash flow hedge reserve		(38,147)	(18,346)
Profit and loss account		(227,975)	(215,463)
		<u>(103,883)</u>	<u>(131,216)</u>

The financial statements were approved by the board on 13 December 2022 and were signed on its behalf by:



MC Bamford
Director

The notes on pages 27 to 54 form part of these financial statements.

UPP Bond 1 Holdings Limited

Company statement of financial position as at 31 August 2022

	Notes	31 August 2022 £'000	31 August 2021 £'000
Fixed assets			
Investments	15	<u>55,570</u>	<u>55,570</u>
		55,570	55,570
Current assets			
Debtors: amounts falling due after one year	17	<u>146,720</u>	<u>121,306</u>
		146,720	121,306
Current liabilities			
Creditors: amounts falling due within one year		(20)	-
Net current assets		<u>202,270</u>	<u>176,876</u>
Non-current liabilities			
Creditors: amounts falling due after more than one year	19	(331,208)	(339,488)
Net liabilities		<u>(128,938)</u>	<u>(162,612)</u>
Share capital and reserves			
Called up share capital	20	55,570	55,570
Profit and loss account	21	(184,508)	(218,182)
		<u>(128,938)</u>	<u>(162,612)</u>

The financial statements were approved by the board on 13 December 2022 and were signed on its behalf by:



MC Bamford
Director

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Profit and Loss Account in these financial statements. The profit after tax of the Parent Company for the year was £33,674k (2021 – loss £43,554k).

The notes on pages 27 to 54 form part of these financial statements.

UPP Bond 1 Holdings Limited

Group statement of changes in equity

for the year ended 31 August 2022

Group

	Share capital	Revaluation reserve	Cash flow hedge reserve	Profit & loss account	Total equity
	£'000	£'000	£'000	£'000	£'000
At 1 September 2021	55,570	47,023	(18,346)	(215,463)	(131,216)
Loss for the financial period	-	-	-	(15,632)	(15,632)
Transfer to profit & loss account	-	(1,212)	-	1,212	-
Other comprehensive income	-	60,858	(19,801)	1,908	42,965
Balance at 31 August 2022	55,570	106,669	(38,147)	(227,975)	(103,883)
At 1 September 2020	55,570	43,599	(9,937)	(175,825)	(86,593)
Loss for the financial period	-	-	-	(40,609)	(40,609)
Transfer to profit & loss account	-	(740)	-	740	-
Other comprehensive income	-	4,164	(8,409)	231	(4,014)
Balance at 31 August 2021	55,570	47,023	(18,346)	(215,463)	(131,216)

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the Profit and Loss account as a movement on reserves. The transfer for 2022 was £1,212k (2021: £740k).

The notes on pages 27 to 54 form part of these financial statements.

UPP Bond 1 Holdings Limited

Company statement of changes in equity for the year ended 31 August 2022

Company

	Share capital £'000	Profit & loss account £'000	Total equity £'000
At 1 September 2021	55,570	(218,182)	(162,612)
Loss for the financial year	-	33,674	33,674
Balance at 31 August 2022	55,570	(184,508)	(128,938)
At 1 September 2020	55,570	(174,628)	(119,058)
Profit for the financial year	-	(43,554)	(43,554)
Balance at 31 August 2021	55,570	(218,182)	(162,612)

The notes on pages 27 to 54 form part of these financial statements.

UPP Bond 1 Holdings Limited

Group statement of cash flows

for the year ended 31 August 2022

		Year ended 31 August 2022	Year ended 31 August 2021
	Notes	£'000	£'000
Net cash inflow from operating activities	22(a)	39,226	41,110
Investing activities			
Interest received	10	195	144
Net cash inflow from investing activities		195	144
Financing activities			
Cash outflow from repayment of fixed rate debt		(7,752)	(7,084)
Cash outflow from repayment of index-linked debt		(5,692)	(5,384)
Interest paid		(24,242)	(19,037)
Net cash (outflow) from financing activities		(37,686)	(31,505)
Net increase in cash and cash equivalents		1,735	9,749
Cash and cash equivalents at beginning of year		50,992	41,243
Cash and cash equivalents at end of year	22(b)	52,727	50,992

The notes on pages 27 to 54 form part of these financial statements.

