

UPP (Plymouth Three) Limited

Annual Report and Consolidated Financial
Statements

Year Ended

31 August 2022

Company Number 05016132

UPP (Plymouth Three) Limited

Company Information

Directors	M C Bamford S A Boorne M J Burton J J Wakeford
Registered number	05016132
Registered office	First Floor 12 Arthur Street London EC4R 9AB
Independent auditor	KPMG LLP Chartered Accountants and Statutory Auditor 15 Canada Square London E14 5GL

UPP (Plymouth Three) Limited

Contents

	Page
Strategic Report	1 - 3
Directors' Report	4 - 6
Independent Auditor's Report	7 - 10
Consolidated Profit and Loss Account	11
Consolidated Statement of Comprehensive Income	12
Consolidated Balance Sheet	13
Company Balance Sheet	14
Consolidated Statement of Changes in Equity	15
Company Statement of Changes in Equity	16
Notes to the Financial Statements	17 - 36

UPP (Plymouth Three) Limited

Strategic Report For the Year Ended 31 August 2022

Business review

The principal activity of the Group is the development, funding, construction and operation of university accommodation under the University Property Partnerships (UPP), in partnership with the University of Plymouth.

The project comprises of 1,764 student residential accommodation bedrooms within the University of Plymouth main campus.

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

The 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 increasing 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.

Principal risks and uncertainties

Financial risk management objectives and policies

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

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

UPP (Plymouth Three) Limited

Strategic Report (continued) For the Year Ended 31 August 2022

Principal risks and uncertainties (continued)

Interest rate risk

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

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

Inflation risk

The Company and Group fund 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 Company and Group are monitoring the current inflationary environment very closely, especially 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.

Liquidity risk

The Company and Group seek to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and debt servicing and to invest cash assets safely and profitably. The 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 17 to the financial statements.

Demand risk

The Company and Group are subject to revenue risk arising from potential occupancy voids where no nomination is in place and counter-party credit risk where a nomination is in place from the university partner. While the Company and the Group operate with the benefit of various contractual rights that support high levels of occupancy, the supply of purpose built student accommodation is increasing providing increased competition focused on price, quality and location.

Portfolio risk

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

UPP (Plymouth Three) Limited

Strategic Report (continued) For the Year Ended 31 August 2022

Key performance indicators

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

	2021/22	2020/21
Average Applications: Acceptance ratio	5.2:1	5.5:1
Average core demand pool (no. of students)	10,075	10,100

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


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

	2021/22	2020/21
Average occupancy across the facilities	99.9%	99.9%

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

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

This report was approved by the board and signed on its behalf by:



M C Bamford
Director

Date: 13 December 2022

UPP (Plymouth Three) Limited

Directors' Report For the Year Ended 31 August 2022

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

Statement of directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the Group and Parent Company 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 they have elected to prepare the Group and the Parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally 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 Parent Company and of the Group's profit or loss for that period. In preparing each of the Group and the Parent Company 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 the Parent 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 Parent 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 and 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.

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 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 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 (Plymouth Three) Limited

Directors' Report (continued) For the Year Ended 31 August 2022

Going concern (continued)

For the 2022/23 academic year, the Group and Company 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 likely to be offset by cost savings elsewhere and are not 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.

During the year the Company's historic debt service cover ratio fell below a trigger level of 1.05 due to the remediation works discussed in Note 19. This resulted in a remedial plan being prepared, including objectives relating to occupancy, progress of works and student feedback, and monitored through quarterly reports being provided to the Monitoring Advisor. However, due to cross-collateralisation of Company's debt within the UPP Bond 1 Holdings group, this does not compromise the going concern basis of preparation, as the consolidated ratio remained significantly above trigger levels.

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.

Results and dividends

The loss for the year, after taxation, amounted to £5,590k (2021 - £6,100k).

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

Directors

The directors who served during the year were:

S A Boorne (appointed 29 April 2022)
M J Burton (appointed 16 February 2022)
H Gervaise-Jones (resigned 29 April 2022)
M Swindlehurst (resigned 2 February 2022)
J J Wakeford (appointed 16 February 2022)

After the year end, M C Bamford was appointed as a director on 3 October 2022.

