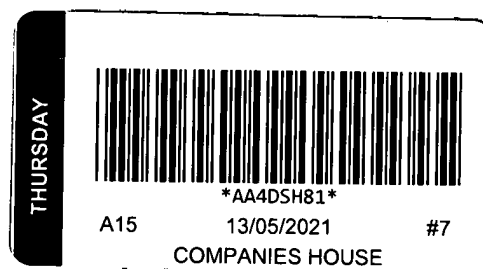


**UPP Bond 1 Holdings Limited
Consolidated financial statements**

For the year ended 31 August 2020

Annual report and financial statements



UPP Bond 1 Holdings Limited

Consolidated financial statements

for the year ended 31 August 2020



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UPP Bond 1 Holdings Limited

Directors and advisors



Directors

E Hewitt
H Gervaise-Jones
Intertrust Directors 1 Limited

Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Registered office

First Floor
12 Arthur Street
London
EC4R 9AB

UPP Bond 1 Holdings Limited

Directors' report

for the year ended 31 August 2020



The directors present their report and consolidated financial statements for the year ended 31 August 2020.

Principal activity of the business

UPP Bond 1 Holdings Limited ("the Company") is the parent company of UPP Bond 1 Holdings Limited group ("the Group"). The Company 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 (2019: 11,693) achieving 99.4% occupancy (2019 – 99.2%) for the 2019/20 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 5 to 14.

Going concern

The directors have prepared cashflow forecasts, which are based on detailed financial models and reflect contractual commitments, estimated future demand trends and the expected cashflows which show that the Group and the Company are able to meet their liabilities as they fall due.

In preparing these financial statements, the Directors have also considered the impacts of the Covid-19 pandemic on the ability of the Group and the Company to continue as a going concern. Whilst this situation is likely to generate continued uncertainty, the Directors are confident that the robust nature of the business model and its many credit-positive features will enable the Group and the Company to mitigate many of the risks arising. Notwithstanding this they recognise that the situation may give rise to as yet unidentified and unquantifiable risks.

On this basis, the directors have a reasonable expectation that the Group and the Company has adequate resources to continue in operational existence for the foreseeable future, being a period of not less than twelve months from the date of approval of these financial statements, and therefore continue to adopt the going concern basis in preparing these financial statements. For more information refer to Basis of preparation note in Financial Statements.

Dividend

The directors do not propose the payment of a dividend (2019: £Nil).

UPP Bond 1 Holdings Limited

Directors' report (continued)

for the year ended 31 August 2020



Directors and their interests

The directors holding office during the year ended 31 August 2020 and subsequently are:

R Bienfait (resigned 31 January 2020)
E Hewitt (appointed 7 April 2020)
H Gervaise-Jones
Intertrust Directors 1 Limited

At 31 August 2020 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) and applicable law including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and profit or loss of the 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;
- assess the group and company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions 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.

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.

UPP Bond 1 Holdings Limited

Directors' report (continued)

for the year ended 31 August 2020



Future developments

Occupancy for the 2020/21 financial year has been secured at 96.7% which has exceeded the directors expectations.

Statement of Disclosure of Information to Auditor

The directors confirm that:

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

Qualifying third party indemnity provisions

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

Independent auditor

KPMG LLP was appointed in the year as auditor of the company in accordance with section 485 of the Companies Act 2006.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'H Gervaise-Jones', is positioned above the printed name.

H Gervaise-Jones
Director
14 December 2020

UPP Bond 1 Holdings Limited

Strategic report

for the year ended 31 August 2020



Results and review of the business

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

The level of business, achieving 99.4% 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.

Despite the considerable impact on UK higher education ('HE') wrought by the COVID-19 pandemic and the impact of Brexit, the sector has maintained its position as the leading global destination for students after the USA. UCAS applicant data issued following the 30 June 2020 main scheme deadline identifies continued growth in demand of 2% overall or the equivalent of more than 14,000 extra applicants on the previous cycle.

This deadline saw applications from approximately 653,000 prospective students. Applicant numbers from the UK were up by 2%, a 7,980 increase on the 2019/20 cycle, however there was a decline in applicants from EU countries of 2%, the equivalent of 1,000 students. The number of applicants from outside the EU witnessed strong growth at 10%, an increase of 7,790 new prospective international students. The data also identified the continuing increase in the rate of application from 18-year-olds. This cohort has seen year on year increases over the last decade from 34.7% in 2012 to 38.9% in 2019. This figure increased again during the 2020 cycle to 40.5% of the 18-year-old population. This is positive news for the Group as this is by far the largest demand cohort for its accommodation.

With the Brexit transitional period ending on 31 December 2020, the exit of the United Kingdom from the European Union (EU) continues to cast uncertainty across numerous sectors of the economy. Whilst there have been some concerns how this might impact EU and International student enrolment post-Brexit, demand modelling by the Higher Education Policy Institute and London Economics suggests any fall in EU numbers will be largely offset by an increase in the population of International students; an estimated net fall in the full time student population of 0.6 per cent.

