upp
University Partnerships Programme

Registered No: 08253967

UPP Bond 1 Holdings Limited
Consolidated financial statements

For the year ended 31 August 2018

UPP Bond 1 Holdings Limited
Consolidated financial statements
for the year ended 31 August 2018

upp
University Partnerships Programme

	Pages
Directors and advisors	1
Directors' report	2 - 3
Strategic report	4 - 6
Report of the independent auditor	7 - 9
Group income statement account	10
Group statement of comprehensive income	11
Group statement of changes in equity	12
Company statement of changes in equity	13
Group statement of financial position	14
Company statement of financial position	15
Group statement of cash flows	16
Notes to the statutory consolidated financial statements	17 - 46

UPP Bond 1 Holdings Limited
Directors and advisors

upp
University Partnerships Programme

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

upp
University Partnerships Programme

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

Principal activity of the business

UPP Bond 1 Holdings Limited ("the Company") is the parent company of UPP Bond 1 Holdings Limited group ("the Group)". The Group's principal activity is of a holding Company for its subsidiary undertakings. The subsidiary undertakings principal activity is the operation of student accommodation and the provision of related facilities management services for seven AssetCos; consisting of 11,693 rooms (2017: 11,693) achieving 100.0% occupancy (2017 – 99.9%) for the 2017/18 financial year.

Financial risk management objectives and policies

The Group's financial risk management objectives and policies are considered to be of strategic significance and are therefore detailed in the Strategic Report on pages 4 to 6.

Going concern

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

Dividend

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

Directors and their interests

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

R Bienfait
J Benkel
S O'Shea
Intertrust Directors 1 Limited

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

Directors' responsibilities statement

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

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

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

- select suitable accounting policies and then apply them consistently;
- 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.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

upp University Partnerships Programme

Directors' responsibilities statement (continued)

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

The directors confirm that:

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company'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.

Independent auditor

Under section 487(2) of the Companies Act 2006, Grant Thornton UK LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

On behalf of the Board

R Bienfait
Director
7 December 2018

Results and review of the business

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

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

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

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

The robust characteristics of this market remain; with strong levels of student demand resulting from greater institutional autonomy and a recognition of the importance of high quality facilities as a central element of improving the experience of students.

With effect from 1 March 2018, UPP REIT Holdings Limited, the ultimate parent company of the Group has elected for Real Estate Investment Trust ("REIT") status to apply to the Group. As a result, the Group will no longer pay income tax on profits and gains from qualifying property rental business providing it meets certain conditions. Non-qualifying profits and gains continue to be subject to income tax as normal.

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

upp University Partnerships Programme

Results and review of the business (continued)

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

Key performance indicators

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

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

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

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

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

	2017/18	2016/17
Average occupancy across the facilities	**100.0%**	99.9%

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

Financial risk management objectives and policies

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

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

Interest rate risk

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

Inflation rate risk

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

Liquidity risk

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

upp
University Partnerships Programme

Principal risk and uncertainties

Demand risk

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

Portfolio risk

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

On behalf of the Board

R Bienfait
Director
7 December 2018

Grant Thornton

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

Opinion

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

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

Basis for opinion

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

Who we are reporting to

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Grant Thornton

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report set out on pages 1 to 6, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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

Matters on which we are required to report by exception

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

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

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on pages 2 and 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Grant Thornton

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

Responsibilities of directors for the financial statements (continued)

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

Auditor's responsibilities for the audit of the financial statements

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

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

Grant Thornton UK LLP

Laura Brierley

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

Milton Keynes

Date: 7 December 2018

UPP Bond 1 Holdings Limited
Group income statement
for the year ended 31 August 2018

upp
University Partnerships Programme

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

The above results all relate to continuing operations.

The notes on pages 17 to 44 form part of these financial statements.

UPP Bond 1 Holdings Limited
Group statement of comprehensive income for the year ended 31 August 2018

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

The notes on pages 17 to 44 form part of these financial statements.

UPP Bond 1 Holdings Limited
Group statement of changes in equity for the year ended 31 August 2018

upp
University Partnerships Programme

Group

Attributable to owners of the parent

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

	Share capital	Revaluation reserve	Cash flow hedge reserve	Other reserve	Profit & loss account	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 September 2017	55,570	16,309	12,881	(21,462)	(41,477)	21,821
Loss for the financial period	-	-	-	-	(11,811)	(11,811)
Transfer from profit & loss account	-	(541)	-	-	541	-
Other comprehensive income	-	25,942	3,628	-	225	29,795
Balance at 31 August 2018	**55,570**	**41,710**	**16,509**	**(21,462)**	**(52,522)**	**39,805**

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the Profit and Loss account as a movement on reserves. The transfer for 2018 was £541k.

The notes on pages 17 to 44 form part of these financial statements.