Future developments

Occupancy for the 2022/23 financial year has been secured at 100% which has exceeded the directors' expectations.

Qualifying third party indemnity provisions

During the year and up to the date of this report, the Group and the Parent Company maintained liability insurance and third-party indemnification provisions for its directors, under which the Group and the Parent Company have 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 Group and the Parent Company.

UPP (Plymouth Three) Limited

Directors' Report (continued) For the Year Ended 31 August 2022

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 page 1.

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company and the Group's auditor is unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company and the Group's auditor is aware of that information.

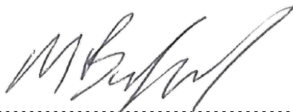
Post balance sheet events

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

Auditor

The auditor, KPMG LLP, will be proposed for reappointment as auditor of the Company in accordance with section 487 of the Companies Act 2006.

This report was approved by the board and signed on its behalf by:



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M C Bamford
Director

Date: 13 December 2022

UPP (Plymouth Three) Limited

Independent Auditor's Report to the Members of UPP (Plymouth Three) Limited

Opinion

We have audited the financial statements of UPP (Plymouth Three) 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 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 the 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; and
- 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.

UPP (Plymouth Three) Limited

Independent Auditor's Report to the Members of UPP (Plymouth Three) 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; and
- 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.

UPP (Plymouth Three) Limited

Independent Auditor's Report to the Members of UPP (Plymouth Three) 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)

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.

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 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.

UPP (Plymouth Three) Limited

Independent Auditor's Report to the Members of UPP (Plymouth Three) Limited (continued)

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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 the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

Date: 13 December 2022

UPP (Plymouth Three) Limited

Consolidated Profit and Loss Account For the Year Ended 31 August 2022

	Note	2022 £000	2021 £000
Turnover	4	9,494	9,739
Cost of sales		(3,011)	(2,749)
Gross profit		6,483	6,990
Administrative expenses		(1,963)	(3,150)
Other operating income		-	(3,999)
Operating profit/(loss)	5	4,520	(159)
Interest receivable and similar income	8	(108)	(63)
Interest payable and similar expenses	9	(10,002)	(5,878)
Loss before tax		(5,590)	(6,100)
Tax on loss	10	-	-
Loss for the financial year		(5,590)	(6,100)
Loss for the year attributable to:			
Owners of the Parent Company		(5,590)	(6,100)
		(5,590)	(6,100)

The above results all relate to continuing operations.

The notes on pages 17 to 36 form part of these financial statements.

UPP (Plymouth Three) Limited

Consolidated Statement of Comprehensive Income For the Year Ended 31 August 2022

	Note	2022 £000	2021 £000
Loss for the financial year		(5,590)	(6,100)
Other comprehensive income, net of related tax effects			
Unrealised surplus on revaluation of tangible fixed assets	12	7,274	405
Other comprehensive income for the year		7,274	405
Total comprehensive income/(loss) for the year		1,684	(5,695)
Total comprehensive loss attributable to:			
Owners of the Parent Company		1,684	(5,695)
		1,684	(5,695)

The notes on pages 17 to 36 form part of these financial statements.

UPP (Plymouth Three) Limited

Registered number: 05016132

Consolidated Balance Sheet As at 31 August 2022

	Note	2022 £000	2021 £000
Fixed assets			
Intangible assets	11	1,343	1,383
Tangible fixed assets	12	85,900	79,100
		<u>87,243</u>	<u>80,483</u>
Current assets			
Debtors	14	3,115	7,988
		<u>3,115</u>	<u>7,988</u>
Creditors: amounts falling due within one year	15	(2,443)	(4,065)
		<u>672</u>	<u>3,923</u>
Net current assets			
		<u>87,915</u>	<u>84,406</u>
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	16	(74,236)	(68,652)
Provisions	19	(240)	(3,999)
		<u>13,439</u>	<u>11,755</u>
Net assets			
		<u><u>13,439</u></u>	<u><u>11,755</u></u>
Capital and reserves			
Called up share capital	20	2,033	2,033
Revaluation reserve	21	25,842	18,687
Profit and loss account	21	(14,436)	(8,965)
		<u>13,439</u>	<u>11,755</u>

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



M C Bamford
Director

Date: 13 December 2022

The notes on pages 17 to 36 form part of these financial statements.