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

UPP Bond 1 Holdings Limited

Strategic report (continued)

for the year ended 31 August 2020



Results and review of the business (continued)

The Group's loss for the year before tax attributable to shareholders and reported in the financial statements is £3,884,000 (2019: £13,659,000).

Key performance indicators

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

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

£'000	Year ended 31 August 2020	Year ended 31 August 2019	Change %
Turnover	67,471	66,375	1.7%
Gross profit	47,966	47,149	1.7%
EBITDA*	45,204	44,492	1.6%
EBITDA margin*	67.0%	67.0%	0.0%

*Earnings before interest, taxes, depreciation, and amortisation.

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:

	2019/20	2018/19
Average Applications : Acceptance ratio	6.81:1	6.00:1

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

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

	2019/20	2018/19
Average occupancy across the facilities	99.4%	99.2%

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).

Strategic report (continued) for the year ended 31 August 2020

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.

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.

Brexit Risk

As with other industry sectors, UK higher education faces uncertainty arising from the exit of the United Kingdom from the European Union (EU) on 31 December 2020. Whilst there have been some concerns how this might impact EU and International student enrolment post-Brexit, demand modelling by the Higher Education Policy Institute and London Economics suggests any fall in EU numbers will be largely offset by an increase in the population of International students; an estimated net fall in the full time student population of 0.6 per cent. Notwithstanding, the Board remains cognisant of the attendant risks relating to this process and will continue to actively manage these should they arise.

Climate Change

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

Strategic report (continued) for the year ended 31 August 2020

Section 172(1) Statement

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

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

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

General confirmation of Directors' duties

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

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

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

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

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

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

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

Strategic report (continued) for the year ended 31 August 2020

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

Delivering our strategy requires strong mutually beneficial relationships with our partners, customers, suppliers and Government. Our Business Code of Ethics has at its core our values – namely Partnership, Responsibility, Innovation and Community. Driven from the top of the Business, the behaviours expected of all our teams are underpinned by our policies and working procedures which are, in turn, designed to guide us in how we act with integrity, judgement and good conscience. The Business Code of Ethics is reviewed by the Executive Leadership Team periodically and assessments are made of how and with whom we do business. We engage directly with our university partners through Board meetings of our Special Purpose Vehicles (SPVs) and through Partnership Board meetings. This provides the opportunities to discuss and assess the needs of customers in the context of the wider business strategy. The Company has engagement plans for all its stakeholders, with each relationship owned by one or more member of the Executive Leadership Team. These are “live” documents allowing the Company to respond as the needs of each stakeholder change over time. Directors receive information updates on a variety of topics that indicate and inform how these stakeholders have been engaged.

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

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

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

In developing the first university campus Eco-Residence in 2007 with Lancaster University and the first student residential PassivHaus scheme with Leeds Beckett University in 2009, the Company seeks to meet the environmental and social needs of its student communities. The Company also seeks to collaborate with our partner universities to share innovation and help them achieve their objectives, whilst engaging with employees and our supply chain will help facilitate a positive contribution to the communities within which we operate.

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

More detail on the Company’s approach to sustainability <https://www.upp-ltd.com/wp-content/uploads/2020/03/UPP-Sustainability-Policy.pdf>

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

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

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

The Board at UPP is informed and monitors compliance with these policies and relevant governance standards help assure that the decisions that are taken promote high standards of business conduct.

Strategic report (continued) for the year ended 31 August 2020

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

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

Culture

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

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

The Board considers the Company's annual Speak Out employee survey to be one of its principal tools to measure employee engagement, motivation, affiliation and commitment to UPP. It provides insights into employee views and has a consistently high response rate. The Board also utilises this engagement to understand how survey outcomes are being leveraged to strengthen the culture and values of UPP.

Stakeholder engagement (including employee engagement)

The Board recognises the important role that UPP has to play in society and the Company is deeply committed to public collaboration and stakeholder engagement. UPP only works in one sector – UK higher education – and in doing so also recognises that its interests align with many of the universities with which it works. UPP has a live stakeholder register which seeks to identify, plan, manage and control engagement as well as map a changing power/interest matrix of stakeholders over time.