UPP Bond 1 Holdings Limited

Notes to the group financial statements for the year ended 31 August 2022

1. Company information

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

2. Basis of preparation

These annual financial statements have been prepared in accordance with The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS 102'), and with the Companies Act 2006.

The financial statements have been prepared on the historical cost basis except for all derivative instruments and revaluation of fixed assets which are measured on a fair value basis as specified in the accounting policies below. The Group has chosen to adopt Section 11 and 12 of FRS 102 in respect of financial instruments as available under Section 11 of FRS 102.

The Group has chosen to apply transitional relief under Section 35.10 (i) *Service concession arrangements – Accounting by operators* and as a result it shall account for all its tangible assets which meet the definition of service concession arrangements under Section 34 and were entered into before the date of transition, using the same accounting policies being applied at the date of transition to FRS 102. This transitional relief applies to all of the Group's principal assets as at 31 August 2017. All of the Group's principal assets meet the definition of service concession arrangements under Section 34.

The Company has taken advantage of the disclosure exemption allowed under FRS 102 with Section 7 Statement of Cash Flows and it has not presented its own Statement of Cash Flows in these financial statements. The Group is a wholly owned subsidiary of UPP REIT Holdings Limited and as such the Company has taken advantage of the terms of FRS 102.33.1A not to disclose related party transactions which are eliminated on consolidation.

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

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

The notes to the profit and loss account have been shown for the Group unless otherwise specified.

The following principal accounting policies have been applied:

Going concern

Notwithstanding net liabilities of £103,883k the financial statements have been prepared on a going concern basis, which the directors consider to be appropriate for the following reasons.

In preparing these financial statements, the directors have considered the impact of the current inflationary environment on the ability of the Company to continue as a going concern by preparing a cash flow forecast through to 31 August 2024, modelling a severe but plausible downside scenario that demonstrates that the Company is expected to have sufficient funds to meet its obligations as they fall due over the period of at least 12 months from the date of approval of the financial statements.

A key feature of the Company's contractual arrangements with the universities, is that the university counterparty bears the risk of in-year rental income collection once students have been contracted for the rooms. In addition, there are contractual mechanisms in place that allow for rental uplifts as a result of inflation.

UPP Bond 1 Holdings Limited

Notes to the group financial statements

for the year ended 31 August 2022

Going concern (continued)

For the 2022/23 academic year, the Company has secured sufficient occupancy to remain compliant with its financial covenants. The directors anticipate that the Company's university counterparties will meet their payment obligations as they fall due, even in the severe but plausible downside scenario and, as a result, the risk around revenues leading to non-compliance with financial covenants for the 2022/23 year remains low. The directors consider the Company's costs to be reasonably controllable and, whilst there are likely to be increased costs arising from inflationary pressures and geopolitical issues, these are either likely to be offset by cost savings elsewhere or not considered sufficient to threaten the viability of the business.

The directors believe that the fundamentals of the student accommodation market remain supportive of the long-term success of the business.

The directors have received a letter of support and confirmation from UPP Group Limited that financial support will be provided to the Group and Company, such that it is able to meet its liabilities as they fall due, for a period not less than twelve months from the date of approval of these financial statements.

On this basis, the directors are confident that the Company will have sufficient funds to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements, and therefore have prepared the financial statements on a going concern basis.

Basis of consolidation

The consolidated financial statements present the results of UPP Bond 1 Holdings Limited and its subsidiaries ("the Group"), prepared to 31 August each year using the acquisition method from the date control passes to the Group.