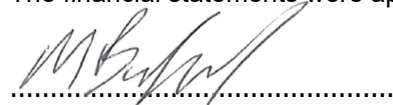
UPP (Plymouth Three) Limited

Registered number: 05016132

Company Balance Sheet As at 31 August 2022

	Note	2022 £000	2021 £000
Fixed assets			
Intangible assets	11	(14,074)	(14,454)
Tangible fixed assets	12	85,900	79,100
		<u>71,826</u>	<u>64,646</u>
Current assets			
Debtors	14	3,120	7,988
		<u>3,120</u>	<u>7,988</u>
Creditors: amounts falling due within one year	15	(2,448)	(4,081)
		<u>672</u>	<u>3,907</u>
Net current assets			
		<u>72,498</u>	<u>68,553</u>
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	16	(74,236)	(68,652)
Provisions	19	(240)	(3,999)
		<u>(1,978)</u>	<u>(4,098)</u>
Capital and reserves			
Called up share capital	20	2,033	2,033
Revaluation reserve	21	8,547	1,392
Profit and loss account	21	(12,558)	(7,523)
		<u>(1,978)</u>	<u>(4,098)</u>

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



M C Bamford
Director

Date: 13 December 2022

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 loss after tax of the Parent Company for the year was £5,154k (2021 - £5,674k).

The notes on pages 17 to 36 form part of these financial statements.

UPP (Plymouth Three) Limited

Consolidated Statement of Changes in Equity For the Year Ended 31 August 2022

	Called up share capital	Revaluation reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 September 2021	2,033	18,687	(8,965)	11,755
Loss for the year	-	-	(5,590)	(5,590)
Transfer from revaluation reserve	-	-	119	119
Surplus on tangible fixed assets	-	7,274	-	7,274
Transfer to profit and loss account	-	(119)	-	(119)
At 31 August 2022	2,033	25,842	(14,436)	13,439

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the Consolidated Profit and Loss Account as a movement on reserves. The transfer for 2022 was £119k.

Consolidated Statement of Changes in Equity For the Year Ended 31 August 2021

	Called up share capital	Revaluation reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 September 2020	2,033	18,389	(2,972)	17,450
Loss for the year	-	-	(6,100)	(6,100)
Transfer from revaluation reserve	-	-	107	107
Surplus on tangible fixed assets	-	405	-	405
Transfer to profit and loss account	-	(107)	-	(107)
At 31 August 2021	2,033	18,687	(8,965)	11,755

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the Consolidated Profit and Loss Account as a movement on reserves. The transfer for 2021 was £107k.

The notes on pages 17 to 36 form part of these financial statements.

UPP (Plymouth Three) Limited

Company Statement of Changes in Equity For the Year Ended 31 August 2022

	Called up share capital	Revaluation reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 September 2021	2,033	1,392	(7,523)	(4,098)
Loss for the year	-	-	(5,154)	(5,154)
Transfer to profit and loss account	-	-	119	119
Surplus on tangible fixed assets	-	7,274	-	7,274
Transfer from revaluation reserve	-	(119)	-	(119)
At 31 August 2022	2,033	8,547	(12,558)	(1,978)

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 £119k.

Company Statement of Changes in Equity For the Year Ended 31 August 2021

	Called up share capital	Revaluation reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 September 2020	2,033	1,094	(1,956)	1,171
Loss for the year	-	-	(5,674)	(5,674)
Transfer to profit and loss account	-	-	107	107
Surplus on tangible fixed assets	-	405	-	405
Transfer from revaluation reserve	-	(107)	-	(107)
At 31 August 2021	2,033	1,392	(7,523)	(4,098)

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 2021 was £107k.