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

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

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

Strategic report (continued) for the year ended 31 August 2020

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

Stakeholders	Engagement
<p>Employees</p>	<p>Our employees are critical to the success of the Business.</p> <p>We aim to be a responsible employer in our approach to remuneration, paying a minimum of the Living Wage. We continue to engage with our teams across the country to ascertain which training and development opportunities should be made available to improve our productivity and to invest in the potential of individual employees.</p> <p>The Company has a well-established employee wellbeing programme which focuses not just on behavioural health and safety, but on the physical and emotional wellbeing of our teams. During the year, the Board has engaged directly with our teams on issues of physical and mental health and this programme will continue.</p> <p>We actively seek feedback from our teams and annual Performance and Development Reviews are used to ensure that a two-way dialogue on performance and development needs is maintained.</p> <p>A further approach taken is through our annual Speak Out employee survey. This allows the Board to assess the success of our engagement, and employee participation represents a parent company key performance indicator.</p> <p>Feedback is also sought on the basis of monthly All-Team Video Conference calls with our Chief Executive Officer (CEO) and Executive Leadership Team. This provides an opportunity to share information with employees and a question and answer session enables any employee who wishes to join the call to ask any question to the CEO and the Executive Leadership Team.</p> <p>We continually invest in employee development – offering company-wide training opportunities. We have also established two 'Aspire' training and development programmes to ensure high performing talent is encouraged and supported.</p> <p>The Company seeks to create and inspire an inclusive culture with our intranet – Campus –</p>

UPP Bond 1 Holdings Limited



	<p>which provides a platform for all our teams to share news and information across the Business. Our biannual in-house employee publication 'SpeakUPP' is delivered to the homes of all employees and includes information, news and features.</p> <p>Our WrapUPP weekly all-employee email enables us to share news, announcements and reminders with our employees, all in one place, as well as activities happening across UPP and ways that teams can get involved.</p> <p>As part of the UPP Foundation – the independent charity majority-funded by the Company – employees are encouraged to support a charity of their choice and the Foundation will match fund chosen fundraising events decided by the UPP Gives employee fundraising committee.</p> <p>The Company continues to find new ways of encouraging our teams to have a voice.</p>
Partners (Existing/Potential)	<p>Partnership is the most important of the Company values and sits at the core of everything we do.</p> <p>The UPP model is based exclusively on establishing long-term relationships with UK universities to develop on-campus infrastructure utilising long dated bond debt in the form of publicly listed bonds or private placements.</p> <p>As a direct result of this long-term model, the interests of the Company and our university partners – and indeed the wider sector – are closely aligned.</p> <p>The Company seeks to engage with its partners on multiple levels. Typically, the Company will hold relationships at both senior and operational levels and on a variety of frequencies – day-to-day operational contact, as well as more formal pre-arranged meetings. These include Liaison Committees, Partnership Board Meetings and formal SPV Board meetings depending on the specifics of each Project Agreement. In the case of the latter, these allow for engagement on the key risks facing each company and will have set agenda.</p> <p>In recent years, the Company has established a dedicated function for engaging with our university partners – UPP Management – which employs Partnership Directors and is responsible for the long-term strategic management of the assets and relationships. We discuss all investment decisions with our partners and seek their input on a regular basis.</p>

UPP Bond 1 Holdings Limited



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

UPP Bond 1 Holdings Limited



	<p>complying with relevant accredited network codes of practice.</p> <p>In our public affairs work, we also have close relationships with leading sector policy bodies such as Universities UK and the Higher Education Policy Institute. This enables us to understand the longer-term risks and issues to the sector and engage in future policy making.</p>
Suppliers	<p>The Company works with a wide range of suppliers in the UK and elsewhere. We remain committed to being fair and transparent in our dealings with all of our suppliers.</p> <p>The Board has oversight of the appointment and provision of services by suppliers, including initial and ongoing due diligence.</p> <p>The Company has procedures requiring due diligence of suppliers as to their internal governance including, for example, their anti-bribery and corruption practices, data protection policies and modern slavery matters. The Company has systems and processes in place to ensure suppliers are paid in a timely manner.</p>
Press and Media	<p>The Company maintains good relations with the press and media. It has a proactive strategy of engagement with the press and, in particular, higher education sector publications. The Company maintains a 'live' Crisis Communication Plan as part of its wider Business Continuity Planning and has a designated Company Spokesperson.</p> <p>The Company organises media roundtable events which enable senior leaders to engage with journalists and other industry and sector stakeholders – typically with correspondents in the field of Infrastructure, Education and Higher Education – to increase the breadth of knowledge of the positive impact of the Company's activities and proactively manage its reputation.</p>

On behalf of the Board

H Gervaise-Jones
Director
14 December 2020

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

Opinion

We have audited the financial statements of UPP Bond 1 Holdings Limited ("the company") for the year ended 31 August 2020 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 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 2020 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").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

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

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 2, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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.

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

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

15 December 2020

UPP Bond 1 Holdings Limited **Group income statement** **for the year ended 31 August 2020**



		Year Ended 31 August 2020	Restated Year Ended 31 August 2019
	Notes	£'000	£'000
Turnover	5	67,471	66,375
Cost of sales		(19,505)	(19,226)
Gross profit		47,966	47,149
Operating expenses		(14,340)	(17,238)
Operating profit	7	33,626	29,911
Interest receivable & similar income	10	339	362
Interest payable & similar charges	11/24	(37,849)	(43,902)
Loss on ordinary activities before taxation		(3,884)	(13,629)
Tax credit on loss on ordinary activities	12	403	4,131
Loss for the financial year		(3,481)	(9,497)

The above results all relate to continuing operations.