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

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

No statement of comprehensive income is presented for UPP Bond 1 Holdings Limited as permitted by section 408 of the Companies Act 2006.

3. Judgements and key sources of estimation uncertainty

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

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

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

Revaluation of the principal assets (note 14)

The Group has adopted a policy to revalue the principal assets every five years with an interim valuation performed in year three of the cycle and in other years if there is evidence that the value has changed significantly. The Group engages independent valuation specialists to determine the fair value of the assets every five years, with a directors' valuation performed at any other interim period. The valuation technique employed by both the independent valuers and directors is based on a discounted cash flow model as there

UPP Bond 1 Holdings Limited

Notes to the group financial statements

for the year ended 31 August 2022

is a lack of comparable market data due to the specific nature of the property assets. The determined fair value of the principal assets is most sensitive to the estimated rental growth, discount rate, as well as the long term occupancy rates.

Valuation of RPI swaps (note 19)

A number of 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 and debt value 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 Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Goodwill useful economic life (note 13)

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

Impairment of non-financial assets (note 13)

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, is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply, except for goodwill.

Defined benefit pension scheme (Note 23)

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.

UPP Bond 1 Holdings Limited

Notes to the group financial statements

for the year ended 31 August 2022

3. Judgements and key sources of estimation uncertainty (continued)

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

Presentation of the principal asset (note 14)

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

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

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

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

Classification of index-linked financial instruments (note 19)

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

Hedge accounting for inflation swaps (note 19)

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.

UPP Bond 1 Holdings Limited

Notes to the group financial statements for the year ended 31 August 2022

4. Principal accounting policies

(a) Tangible fixed assets

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

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

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

The Group has adopted a policy to revalue the principal asset every five years with an interim valuation performed in year three of the cycle and in other years if there is evidence that the value has changed significantly. The 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 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 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.

UPP Bond 1 Holdings Limited

Notes to the group financial statements for the year ended 31 August 2022

4. Principal accounting policies (continued)

(d) Investment in subsidiaries

Investments in subsidiaries are measured at cost less accumulated impairment.

(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 95 days 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 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.

UPP Bond 1 Holdings Limited

Notes to the group financial statements for the year ended 31 August 2022

4. Principal accounting policies (continued)

(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 contracts 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) Interest payable & similar charges

Interest payable & similar charges, 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.

Interest payable & similar charges 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.

UPP Bond 1 Holdings Limited

Notes to the group financial statements for the year ended 31 August 2022

4. Principal accounting policies (continued)

(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

Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

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

Deferred tax 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

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

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

UPP Bond 1 Holdings Limited

Notes to the group financial statements for the year ended 31 August 2022

4. Principal accounting policies (continued)

(p) Defined benefit pension plan

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

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

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

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

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

The cost of the defined benefit plan, recognised in 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 income statement using the effective interest method.

UPP Bond 1 Holdings Limited

Notes to the group financial statements

for the year ended 31 August 2022

5. Turnover

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

	2022	2021
	£'000	£'000
Provision of student accommodation	71,496	67,806

All turnover arose within the United Kingdom.

6. Directors' remuneration

The immediate subsidiary undertaking, UPP Bond 1 Limited, paid fees of £7,000 (2021: £13,000) to Intertrust Directors 1 Limited in respect of services performed in connection with the management of the affairs of the Group for the year ended 31 August 2022. An amount of £3,000 (2021: £4,000) related to the services provided to the Company during the year.

No other directors of the Group received payment for services performed in relation to the management of the Group (2021 - £nil).