The notes on pages 17 to 36 form part of these financial statements.

UPP (Plymouth Three) Limited

Notes to the Financial Statements For the Year Ended 31 August 2022

1. General information

UPP (Plymouth Three) Limited is a private company limited by shares incorporated in England, with company number 05016132. The registered office is First Floor, 12 Arthur Street, London, EC4R 9AB.

2. Accounting policies

2.1 Basis of preparation of financial statements

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

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

The Group has not presented a cashflow statement as it does not hold any cash balances.

The following principal accounting policies have been applied:

2.2 Basis of consolidation

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

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

In accordance with the transitional exemption available in FRS 102, the Group has chosen not to retrospectively apply the standard to business combinations that occurred before the date of transition to FRS 102, being 01 September 2014.

UPP (Plymouth Three) Limited

Notes to the Financial Statements For the Year Ended 31 August 2022

2. Accounting policies (continued)

2.3 Parent company disclosure exemptions

In preparing the separate financial statements of the Parent Company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- Only one reconciliation of the number of shares outstanding at the beginning and end of the period has been presented as the reconciliation for the Company and the Parent Company would be identical;
- No Statement of Cash Flows has been presented for the Parent Company;
- Disclosures in respect of the Parent Company's income, expense, net gains and net losses on financial instruments measured at amortised cost have not been presented as equivalent disclosures have been provided in respect of the Group as a whole; and
- No disclosures have been given for the aggregate remuneration of the key management personnel of the Parent Company as their remuneration is included in the totals for the Group as a whole.

2.4 Going concern

Notwithstanding a consolidated loss of £5,590k (2021 - £6,100k) and Company loss of £5,154k (2021 - £5,674k for the year ended 31 August 2022 and Company net liabilities of £1,978k (2021 - £4,098k) as at 31 August 2022, 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 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 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 and Company 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 likely to be offset by cost savings elsewhere and are not 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 the Group's parent undertaking, UPP Group Limited that financial support will be provided to the Group, such that it is able to meet its liabilities as they fall due, for a period of not less than twelve months from the date of approval of these financial statements.

UPP (Plymouth Three) Limited

Notes to the Financial Statements For the Year Ended 31 August 2022

2. Accounting policies (continued)

2.4 Going concern (continued)

During the year the Company's historic debt service cover ratio fell below a trigger level of 1.05 due to the remediation works discussed in Note 19. This resulted in a remedial plan being prepared, including objectives relating to occupancy, progress of works and student feedback, and monitored through quarterly reports being provided to the Monitoring Advisor. However, due to cross-collateralisation of Company's debt within the UPP Bond 1 Holdings group, this does not compromise the going concern basis of preparation, as the consolidated ratio remained significantly above trigger levels.

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.

2.5 Turnover

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

2.6 Interest receivable

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

2.7 Interest payable

Interest payable is charged to the Consolidated Profit and Loss Account over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.8 Borrowing costs

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

2.9 Pensions

Defined contribution pension plan

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

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

UPP (Plymouth Three) Limited

Notes to the Financial Statements For the Year Ended 31 August 2022

2. Accounting policies (continued)

2.10 Taxation

Tax is recognised in the Consolidated Profit and Loss Account except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

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

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

2.11 Intangible assets

Goodwill

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of the Group's share of its identifiable assets and liabilities of the acquiree at the date of acquisition. Subsequent to initial recognition, Goodwill is measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight line basis over the remaining lease period on the principal asset held by the subsidiary. This period represents the period over which each subsidiary undertaking acquired will continue to generate cash flows. Amortisation is charged to the Consolidated Profit and Loss Account over its useful economic life.

2.12 Tangible fixed assets

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

UPP (Plymouth Three) Limited

Notes to the Financial Statements For the Year Ended 31 August 2022

2. Accounting policies (continued)

2.12 Tangible fixed assets (continued)

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 group's actual weighted cost of capital and depreciation combined will give an approximately constant charge to revenue.

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

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the Consolidated Profit and Loss Account as a movement on reserves.