The notes on pages 25 to 53 form part of these financial statements.

Prior year restatement is disclosed in note 24.

UPP Bond 1 Holdings Limited

Group statement of comprehensive income

for the year ended 31 August 2020



		Year Ended 31 August 2020 £'000	Restated Year Ended 31 August 2019 £'000
	Notes		
Loss for the financial year		<u>(3,481)</u>	<u>(9,497)</u>
Fair value movements on RPI swaps	19/24	8,975	(6,680)
Gain on revaluation of principal asset	14	22,826	1,657
Re-measurement loss recognised on defined benefit pension scheme	23	(137)	(323)
Total other comprehensive income/(loss)		<u>31,664</u>	<u>(5,346)</u>
Total comprehensive profit/(loss) for the year		<u><u>28,183</u></u>	<u><u>(14,843)</u></u>

The notes on pages 25 to 53 form part of these financial statements.

Prior year restatement is disclosed in note 24.

UPP Bond 1 Holdings Limited

Group statement of changes in equity

for the year ended 31 August 2020



Group

	Share capital	Revaluation reserve	Cash flow hedge reserve	Other reserve	Profit & loss account	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 September 2018	55,570	41,710	16,509	(21,462)	(52,522)	39,805
Prior year restatement	-	-	(28,741)	-	(10,291)	(39,032)
Restated at 1 September 2018	55,570	41,710	(12,232)	(21,462)	(62,813)	773
Restated loss for the financial period	-	-	-	-	(9,497)	(9,497)
Transfer to profit & loss account	-	(557)	-	-	557	-
Reclassification	-	(21,462)	-	21,462	-	-
Restated other comprehensive income	-	1,657	(6,680)	-	(323)	(5,346)
Balance at 31 August 2019	55,570	21,348	(18,912)	-	(72,076)	(14,070)

	Share capital	Revaluation reserve	Cash flow hedge reserve	Other reserve	Profit & loss account	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 September 2019	55,570	21,348	(18,912)	-	(72,076)	(14,070)
Loss for the financial period	-	-	-	-	(3,481)	(3,481)
Transfer to profit & loss account	-	(575)	-	-	575	-
Other comprehensive income	-	22,826	8,975	-	(137)	31,664
Balance at 31 August 2020	55,570	43,599	(9,937)	-	(75,119)	14,113

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 2020 was £575k (2019: £557k).

Reclassification of 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. The balance in other reserve was reclassified into the revaluation reserve during 2019.

The notes on pages 25 to 53 form part of these financial statements.

Prior year restatement is disclosed in note 24.

UPP Bond 1 Holdings Limited **Company statement of changes in equity** **for the year ended 31 August 2020**



Company

	Share capital	Profit & loss account	Total equity
	£'000	£'000	£'000
At 1 September 2018	55,570	14	55,584
Profit for the financial year	-	5	5
Balance at 31 August 2019	55,570	19	55,589

	Share capital	Profit & loss account	Total equity
	£'000	£'000	£'000
At 1 September 2019	55,570	19	55,589
Profit for the financial year	-	4	4
Balance at 31 August 2020	55,570	23	55,593

The notes on pages 25 to 53 form part of these financial statements.

UPP Bond 1 Holdings Limited

Group statement of financial position

as at 31 August 2020



Company registration number: 08253967

		31 August 2020 £'000	Restated 31 August 2019 £'000
	Notes		
Fixed assets			
Intangible fixed assets	13	117,297	121,239
Tangible fixed assets	14	571,700	552,628
		688,997	673,867
Current assets			
Debtors: amounts falling due within one year	16	3,551	6,456
Debtors: amounts falling due after one year	17/24	-	-
Cash at bank and in hand	22b	41,243	39,380
		44,794	45,836
Current liabilities			
Creditors: amounts falling due within one year	18	(24,600)	(25,739)
Net current assets		20,194	20,097
Total assets less current liabilities		709,191	693,964
Non-current liabilities			
Creditors: amounts falling due after more than one year	19/24	(692,910)	(706,152)
Defined benefit pension liability	23	(2,168)	(1,882)
Net assets		14,113	(14,070)
Share capital and reserves			
Called up share capital	20	55,570	55,570
Revaluation reserve	21	43,599	21,348
Cash flow hedge reserve	24	(9,937)	(18,912)
Profit and loss account		(75,119)	(72,076)
		14,113	(14,070)

The financial statements were approved by the board on 14 December 2020 and were signed on its behalf by:


H Gervaise-Jones
 Director

The notes on pages 25 to 53 form part of these financial statements.