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

7. Operating profit

The operating profit is stated after charging:

	Year ended	Year ended
	31 August	31 August 2021
	2022	
	£'000	£'000
Depreciation	5,046	4,164
Amortisation of goodwill	3,942	3,942

UPP Bond 1 Holdings Limited

Notes to the group financial statements

for the year ended 31 August 2022

8. Auditor's remuneration

	2022 £'000	2021 £'000
Fees payable to the Group's auditor and its associates for the audit of the Company's annual financial statements	17	8
Fees payable to the Group's auditor and its associates for the audit of the subsidiaries' annual financial statements	199	195

9. Employees

Staff costs were as follows:

	Year ended 2022 £'000	Year ended 2021 £'000
Wages and salaries	6,543	6,294
Social security costs	508	484
Pension costs	203	310
	<u>7,254</u>	<u>7,088</u>

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

	2022 No.	2021 No.
Site managers	29	29
Administration, maintenance, and cleaning	274	281
	<u>303</u>	<u>310</u>

There are no employees employed by the company.

10. Interest receivable and similar income

	Year ended 31 August 2022 £'000	Year ended 31 August 2021 £'000
Bank interest receivable	<u>195</u>	<u>144</u>

UPP Bond 1 Holdings Limited

Notes to the group financial statements for the year ended 31 August 2022

11. Interest payable and similar charges

	Year ended 31 August 2022 £'000	Year ended 31 August 2021 £'000
<i>Interest on Financial liabilities measured at amortised cost</i>		
Fixed rate senior secured notes	13,402	14,118
Index-linked senior secured notes	25,734	9,432
Unsecured loan notes	40,111	35,340
Modification gain on unsecured loan notes	(41,692)	6,739
	<u>37,555</u>	<u>65,629</u>
<i>Financial liabilities measured at fair value</i>		
Fair value movement on RPI swaps	6,367	3,039
	<u>43,922</u>	<u>68,668</u>

Included within index-linked senior secured notes is £21,204k (2021 - £5,105k) that relates to the index-linked uplift on the outstanding loan.

UPP Bond 1 Holdings Limited

Notes to the group financial statements for the year ended 31 August 2022

12. Tax on loss on ordinary activities

	Year ended 31 August 2022 £'000	Year ended 31 August 2021 £'000
a) Analysis of tax credit for the year		
<i>Current tax:</i>		
Payment for group relief	(4,373)	(2,909)
Adjustment in respect of prior years	-	-
Total current tax	<u>(4,373)</u>	<u>(2,909)</u>
<i>Deferred tax:</i>		
Current year	-	-
Total deferred tax	<u>-</u>	<u>-</u>
Total tax (credit) on losses on ordinary activities	<u>(4,373)</u>	<u>(2,909)</u>

b) Factors affecting total tax charge for the year

The tax assessed for the year is lower (2021: lower) than the standard rate of corporation tax in the UK 19.00% (2021: 19.00%). The differences are explained below:

	Year ended 31 August 2022 £'000	Year ended 31 August 2021 £'000
Loss on ordinary activities before tax	<u>(20,005)</u>	<u>(43,518)</u>
Tax on loss on ordinary activities using the UK corporation tax rate of 19% (2021: 19.00%)	(3,801)	(8,268)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	24,472	9,187
Non-taxable income	(28,508)	(3,313)
Brought forward losses utilised in the year	(45)	(57)
Exempt property rental (profits)/losses in the year	3,509	(458)
Total tax credit for the year (note 12a)	<u>(4,373)</u>	<u>(2,909)</u>

UPP Bond 1 Holdings Limited

Notes to the group financial statements for the year ended 31 August 2022

12. Tax on loss on ordinary activities (continued)

c) Deferred tax

UPP REIT Holdings Limited is a Real Estate Investment Trust ('REIT'). As a result, the deferred tax accrued to the date of conversion in respect of assets and liabilities of the qualifying property rental business has been released due to the relevant temporary differences no longer being taxable on reversal.

d) Factors that may affect future tax charges

As a result of converting to a REIT, the Company and 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.

A deferred tax asset of £49,690k (2021: £42,220k) in respect of available tax losses has not been recognised at 31 August 2022.