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

2.13 Investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.14 Debtors

Trade and other 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 debtors by considering factors such as the credit rating, the aging profile and the historic experience of the respective debtor.

2.15 Cash and cash equivalents

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

UPP (Plymouth Three) Limited

Notes to the Financial Statements For the Year Ended 31 August 2022

2. Accounting policies (continued)

2.16 Creditors

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

2.17 Interest bearing borrowings

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

2.18 Derivative financial instruments

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

To mitigate the impact of inflation movements on future rental income and the Group's ability to service the fixed rate senior loan notes, the Group has entered into inflation linked swaps ('RPI swaps') with UPP Bond 1 Issuer Plc, a fellow group undertaking. All derivative financial instruments are initially measured at fair value on the date the contract is entered into and subsequently remeasured to fair value at each reporting date. The gain or loss on re-measurement is taken to the Consolidated Profit and Loss Account in finance cost or finance income as appropriate.

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

2.19 Related party transactions

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.

2.20 Provisions for liabilities

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Consolidated Profit and Loss Account in the year that the Group becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet.

UPP (Plymouth Three) Limited

Notes to the Financial Statements For the Year Ended 31 August 2022

3. Judgements in applying accounting policies and key sources of estimation uncertainty

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

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

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

Revaluation of the principal assets (note 12)

The Group has adopted a policy to revalue the principal assets every five years with an interim valuation performed in year three of the cycle and in other years if there is evidence that the value has changed significantly. The Group engages independent valuation specialists to determine the fair value of the assets every five years, with a directors' valuation performed at any other interim period. The valuation technique employed by both the independent valuers and directors is based on a discounted cash flow model as there is a lack of comparable market data due to the specific nature of the property assets. The determined fair value of the principal assets is most sensitive to the estimated rental growth, discount rate, as well as the long term occupancy rates. The key assumptions used to determine the principal assets are further explained in note 12.

Goodwill (note 11)

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

Valuation of RPI swaps (note 18)

In estimating the fair value of the RPI swaps, the Company 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, 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.

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 12)

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

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

UPP (Plymouth Three) Limited

Notes to the Financial Statements For the Year Ended 31 August 2022

3. Judgements in applying accounting policies (continued)

Presentation of the principal asset (note 12) (continued)

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 asset.

Classification of index-linked financial instruments (note 17)

The Group's index-linked senior on loans are fully amortising with both principal repayments and real interest adjusted semi-annually by the change in the RPI index. Management have concluded that despite both principal and interest being linked to RPI, these links are not leveraged and because both principal and interest repayment obligations change in the same proportion and therefore the conditions in paragraphs 11.9(a) and (aA) of FRS 102 are met and the Group's index linked financial instruments are classified as basic and carried at amortised cost.

4. Turnover

Turnover represents income, on the basis of accounting policy 2.5, excluding VAT, attributed to the provision of student accommodation.

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

	2022 £000	2021 £000
Provision of student accommodation	9,494	9,739

All turnover arose within the United Kingdom.

5. Operating profit/(loss)

The operating profit/(loss) is stated after charging/(crediting):

	2022 £000	2021 £000
Depreciation of tangible fixed assets	474	405
Amortisation of intangible assets, including goodwill	40	37
Provisions (see note 19)	(3,759)	3,999

6. Auditor's remuneration

	2022 £000	2021 £000
Fees payable to the Group's auditor and its associates for the audit of the Group's annual financial statements	17	16

UPP (Plymouth Three) Limited

Notes to the Financial Statements For the Year Ended 31 August 2022

7. Employees

Staff costs were as follows:

	Group 2022 £000	Group 2021 £000
Wages and salaries	886	878
Social security costs	64	61
Cost of defined contribution scheme	39	62
	<u>989</u>	<u>1,001</u>

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

	Group 2022 No.	Group 2021 No.
Site managers (full time)	9	3
Administration, maintenance and cleaning (full and part time)	40	46
	<u>49</u>	<u>49</u>

Key management personnel

All directors and certain senior employees who have authority and responsibility for planning, directing and controlling the activities of the Company are considered to be key management personnel. Total remuneration with respect of these individuals is £Nil (2021 - £Nil).