Prior year restatement is disclosed in note 24.

UPP Bond 1 Holdings Limited

Company statement of financial position

as at 31 August 2020



Company registration number: 08253967

	Notes	31 August 2020 £'000	31 August 2019 £'000
Fixed assets			
Investments	15	55,570	55,570
		<u>55,570</u>	<u>55,570</u>
Current assets			
Debtors: amounts falling due after one year	17	198,427	191,776
		<u>198,427</u>	<u>191,776</u>
Total assets		<u>253,997</u>	<u>247,346</u>
Non-current liabilities			
Creditors: amounts falling due after more than one year	19	(198,404)	(191,757)
Net assets		<u>55,593</u>	<u>55,589</u>
Share capital and reserves			
Called up share capital	20	55,570	55,570
Profit and loss account	21	23	19
		<u>55,593</u>	<u>55,589</u>

The financial statements were approved by the board on 14 December 2020 and were signed on its behalf by:

H Gervaise-Jones
Director

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Profit and Loss Account in these financial statements. The profit after tax of the parent Company for the year was £4k (2019 - £5k).

The notes on pages 25 to 53 form part of these financial statements.

UPP Bond 1 Holdings Limited **Group statement of cash flows** **for the year ended 31 August 2020**



		Year ended 31 August 2020	Year ended 31 August 2019
	Notes	£'000	£'000
Net cash inflow from operating activities	22(a)	43,810	40,346
Investing activities			
Interest received	10	339	362
Net cash inflow from investing activities		339	362
Financing activities			
Cash outflow from repayment of fixed rate debt		(6,958)	(4,926)
Cash outflow from repayment of index-linked debt		(5,256)	(6,100)
Interest paid	11	(30,072)	(26,135)
Net cash (outflow) from financing activities		(42,286)	(11,026)
Increase in cash and cash equivalents		1,863	3,457
Cash and cash equivalents at 1 September 2019		39,380	35,923
Cash and cash equivalents at 31 August 2020	22(b)	41,243	39,380

The notes on pages 25 to 53 form part of these financial statements.

UPP Bond 1 Holdings Limited

Notes to the group financial statements for the year ended 31 August 2020



1. Company information

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

2. Basis of preparation

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

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

The following principal accounting policies have been applied:

Going concern

Notwithstanding a consolidated loss of £3.5m for the year ended 31 August 2020, 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 impacts of the Covid-19 pandemic on the ability of the Group and Company to continue as a going concern by preparing a cash flow forecast through to 31 August 2022, modelling a severe but plausible downside scenario which demonstrates that the Group and Company are expected to have sufficient funds to meet their liabilities as they fall due over the period of 12 months from the date of approval of the financial statements

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

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

UPP Bond 1 Holdings Limited

Notes to the group financial statements for the year ended 31 August 2020



2. Basis of preparation (continued)

Going concern (continued)

The Directors believe that the fundamentals of the market for student accommodation remain supportive to the long-term success of the business and while Covid-19 and similar risks have the potential to impact upon future years, the Group, universities, the Government and the public are likely to be better prepared for such events such that the impact is less severe than it was in 2020.

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

Basis of consolidation

The 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 an other reserve on consolidation.

The balance in other reserve was reclassified into the revaluation reserve during 2019.

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 £4,000 (2019: £5,000).

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.

UPP Bond 1 Holdings Limited

Notes to the group financial statements for the year ended 31 August 2020



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

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.

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

Goodwill useful economic life

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.

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:

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements for the year ended 31 August 2020



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

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.

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements for the year ended 31 August 2020



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 rental period. Amounts received in advance are included within deferred income.

(c) Intangible assets

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

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

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements for the year ended 31 August 2020



4. Principal accounting policies (continued)

(d) Investment in subsidiaries

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

(e) Debtors

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

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

(f) Cash and cash equivalents

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

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

(g) Interest bearing loans and borrowings

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

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

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

(h) Creditors

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

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements for the year ended 31 August 2020



4. Principal accounting policies (continued)

(i) Derivative instruments

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

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

(j) Hedge accounting

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

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

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

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

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

(k) 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.

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements for the year ended 31 August 2020



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 have been enacted or substantively enacted by the reporting date.

(ii) Deferred tax

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

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

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

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

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

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

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

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements for the year ended 31 August 2020



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 income statement as employee costs, except where included in the cost of an asset, comprises:

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

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements for the year ended 31 August 2020



4. Principal accounting policies (continued)

Defined contribution pension scheme (continued)

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

(q) Interest income

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

5. Turnover

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

	2020 £'000	2019 £'000
Provision of student accommodation	<u>67,471</u>	<u>66,375</u>

All turnover arose within the United Kingdom.