13. Intangible fixed assets

Group

	Goodwill £'000
Cost	
At 1 September 2021 and at 31 August 2022	<u>145,035</u>
Amortisation	
At 1 September 2021	(31,680)
Charge for the period	<u>(3,942)</u>
At 31 August 2022	<u>(35,622)</u>
Net book value	
At 31 August 2022	<u>109,413</u>
At 31 August 2021	<u>113,355</u>

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. The Group has not identified any indicators of impairment during the year.

UPP Bond 1 Holdings Limited

Notes to the group financial statements for the year ended 31 August 2022

14. Tangible fixed assets

Group	Assets for use in operating leases Group £'000
Cost or valuation	
At 1 September 2021	571,700
Revaluation	55,700
At 31 August 2022	627,400
Depreciation	
At 1 September 2021	-
Charge during the year	(5,046)
Revaluation	5,046
At 31 August 2022	-
Net book value	
At 31 August 2022	627,400
At 31 August 2021	571,700

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

At 31 August 2021	535,159
Accumulated depreciation	(38,863)
At 31 August 2022	496,296

Fixed assets include finance costs up to the date of completion of £16,771k (2021: £16,771k), these have been capitalised at 100%.

Assets used in operating leases were independently valued by Jones Lang LaSalle Limited ("JLL"), Chartered Surveyors, on an existing use basis at 31 August 2022. JLL have confirmed that the value as at that date was £627,400k.

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

	2022
Discount rates	7.90% - 8.50%
Occupancy rates	99%
Long term annual rental growth	3%

UPP Bond 1 Holdings Limited

Notes to the group financial statements for the year ended 31 August 2022

15. Investments

Company	Interest in subsidiary undertakings £'000
At 1 September 2021 and 31 August 2022	<u>55,570</u>

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

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

All subsidiaries above are registered at First Floor, 12 Arthur Street, London, EC4R 9AB. The fixed asset investment value above represents the carrying value of the Company's investment in its subsidiary undertakings. The Group has not identified and indicators of impairment during the year.

16. Debtors: amounts falling due within one year

	31 August 2022 £'000	31 August 2022 £'000	31 August 2021 £'000	31 August 2021 £'000
	Group	Company	Group	Company
Trade debtors	246	-	276	-
VAT receivable	130	-	182	-
Amounts owed by related parties	3,256	-	3,262	-
Prepayments and accrued income	540	-	352	-
Group relief receivable	4,373	-	2,909	-
	<u>8,545</u>	<u>-</u>	<u>6,981</u>	<u>-</u>

Amounts owed by related parties are interest free and repayable on demand.

UPP Bond 1 Holdings Limited

Notes to the group financial statements

for the year ended 31 August 2022

17. Debtors: amounts falling due after one year

	31 August 2022 £'000	31 August 2022 £'000	31 August 2021 £'000	31 August 2021 £'000
	Group	Company	Group	Company
Amounts owed by subsidiary companies	-	146,720	-	121,306
	<u>-</u>	<u>146,720</u>	<u>-</u>	<u>121,306</u>

Amounts owed by subsidiary companies relate to the unsecured loan notes with UPP Bond 1 Limited. These loan notes bear interest at 13.75% and 14% and are repayable by 2057. Payment of interest is subject to the Group passing lock up tests and availability of cash reserves.

18. Creditors: amounts falling due within one year

	31 August 2022 £'000	31 August 2022 £'000	31 August 2021 £'000	31 August 2021 £'000
	Group	Company	Group	Company
Senior secured notes	14,441	-	13,362	-
Trade creditors	1,032	-	406	-
Amounts owed to related parties	5,151	-	5,671	-
Accruals and deferred income	10,253	-	10,733	-
	<u>30,877</u>	<u>-</u>	<u>30,172</u>	<u>-</u>

The amounts owed to related parties are interest free and repayable on demand. Included in this balance there is deferred income amounting to £836k (2021: £827k).