8. Interest receivable and similar income

	2022 £000	2021 £000
Interest receivable from group companies	(108)	(79)
Bank interest receivable	-	16
	<u>(108)</u>	<u>(63)</u>

UPP (Plymouth Three) Limited

Notes to the Financial Statements For the Year Ended 31 August 2022

9. Interest payable and similar expenses

	2022 £000	2021 £000
Fixed rate senior interest due to group undertaking	2,548	2,622
Fair value movement on swaps	4,943	2,155
Index-linked interest due to group undertaking	2,511	1,101
	<u>10,002</u>	<u>5,878</u>

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

10. Taxation

There is no current or deferred tax charge in the current or prior year.

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2021 - higher than) the standard rate of corporation tax in the UK of 19% (2021 - 19%). The differences are explained below:

	2022 £000	2021 £000
Loss on ordinary activities before tax	<u>(5,590)</u>	<u>(6,100)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	(1,062)	(1,159)
Effects of:		
Expenses disallowable for tax purposes	15	7
Non-taxable income	23	15
Brought forward losses utilised in the year	(3)	(3)
Exempt property rental profits in the year	1,027	1,140
Total tax charge for the year	<u>-</u>	<u>-</u>

Factors that may affect future tax charges

UPP REIT Holdings Limited is a Real Estate Investment Trust ("REIT"). As a result, the Company and Group no longer pay UK corporation tax on profits and gains from qualifying property rental business providing it meets certain conditions. Non-qualifying profits and gains continue to be subject to UK corporation tax as normal.

On 3 March 2021, it was announced that the UK corporation tax rate would increase to 25% from 1 April 2023, which was enacted in May 2021. The effect of this change in the rate of UK corporation tax increased the deferred tax asset not recognised by £3,637k. A deferred tax asset of £11,519k (2021 - £11,504k) in respect of available tax losses has not been recognised at 31 August 2022.

UPP (Plymouth Three) Limited

Notes to the Financial Statements For the Year Ended 31 August 2022

11. Intangible assets

Group

	Goodwill £000
Cost	
At 1 September 2021	1,892
At 31 August 2022	<u>1,892</u>
Amortisation	
At 1 September 2021	509
Charge for the year	40
At 31 August 2022	<u>549</u>
Net book value	
At 31 August 2022	<u><u>1,343</u></u>
At 31 August 2021	<u><u>1,383</u></u>

UPP (Plymouth Three) Limited

Notes to the Financial Statements For the Year Ended 31 August 2022

11. Intangible assets (continued)

Company

	Negative Goodwill £000
Cost	
At 1 September 2021	(18,053)
At 31 August 2022	<u>(18,053)</u>
Amortisation	
At 1 September 2021	(3,599)
Charge for the year	(380)
At 31 August 2022	<u>(3,979)</u>
Net book value	
At 31 August 2022	<u><u>(14,074)</u></u>
At 31 August 2021	<u><u>(14,454)</u></u>

Goodwill arose on the acquisition of the subsidiary undertakings during the year ended 31 August 2008.

Negative goodwill, related to the Company only, arose on the hive up of subsidiary undertakings during the year ended 31 August 2013.

UPP (Plymouth Three) Limited

Notes to the Financial Statements For the Year Ended 31 August 2022

12. Tangible fixed assets

Group and Company

	Assets for use in operating leases £000
Valuation	
At 1 September 2021	79,100
Revaluations	6,800
At 31 August 2022	<u>85,900</u>
At 1 September 2021	-
Charge for the year On revalued assets	474 (474)
At 31 August 2022	<u>-</u>
Net book value	
At 31 August 2022	<u><u>85,900</u></u>
At 31 August 2021	<u><u>79,100</u></u>

UPP (Plymouth Three) Limited

Notes to the Financial Statements For the Year Ended 31 August 2022

12. Tangible fixed assets (continued)

Fixed assets include borrowing cost up to the date of completion of £2,792k (2021 - £2,792k) which have been capitalised at 100%.