6. Directors' remuneration

The immediate subsidiary undertaking, UPP Bond 1 Limited, paid fees of £16,000 (2019: £12,000) 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 2020. An amount of £4,000 (2019: £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 (2019 - £nil).

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

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements for the year ended 31 August 2020



7. Operating profit

The operating profit is stated after charging:

	Year ended 31 August 2020 £'000	Year ended 31 August 2019 £'000
Depreciation	3,853	3,643
Amortisation of goodwill	3,941	3,942

8. Auditor's remuneration

	2020 £'000	2019 £'000
Fees payable to the Group's auditor and its associates for the audit of the Company's annual financial statements	7	4
Fees payable to the Group's auditor and its associates for the audit of the subsidiaries' annual financial statements	176	137
	176	137

9. Employees

Staff costs were as follows:

	Year ended 2020 £'000	Year ended 2019 £'000
Wages and salaries	6,099	5,809
Social security costs	463	441
Pension costs	475	465
	7,037	6,715

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

	2020 No.	2019 No.
Site managers	52	51
Administration, maintenance and cleaning	295	290
	347	341

There are no employees employed by the company.

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements for the year ended 31 August 2020



10. Interest receivable and similar income

	Year ended 31 August 2020 £'000	Year ended 31 August 2019 £'000
Bank interest receivable	<u>339</u>	<u>362</u>

11. Interest payable and similar charges

	Year ended 31 August 2020 £'000	Restated Year ended 31 August 2019 £'000
<i>Financial liabilities measured at amortised cost</i>		
Fixed rate senior secured notes	14,230	14,501
Index-linked senior secured notes	8,322	10,528
Unsecured loan notes	18,493	16,476
	<u>41,045</u>	<u>41,505</u>
<i>Financial liabilities measured at fair value</i>		
Fair value movement on RPI swaps	(3,196)	2,397
	<u>37,849</u>	<u>43,902</u>

Included within index-linked senior secured notes is £4,075k (2019 - £6,303k) that relates to the index-linked uplift on the outstanding loan.

Prior year restatement is disclosed in note 24.

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements for the year ended 31 August 2020



12. Tax on loss on ordinary activities

	Year ended 31 August 2020 £'000	Year ended 31 August 2019 £'000
a) Analysis of tax credit for the year		
<i>Current tax:</i>		
Payment for group relief	(2,909)	(4,194)
Adjustment in respect of prior years	2,506	63
Total current tax	<u>(403)</u>	<u>(4,131)</u>
<i>Deferred tax:</i>		
Current year	-	-
Total deferred tax	<u>-</u>	<u>-</u>
Total tax (credit) on losses on ordinary activities	<u>(403)</u>	<u>(4,131)</u>

b) Factors affecting total tax charge for the year

The tax assessed for the year is lower (2019: higher) than the standard rate of corporation tax in the UK 19.00% (2019: 19.00%). The differences are explained below:

	Year ended 31 August 2020 £'000	Restated Year ended 31 August 2019 £'000
Loss on ordinary activities before tax	<u>(3,884)</u>	<u>(13,629)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	(738)	(2,589)
<i>Effects of:</i>		
Adjustment in respect of prior years	2,506	63
Expenses not deductible for tax purposes (non-taxable income)	1,351	387
Brought forward losses utilised in the year	(51)	(501)
Exempt property rental (profits)/losses in the year	<u>(3,471)</u>	<u>(1,491)</u>
Total tax credit for the year (note 12a)	<u>(403)</u>	<u>(4,131)</u>

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements for the year ended 31 August 2020



12. Tax on loss on ordinary activities (continued)

c) Deferred tax

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

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

A deferred tax asset of £nil (2019: £42,277k) in respect of available tax losses has not been recognised at 31 August 2020.

13. Intangible fixed assets

Group

	Goodwill £'000
Cost	
At 1 September 2019 and at 31 August 2020	<u>145,035</u>
Amortisation	
At 1 September 2019	(23,797)
Charge for the period	<u>(3,941)</u>
At 31 August 2020	<u>(27,738)</u>
Net book value	
At 31 August 2020	<u>117,297</u>
At 31 August 2019	<u>121,239</u>

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

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

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements for the year ended 31 August 2020



14. Tangible fixed assets

Group

	Assets for use in operating leases Group £'000	IT Equipment Group £'000	Total Group £'000
Cost or valuation			
At 1 September 2019	552,628	14	552,642
Revaluation	19,072	-	19,072
At 31 August 2020	571,700	14	571,714
Depreciation			
At 1 September 2019	-	(14)	-
Charge during the year	(3,853)	-	(3,853)
Revaluation	3,853	-	3,853
At 31 August 2020	-	(14)	(14)
Net book value			
At 31 August 2020	571,700	-	571,700
At 31 August 2019	552,628	-	552,628

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

At 31 August 2020	535,159
At 31 August 2019	535,159

Fixed assets include finance costs up to the date of completion of £16,771k (2019: £16,771k), these have been capitalised at 100%.