UPP Bond 1 Holdings Limited

Notes to the group financial statements

for the year ended 31 August 2022

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

	31 August 2022 £'000 Group	31 August 2022 £'000 Company	31 August 2021 £'000 Group	31 August 2021 £'000 Company
Fixed rate senior secured notes	256,052	-	262,470	-
Index-linked senior secured notes	239,281	-	224,452	-
Unsecured loan notes	331,208	331,208	339,488	339,488
Derivative financial instruments	51,193	-	25,026	-
	<u>877,734</u>	<u>331,208</u>	<u>851,436</u>	<u>339,488</u>
Less: included in creditors amounts falling due within one year	(14,441)	-	(13,362)	-
	<u>863,293</u>	<u>331,208</u>	<u>838,074</u>	<u>339,488</u>

Maturity of debt

Repayable within one year or on demand	14,441	-	13,362	-
Repayable in more than one year but less than two years	15,760	-	14,079	-
Repayable in more than two years but less than five years	53,811	-	48,839	-
Repayable in more than five years	793,722	331,208	775,156	339,488
	<u>877,734</u>	<u>331,208</u>	<u>851,436</u>	<u>339,488</u>
Less: included in creditors amounts falling due within one year	(14,441)	-	(13,362)	-
	<u>863,293</u>	<u>331,208</u>	<u>838,074</u>	<u>339,488</u>

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.

UPP Bond 1 Holdings Limited

Notes to the group financial statements

for the year ended 31 August 2022

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

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

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

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

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

Unsecured loan notes

UPP Group Limited has provided unsecured loan notes of £146,669,000. 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- Group

	Cash flow hedge reserve (OCI) £'000	Profit & loss account £'000	Total £'000
Fair value of RPI swaps at 1 September 2021	(18,346)	(6,679)	(25,025)
Fair value movement in the year	(19,801)	(6,367)	(26,168)
Fair value of RPI swaps at 31 August 2022	(38,147)	(13,046)	(51,193)
Fair value at 31 August 2022	(38,147)	(13,046)	(51,193)
Fair value at 1 September 2021	(18,347)	(6,679)	(25,026)

UPP Bond 1 Holdings Limited

Notes to the group financial statements

for the year ended 31 August 2022

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

Derivative financial instruments (continued)

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of these swaps is determined using discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, spot and forward rates, as well as option volatility.

The Group incorporates credit valuation adjustments and debit value adjustments to appropriately reflect both its own non-performance risk and the respective counterparty's non-performance risk in the fair value measurements. 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.

20. Called up share capital

	31 August 2022 £'000	31 August 2021 £'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 full voting, dividend, and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

UPP Bond 1 Holdings Limited

Notes to the group financial statements for the year ended 31 August 2022

21. Reserves

Revaluation reserve

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

Cash flow hedge reserve

The cashflow hedge reserve includes the fair value movements on the derivative financial instruments.

Profit and loss account

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

22. Notes to the statement of cash flows

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

	Year ended 31 August 2022	Year ended 31 August 2021
	£'000	£'000
Operating profit	23,722	25,006
Depreciation	5,046	4,164
Goodwill amortisation	3,942	3,942
Pension costs	34	-
(Increase)/decrease in debtors due within one year	1,652	(807)
Increase/(decrease) in creditors due within one year	4,830	8,805
Net cash inflow from operating activities	39,226	41,110

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

	At 31 August 2022	At 31 August 2021
	£'000	£'000
Cash at bank and in hand	34,021	31,582
Short term deposits	18,706	19,410
Cash and cash equivalents	52,727	50,992

UPP Bond 1 Holdings Limited

Notes to the group financial statements

for the year ended 31 August 2022

23. Pension commitments

Defined contribution scheme

The Group operates a defined contribution retirement benefit scheme for all qualifying employees. The total cost charged to income statement of £115,000 (2021: £110,000) represents a predetermined amount of the employee's salary paid into the scheme. As at 31 August 2022 £Nil (2021: £Nil) contributions remained outstanding.