UPP Bond 1 Holdings Limited
Company statement of changes in equity for the year ended 31 August 2018

upp
University Partnerships Programme

Company

Attributable to owners of the parent

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

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

The notes on pages 17 to 44 form part of these financial statements.

UPP Bond 1 Holdings Limited
Group statement of financial position as at 31 August 2018

upp
University Partnerships Programme

Company registration number: 08253967

	Notes	31 August 2018 £'000	31 August 2017 £'000
Fixed assets			
Intangible fixed assets	13	**125,180**	129,122
Tangible fixed assets	14	**554,614**	551,529
		679,794	680,651
Current assets			
Debtors: amounts falling due within one year	16	**2,178**	799
Debtors: amounts falling due after one year	17	**22,362**	21,007
Cash at bank and in hand		**35,923**	35,629
		60,463	57,435
Creditors: amounts falling due within one year	18	**(22,621)**	(20,892)
Net current assets		**37,842**	36,543
Total assets less current liabilities		**717,636**	717,194
Creditors: amounts falling due after more than one year	19	**(676,336)**	(670,646)
Provisions for liabilities	20	**-**	(22,737)
Net assets excluding pension liability		**41,300**	23,811
Defined benefit pension liability	24	**(1,495)**	(1,990)
Net assets		**39,805**	21,821
Share capital and reserves			
Called up share capital	21	**55,570**	55,570
Revaluation reserve		**41,710**	16,309
Cash flow hedge reserve		**16,509**	12,881
Other reserve		**(21,462)**	(21,462)
Profit and loss account		**(52,522)**	(41,477)
		39,805	21,821

The financial statements were approved by the board on 7 December 2018 and were signed on its behalf by:

R Bienfait
Director

The notes on pages 17 to 44 form part of these financial statements.

UPP Bond 1 Holdings Limited
Company statement of financial position as at 31 August 2018

upp
University Partnerships Programme

Company registration number: 08253967

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

The financial statements were approved by the board on 7 December 2018. and were signed on its behalf by:

R Bienfait
Director

The notes on pages 17 to 44 form part of these financial statements.

UPP Bond 1 Holdings Limited
Group statement of cash flows
for the year ended 31 August 2018

upp
University Partnerships Programme

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

The notes on pages 17 to 44 form part of these financial statements.

1. Company information

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

2. Basis of preparation

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

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

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

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

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

Going concern

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

Basis of consolidation

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

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

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

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

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

3. Judgements and key sources of estimation uncertainty

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

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

Valuation of RPI swaps (Note 19)

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

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

Goodwill useful economic life

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

Impairment of non-financial assets

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

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

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

Defined benefit pension scheme (Note 24)

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

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

Presentation of the principal asset (Note 14)

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

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

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

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

Classification of index-linked financial instruments (Note 19)

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

Hedge accounting for inflation swaps (Note 25)

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

4. Principal accounting policies

(a) Tangible fixed assets

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

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

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

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

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

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

(b) Turnover

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

(c) Intangible assets

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

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

4. Principal accounting policies (continued)

(d) Valuation of investments

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

(e) Debtors

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

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

(f) Cash and cash equivalents

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

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

(g) Interest bearing loans and borrowings

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

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

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

(h) Creditors

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

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 contacts manage the exposure to RPI by swapping RPI annual rate changes with a fixed rate.

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

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

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

(k) Finance costs

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

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

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

(i) Current tax

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

(ii) Deferred tax

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

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

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

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

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

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

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

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

With effect from 1 March 2018, ultimate parent company of the Group has elected for Real Estate Investment Trust ("REIT") status to apply to the Group companies. As a result, the Group will no longer pay income tax on profits and gains from qualifying property rental business providing it meets certain conditions. Deferred tax accrued to the date of conversion in respect of assets and liabilities of the qualifying property rental business will no longer be provided for as the relevant temporary differences will no longer be taxable on reversal.

4. Principal accounting policies (continued)

(n) Related party transactions

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

(o) Defined contribution pension scheme

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

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

(p) Defined benefit pension plan

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

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

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

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

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

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

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

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

UPP Bond 1 Holdings Limited
Notes to the consolidated financial statements for the year ended 31 August 2018

4. Principal accounting policies (continued)

(q) Defined contribution pension scheme

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

(r) Interest income

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

5. Turnover

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

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

All turnover arose within the United Kingdom.