In 2019, following an internal review of the assets used in operating leases, the directors concluded there was no impairment to the value determined by JLL in 2018.

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

	2020
Discount rates	8.25% - 8.75%
Occupancy rates	99%
Long term annual rental growth	3%

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements for the year ended 31 August 2020



15. Investments

Company	Interest in subsidiary undertakings £'000
At 1 September 2019 and 31 August 2020	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

All subsidiaries above are registered at First Floor, 12 Arthur Street, London, EC4R 9AB. The fixed asset investment value above represents the carrying value of the company's investment in its subsidiary undertakings.

16. Debtors: amounts falling due within one year

	31 August 2020 £'000	31 August 2020 £'000	31 August 2019 £'000	31 August 2019 £'000
	Group	Company	Group	Company
Trade debtors	21	-	406	-
VAT receivable	-	-	18	-
Amounts owed by related parties	3,248	-	5,759	-
Prepayments and accrued income	282	-	273	-
	3,551	-	6,456	-

UPP Bond 1 Holdings Limited

Notes to the statutory consolidated financial statements for the year ended 31 August 2020



17. Debtors: amounts falling due after one year

	31 August 2020	31 August 2020	Restated 31 August 2019	31 August 2019
	£'000	£'000	£'000	£'000
	Group	Company	Group	Company
Amounts owed by subsidiary companies	-	198,427	-	191,776
Derivative financial instruments	-	-	-	-
	<u>-</u>	<u>198,427</u>	<u>-</u>	<u>191,776</u>

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

Prior year restatement is disclosed in note 24.

18. Creditors: amounts falling due within one year

	31 August 2020	31 August 2020	31 August 2019	31 August 2019
	£'000	£'000	£'000	£'000
	Group	Company	Group	Company
Senior secured notes	11,933	-	11,539	-
Trade creditors	422	-	805	-
Amounts owed to related parties	4,735	-	7,691	-
Accruals and deferred income	7,483	-	5,704	-
VAT payable	27	-	-	-
	<u>24,600</u>	<u>-</u>	<u>25,739</u>	<u>-</u>

The amounts owed to related parties are repayable on demand and not subject to interest.

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 August 2019



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

	31 August 2020 £'000 Group	31 August 2020 £'000 Company	Restated 31 August 2019 £'000 Group	31 August 2019 £'000 Company
Fixed rate senior secured notes	269,410	-	275,869	-
Index-linked senior secured notes	223,452	-	224,317	-
Unsecured loan notes	198,403	198,404	191,757	191,757
Derivative financial instruments	13,578	-	25,748	-
	<u>704,843</u>	<u>198,404</u>	<u>717,691</u>	<u>191,757</u>
Less: included in creditors amounts falling due within one year	(11,933)	-	(11,539)	-
	<u>692,910</u>	<u>198,404</u>	<u>706,152</u>	<u>191,757</u>

Maturity of debt

Repayable within one year or on demand	11,933	-	11,539	-
Repayable in more than one year but less than two years	12,772	-	11,934	-
Repayable in more than two years but less than five years	43,086	-	40,417	-
Repayable in more than five years	637,052	198,404	653,801	191,757
	<u>704,843</u>	<u>198,404</u>	<u>717,691</u>	<u>191,757</u>
Less: included in creditors amounts falling due within one year	(11,933)	198,404	(11,539)	191,757
	<u>692,910</u>	<u>198,404</u>	<u>706,152</u>	<u>191,757</u>

Senior secured notes

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

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

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

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 August 2020



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
Restated Fair value of RPI swaps at 1 September 2019	(18,913)	(6,836)	(25,749)
Fair value movement in the year	8,975	3,196	12,171
Fair value of RPI swaps at 31 August 2020	(9,938)	(3,640)	(13,578)
Fair value at 31 August 2020	(9,938)	(3,640)	(13,578)
Restated Fair value at 1 September 2019	(18,913)	(6,836)	(25,749)

Prior year restatement is disclosed in note 24.

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 August 2020



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

Derivative financial instruments (continued)

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

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

20. Called up share capital

	31 August 2020 £'000	31 August 2019 £'000
Issued, allotted, called up and fully paid		
55,570,409 Ordinary shares of £1 each	<u>55,570</u>	<u>55,570</u>

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

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

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

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

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 August 2020



21. Reserves

Revaluation reserve

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

Cash flow hedge reserve

Other reserves comprise of cash flow hedge reserve which includes the fair value movements on the derivatives financial instruments.

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. The balance in other reserve was reclassified into the revaluation reserve during the year.