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.

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 £85,900k.

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

	2022
Discount rates	8.25%
Occupancy rates	99%
Long term annual rental growth	3%

Cost or valuation at 31 August 2022 is as follows:

	Assets for use in operating leases £000
At cost	63,210
At valuation:	
Revaluation as at 31 August 2022	22,690
	85,900

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

	2022 £000	2021 £000
Group		
Cost	63,210	63,210
Accumulated depreciation	(2,853)	(2,379)
Net book value	60,357	60,831

UPP (Plymouth Three) Limited

Notes to the Financial Statements For the Year Ended 31 August 2022

13. Fixed asset investments

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Registered office	Class of shares	Holding
UPP (Plymouth) Limited	First Floor, 12 Arthur Street, London, EC4R 9AB	Ordinary	100%
UPP (Plymouth Two) Limited	First Floor, 12 Arthur Street, London, EC4R 9AB	Ordinary	100%
UPP (James Square Plymouth) Limited	First Floor, 12 Arthur Street, London, EC4R 9AB	Ordinary	100%

The aggregate of the share capital and reserves as at 31 August 2022 and the Consolidated Profit and Loss Account for the year ended on that date for the subsidiary undertakings were as follows:

Name	Aggregate of share capital and reserves £000	Profit/(Loss) £000
UPP (Plymouth) Limited	1	-
UPP (Plymouth Two) Limited	1	-
UPP (James Square Plymouth) Limited	1	-

14. Debtors

	Group 2022 £000	Group 2021 £000	Company 2022 £000	Company 2021 £000
Trade debtors	62	187	67	187
Amounts owed by group undertakings	2,699	7,434	2,699	7,434
Other debtors	170	186	170	186
Prepayments and accrued income	184	181	184	181
	3,115	7,988	3,120	7,988

Included within amounts owed by group undertakings is a balance owed from UPP Bond 1 Issuer Plc of £1,530k (2021 - £1,936k) which is to fund a debt service reserve account held by UPP Bond 1 Issuer Plc that is sized to be adequate to cover the next six months of service costs of both tranches of the senior secured notes. This amount is reviewed every six months and increased or decreased accordingly. Interest receivable on these loans is calculated using the effective interest method which is different to the actual cash interest received at the rate the Company earns interest on the cash balances it holds.

The remaining amounts owed by group undertakings is an amount owed by UPP Bond 1 Limited.

UPP (Plymouth Three) Limited

Notes to the Financial Statements For the Year Ended 31 August 2022

15. Creditors: amounts falling due within one year

	Group 2022 £000	Group 2021 £000	Company 2022 £000	Company 2021 £000
Fixed rate on loans	1,503	1,310	1,503	1,310
Trade creditors	36	477	36	477
Amounts owed to group undertakings	375	1,052	375	1,068
Other creditors	-	-	6	-
Accruals and deferred income	529	1,226	528	1,226
	<u>2,443</u>	<u>4,065</u>	<u>2,448</u>	<u>4,081</u>

Amounts owed to group undertakings are owed to UPP Residential Services Limited, are interest free and repayable on demand.

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

	Group 2022 £000	Group 2021 £000	Company 2022 £000	Company 2021 £000
Fixed rate on loans	46,939	47,344	46,939	47,344
Index lined on loans	17,624	16,578	17,624	16,578
Derivative financial instruments	9,673	4,730	9,673	4,730
	<u>74,236</u>	<u>68,652</u>	<u>74,236</u>	<u>68,652</u>

17. Loans

On-loans

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

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

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

	Amount	Interest rate	Maturity
Tranche A	56,165,000	Fixed rate at 4.9023%	31 August 2040
Tranche B	13,652,000	Index-linked at 2.7291%	31 August 2047