6. Directors' remuneration

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

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

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

7. Operating profit

The operating profit is stated after charging:

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

8. Auditor's remuneration

	2018 £'000	2017 £'000
Fees payable to the Group's auditor and its associates for the audit of the Company's annual financial statements	3	4
Fees payable to the Group's auditor and its associates for the audit of the subsidiaries' annual financial statements	117	135
Taxation compliance services	-	56
	117	191

9. Employees

Staff costs were as follows:

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

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

	2018 No.	2017 No.
Site managers	28	11
Administration, maintenance and cleaning	278	311
	306	322

10. Interest receivable and similar income

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

11. Interest payable and similar charges

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

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

12. Tax on loss on ordinary activities

	Year ended 31 August 2018 £'000	Year ended 31 August 2017 £'000
a) Analysis of tax charge for the year		
Current tax on income for the year	**(1,581)**	-
Deferred tax:		
Current year	**933**	(712)
Rate difference	-	3
Current year – defined pension scheme relief	-	(16)
Rate difference – defined pension scheme relief	-	24
Total deferred tax	**(933)**	(701)
Total tax (credit) on losses on ordinary activities	**(2,514)**	(701)

b) Factors affecting total tax charge for the year

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

	Year ended 31 August 2018 £'000	Year ended 31 August 2017 £'000
Loss on ordinary activities before tax	**(14,325)**	(18,225)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.00% (2017: 19.58%)	**(2,722)**	(3,568)
Effects of:		
Disallowable expenses	**9,958**	4,477
Group relief claimed	**(130)**	(48)
Rate change	-	26
Non-taxable income	**(8,527)**	(2,761)
Movement in deferred tax not recognised	**421**	1,173
Exempt property rental (profits)/losses in the year	**(581)**	-
Deferred tax movement	**(933)**	-
Total tax credit for the year (note 12a)	**(2,514)**	(701)

12. Tax on loss on ordinary activities (continued)

c) Deferred tax

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

Group

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

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

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

As a result of electing into REIT, the deferred tax accrued to the date of conversion in respect of assets and liabilities of the qualifying property rental business has been released due to the relevant temporary differences no longer being taxable on reversal.

d) Factors that may affect future tax charges

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

There will be a reduction in corporation tax rate from 19% to 17% with effect from 1 April 2020.

13. Intangible fixed assets

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

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

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

14. Tangible fixed assets

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

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

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

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

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

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

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

15. Investments

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

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

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

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

16. Debtors: amounts falling due within one year

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

17. Debtors: amounts falling due after one year

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

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

18. Creditors: amounts falling due within one year

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

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

	31 August 2018 £'000 Group	31 August 2018 £'000 Company	31 August 2017 £'000 Group	31 August 2017 £'000 Company
Fixed rate senior secured notes	**281,515**	-	285,962	-
Index-linked senior secured notes	**222,616**	-	218,272	-
Unsecured loan notes	**182,704**	**182,704**	175,327	175,327
	686,835	**182,704**	679,561	175,327
Less: included in creditors amounts falling due within one year	**(10,499)**	-	(8,915)	-
	676,336	**182,704**	670,646	175,327

Maturity of debt

Repayable within one year or on demand	**10,499**	-	8,915	-
Repayable in more than one year but less than two years	**11,675**	-	10,359	-
Repayable in more than two years but less than five years	**38,400**	-	36,228	-
Repayable in more than five years	**626,261**	**182,718**	624,059	175,327
	686,835	**182,718**	679,561	175,327
Less: included in creditors amounts falling due within one year	**(10,499)**	-	(8,915)	-
	676,336	**182,718**	670,646	175,327

Senior secured notes

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

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

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

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

Derivative financial instruments

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

20. Provisions for liabilities

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

As a result of electing into REIT, the deferred tax accrued to the date of conversion in respect of assets and liabilities of the qualifying property rental business has been released due to the relevant temporary differences no longer being taxable on reversal.

21. Called up share capital

	31 August 2018 £'000	31 August 2017 £'000
Issued, allotted, called up and fully paid		
55,570,409 Ordinary shares of £1 each	**55,570**	55,570

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

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

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

22. Reserves

Revaluation reserve

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

Cash flow hedge reserve

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

Other reserve

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

Profit and loss account

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

23. Notes to the statement of cash flows

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

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

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

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

24. Pension commitments

Defined contribution scheme

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

Defined benefit scheme

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

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

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

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

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

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

24. Pension commitments (continued)

Amounts recognised in the income statement are as follows:

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

Amount taken to other comprehensive is as follows:

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

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

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

24. Pension commitments (continued)

Defined benefit obligation reconciliation is as follows:

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

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

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

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

The Company expects to contribute £70,000 to its Defined Benefit Pension Scheme in 2019.

24. Pension commitments (continued)

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

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

25. Financial risk management

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

Interest rate risk

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

Inflation rate risk

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

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

External hedge arrangements

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

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

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

Hedge arrangements with AssetCos

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

25. Financial risk management (continued)

Inflation rate risk (continued)

- a 27 year RPI swap with UPP (Plymouth Three) Limited commencing in February 2015 and finishing in February 2042

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

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

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

Liquidity risk

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

Terms and debt repayment schedule

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

Demand risk

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

25. Financial risk management (continued)

Portfolio risk

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

26. Financial instruments

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

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

27. Parent undertaking and controlling party

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

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

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

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

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

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

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