Defined benefit scheme

Retirement benefits for 29 Group employees (2021:29) are provided by a defined benefit scheme which is funded by contributions by the employee and the Group. Payments are made to Nottinghamshire County Council Pension Fund ("NCCPF"). This is an independently administered scheme and contracted out of the State Earnings Related Pension Scheme.

Contributions are set every three years as a result of the actuarial valuation, the latest being carried out at 31 March 2022 setting out contributions for the period from 1 April 2023 to 31 March 2026.

The material assumptions used by the Actuary at 31 August 2022 were:

	2022	2021
Rate of inflation	3.0%	2.9%
Rate of increase in salaries	4.1%	3.9%
Rate of increase in pensions	3.1%	2.9%
Discount rate for liabilities	4.25%	1.7%

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

	31 August 2022	31 August 2021
	Years	Years
<i>Retiring today</i>		
Males	21.7	21.6
Females	24.4	24.3
<i>Retiring in 20 years</i>		
Males	23.0	22.9
Females	25.8	25.7

UPP Bond 1 Holdings Limited

Notes to the group financial statements

for the year ended 31 August 2022

23. Pension commitments (continued)

Amounts recognised in the income statement are as follows:

	31 August 2022	31 August 2021
	£'000	£'000
Service cost	81	75
Net interest on the defined liability	32	35
Administrative expenses	2	-
	<u>115</u>	<u>110</u>

Amount taken to other comprehensive income is as follows:

	31 August 2022	31 August 2021
	£'000	£'000
Return of scheme assets in excess of interest	(59)	426
Change in financial assumptions	1,967	(195)
Re-measurement of the (defined liability)	<u>1,908</u>	<u>231</u>

Reconciliation of fair value of plan liabilities were as follows

	31 August 2022	31 August 2021
	£'000	£'000
Opening defined benefit obligation	(1,999)	(2,168)
Recognised in other comprehensive income	1,908	231
Recognised in profit and loss	(102)	(62)
Closing defined benefit obligation	<u>(193)</u>	<u>(1,999)</u>

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 2022	31 August 2021
	£'000	£'000
Present value of the defined benefit obligation	(3,871)	(5,774)
Fair value of scheme assets	3,678	3,775
Net defined benefit liability	<u>(193)</u>	<u>(1,999)</u>

UPP Bond 1 Holdings Limited

Notes to the group financial statements for the year ended 31 August 2022

23. Pension commitments (continued)

Defined benefit obligation reconciliation is as follows:

	31 August 2022	31 August 2021
	£'000	£'000
At 1 September	5,774	5,529
Current service cost	81	75
Interest cost	94	85
Change in financial assumptions	(1,967)	378
Estimated benefits paid net of transfers in	(130)	(119)
Change in demographic assumptions	-	(68)
Contributions by scheme participants	9	9
Experience loss/(gain) on defined benefit obligation	10	(115)
At 31 August	<u>3,871</u>	<u>5,774</u>

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

	31 August 2022	31 August 2021
	£'000	£'000
At 1 September	3,775	3,361
Interest on assets	62	52
Return on assets less interest	(85)	426
Employer contributions	58	57
Other Actuarial gains/(losses)	-	-
Employee contributions	-	-
Administration expenses	(2)	(2)
Benefits paid	(130)	(119)
At 31 August	<u>3,678</u>	<u>3,775</u>

The Group expects to contribute £nil to its Defined Benefit Pension Scheme in 2023.