UPP (Plymouth Three) Limited

Notes to the Financial Statements For the Year Ended 31 August 2022

17. Loans (continued)

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

	Group 2022 £000	Group 2021 £000	Company 2022 £000	Company 2021 £000
Amounts falling due within one year				
Fixed rate on loans	1,503	1,310	1,503	1,310
	1,503	1,310	1,503	1,310
Amounts falling due 1-2 years				
Fixed rate on loans	1,626	1,503	1,626	1,503
	1,626	1,503	1,626	1,503
Amounts falling due 2-5 years				
Fixed rate on loans	5,774	5,260	5,774	5,260
	5,774	5,260	5,774	5,260
Amounts falling due after more than 5 years				
Fixed rate senior on loans	39,539	40,582	39,539	40,582
Index-linked on loans	17,624	16,578	17,624	16,578
	57,163	57,160	57,163	57,160
	66,066	65,232	66,066	65,232

UPP (Plymouth Three) Limited

Notes to the Financial Statements For the Year Ended 31 August 2022

18. Financial instruments

	Group 2022 £000	Group 2021 £000	Company 2022 £000	Company 2021 £000
Financial assets				
Financial assets measured at amortised cost	2,931	7,807	2,936	7,807
Financial liabilities				
Derivative financial instruments at fair value through profit and loss	(9,673)	(4,730)	(9,673)	(4,730)
Financial liabilities measured at amortised cost	(67,006)	(67,987)	(67,011)	(68,003)
	(76,679)	(72,717)	(76,684)	(72,733)

Financial assets measured at amortised cost comprise trade debtors, other debtors, cash and cash equivalents and amounts owed by group undertakings which are repayable on demand.

Financial liabilities measured at amortised cost comprise trade creditors, amounts owed to group undertakings, fixed rate senior on loans, index linked senior on loans, accruals and unsecured subordinated loan.

Derivative financial instruments measured at fair value through the Consolidated Profit and Loss Account comprise an RPI swap.

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.

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

At the Balance Sheet date, the fair value of this swap was £9,673k liability (2021 - £4,730k).

The Group entered into the RPI swap on 5 March 2013, fixing a portion of the underlying rental income stream to 2.7%. The RPI swap is for a period of 27 years from March 2013, commencing in February 2015 and finishing in February 2040.

UPP (Plymouth Three) Limited

Notes to the Financial Statements For the Year Ended 31 August 2022

18. Financial instruments (continued)

The Group does not apply hedge accounting for its derivative instrument as the criteria are not met under section 12 FRS 102. There was a loss of £4,943k during the year (2021 - £2,155k loss) and was recognised in the Consolidated Profit and Loss Account, reflecting the change in fair value of this RPI swap.

19. Provisions

Group

	Provision £000	Total £000
At 1 September 2021	3,999	3,999
Utilised in year	(3,759)	(3,759)
At 31 August 2022	240	240

Company

	Provision £000	Total £000
At 1 September 2021	3,999	3,999
Utilised in year	(3,759)	(3,759)
At 31 August 2022	240	240

In the prior year the Company identified that certain remedial works were required to the cladding at its Francis Drake property. Work was completed by the year end but residual costs of £240k remain. As there was an obligation to complete the work, it was probably that economic benefit would be transferred and the liability could be estimated reliably, a provision was recognised under FRS102 for this.

20. Share capital

	2022 £000	2021 £000
Authorised		
2,034,620 A Ordinary shares of £1.00 each	2,035	2,035
Allotted, called up and fully paid		
2,033,421 A Ordinary shares of £1.00 each	2,033	2,033

The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

UPP (Plymouth Three) Limited

Notes to the 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.

Profit and loss account

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

22. Controlling party

The Company's immediate parent undertaking is UPP Bond 1 Limited, whose immediate Parent Company is UPP Bond 1 Holdings Limited. The Parent Company of UPP Bond 1 Holdings Limited is UPP Group Limited. UPP Group Limited is a wholly owned subsidiary of UPP Group Holdings Limited.

UPP Group Holdings Limited is a wholly owned subsidiary of UPP REIT Holdings Limited.

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

UPP REIT Holdings Limited is controlled by a 60% stake held by PGGM Vermogensbeheer ("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 (Plymouth Three) Limited.