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Notes to the group financial statements

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23. Pension commitments (continued)

The estimated asset allocation of the scheme as at 31 August 2022 is as follows:

	31 August 2022		31 August 2021	
	%	£'000	%	£'000
Equities	59	2,156	65	2,451
Government bonds	2	87	3	123
Other bonds	7	254	6	238
Property	14	533	10	387
Cash	6	210	4	154
Other	12	438	12	422
Total fair value of scheme assets (bid value)	100	3,678	100	3,775
Present value of scheme liabilities		(3,871)		(5,774)
Net deficit		193		1,999

24. Provisions

During the year, following detailed inspections, the Group identified various remediation works that need to be carried out at buildings at the University of Kent. Accordingly a provision of £7,500k has been recognised in the financial year ended 31 August 2022, as the Directors believe the Group has a present obligation, it is probable that transfer of economic benefit will be required, and the obligation can be reliably estimated. The amount recognised is based on the Group's best estimate of the transfer of economic benefit.

In the prior year a provision of £3,999k was raised for works required at the University of Plymouth. Whilst the works have reached practical completion it is anticipated that £240k of costs remain.

	Cladding - University of Plymouth £'000	Cladding - University of Kent £'000	Total £'000
At 1 September 2021	3,999	-	3,999
Provision made during the year	-	7,500	7,500
Provision used during the year	(3,759)	-	(3,759)
At 31 August 2022	240	7,500	7,740
	Cladding - University of Plymouth £'000	Cladding - University of Kent £'000	Total £'000
At 1 September 2020	-	-	-
Provision made during the year	3,999	-	3,999
Provision used during the year	-	-	-
At 31 August 2021	3,999	-	3,999

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25. Financial risk management

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

Interest rate risk

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

Inflation rate risk

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

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

External hedge arrangements

- a 27 year RPI swaps with Royal Bank of Canada commencing in August 2013 and finishing in February 2040
- a 24 year RPI swaps with Royal Bank of Canada commencing in June 2016 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 external hedge counterparty pays or receives a fixed amount and the company pays or receives a floating amount.

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

Hedge arrangements with AssetCos

- a 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

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Notes to the group financial statements

for the year ended 31 August 2022

25. Financial risk management (continued)

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 **to invest** cash assets safely and profitably. **The Group's facility agreements require adequately funded reserve accounts which provide further mitigation against liquidity risk.** The maturity of borrowings is set out in note 19 to the financial statements.

Terms and debt repayment schedule

	Currency	Effective interest rate (%)	Year of maturity	Book value
				£'000
Fixed rate senior secured notes	£	4.9023%	2040	256,052
Index-linked senior secured notes (issued 2013)	£	2.7291%	2047	102,110
Index-linked senior secured notes (issued 2014)	£	1.0370%	2049	137,171
Unsecured loan notes	£	13.5%	2056	331,208
				<u>826,541</u>

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 maintaining strong relationships with the university, improved marketing of accommodation and improved third party revenues to compensate for any shortfalls in rental income.

Portfolio risk

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

UPP Bond 1 Holdings Limited

Notes to the group financial statements for the year ended 31 August 2022

26. Financial instruments

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

	Carrying amount at 31 August 2022 £'000	Carrying amount at 31 August 2021 £'000
Financial asset		
<i>Financial liabilities measured at amortised cost:</i>		
Trade debtors	246	276
Other related party loans	7,629	3,263
Total financial assets measured at amortised cost	<u>7,875</u>	<u>3,539</u>
Financial liabilities		
<i>Financial liabilities measured at amortised cost:</i>		
Fixed rate senior secured noted	256,052	262,470
Index-linked senior secured notes	239,281	224,452
Unsecured loan notes	331,208	339,488
Trade creditors	1,030	406
Accruals	9,416	9,908
Other related party loans	5,151	5,670
Total financial liabilities measured at amortised cost	<u>842,138</u>	<u>842,394</u>
<i>Financial assets measured at fair value</i>		
Derivative financial liability	<u>51,193</u>	<u>25,026</u>

27. Parent undertaking and controlling party

The Group is wholly owned by UPP Group Limited, a company itself a wholly owned subsidiary of UPP Group Holdings Limited, in turn wholly owned by 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 Bond 1 Holdings Limited.

Copies of the UPP Bond 1 Holdings Limited accounts can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ once they have been filed.