Profit and loss account

The reserve consists of current and accumulate years of profit and loss

22. Notes to the statement of cash flows

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

	Year ended 31 August 2020 £'000	Year ended 31 August 2019 £'000
Operating profit	33,626	29,911
Depreciation	3,853	3,643
Goodwill amortisation	3,941	3,942
Pension costs	34	39
Increase/(decrease) in debtors due within one year	2,905	(310)
Decrease/(increase) in creditors due within one year	(549)	3,121
Net cash inflow from operating activities	43,810	40,346

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

	At 31 August 2020 £'000	At 31 August 2019 £'000
Cash at bank and in hand	23,531	39,324
Short term deposits	17,712	56
Cash and cash equivalents	41,243	39,380

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 August 2020



23. Pension commitments

Defined contribution scheme

The Group operates a defined contribution retirement benefit scheme for all qualifying employees. The total cost charged to income statement of £Nil (2019: £24,000) represents a pre-determined amount of the employee's salary paid into the scheme. As at 31 August 2020 £Nil (2019: £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 2020 were:

	2020	2019
Rate of inflation	2.35%	3.2%
Rate of increase in salaries	3.35%	3.75%
Rate of increase in pensions	2.35%	2.25%
Discount rate for liabilities	1.55%	1.8%

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 2020 Years	31 August 2019 Years
<i>Retiring today</i>		
Males	21.8	21.7
Females	24.4	24.4
<i>Retiring in 20 years</i>		
Males	23.2	23.3
Females	25.9	26.2

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 August 2020



23. Pension commitments (continued)

Amounts recognised in the income statement are as follows:

	31 August 2020 £'000	31 August 2019 £'000
Service cost	69	88
Net interest on the defined liability	33	38
Administrative expenses	1	1
	<u>103</u>	<u>127</u>

Amount taken to other comprehensive income is as follows:

	31 August 2020 £'000	31 August 2019 £'000
Return of scheme assets in excess of interest	56	69
Change in financial assumptions	(294)	(392)
Re-measurement of the (defined liability)	<u>(238)</u>	<u>(323)</u>

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 2020 £'000	31 August 2019 £'000
Present value of the defined benefit obligation	(5,529)	(5,328)
Fair value of scheme assets	3,361	3,446
Net defined benefit liability	<u>(2,168)</u>	<u>(1,882)</u>

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 August 2020



23. Pension commitments (continued)

Defined benefit obligation reconciliation is as follows:

	31 August 2020 £'000	31 August 2019 £'000
At 1 September	5,328	4,824
Current service cost	69	88
Interest cost	94	124
Change in financial assumptions	284	652
Estimated benefits paid net of transfers in	(185)	(110)
Change in demographic assumptions	(53)	(260)
Contributions by scheme participants	9	10
Experience (loss)/gain on defined benefit obligation	(17)	-
At 31 August	<u>5,529</u>	<u>5,328</u>

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

	31 August 2020 £'000	31 August 2019 £'000
At 1 September	3,446	3,329
Interest on assets	61	86
Return on assets less interest	56	69
Employer contributions	54	63
Other Actuarial (losses) / gains	(80)	-
Employee contributions	10	10
Administration expenses	(1)	(1)
Benefits paid	(185)	(110)
At 31 August	<u>3,361</u>	<u>3,446</u>

The actual return on scheme assets was £117,000 (2019: £155,000).

The Company expects to contribute £54,000 to its Defined Benefit Pension Scheme in 2021.

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 August 2020



23. Pension commitments (continued)

The estimated asset allocation of the scheme as at 31 August 2020 is as follows:

	31 August 2020		31 August 2019	
	%	£'000	%	£'000
Equities	60	2,009	62	2,149
Government bonds	4	130	3	113
Other bonds	9	288	9	297
Property	13	442	13	455
Cash	4	132	3	101
Other	10	360	10	331
Total fair value of scheme assets (bid value)	100	3,361	100	3,446
Present value of scheme liabilities		(5,529)		(5,328)
Net deficit		2,168		1,882

24. Prior year adjustment

During the financial year the Directors identified that the fair value of derivatives in prior periods had not been adjusted for the effect of the entity's own non-performance risk and that of the respective counterparty's non-performance risk.

In prior periods the Group performed the calibration of standard valuation models on inception for each derivative to determine an initial spread that calibrated the model to zero on the trade date. The initial spread was held constant and added to market interest and inflation curves at each year end. This resulted in no changes since inception in the credit spread of the derivative counterparties or the entity's own credit spread being taken into account in the value of the derivatives.

In the current year the Group incorporates credit and debit valuation 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 any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

The impact of restating the fair value of derivatives on amounts reported in the prior-year statement of comprehensive income, balance sheet and statement of changes in equity is set out below.

As at 1 September 2018

	As previously reported £,000	Adjustments £,000	As restated £,000
Group statement of financial position			
Debtors: amounts falling due after one year	22,362	(22,362)	-
Creditors: amounts falling due after one year	(676,336)	(16,670)	(693,006)
Cash flow hedge reserve	16,509	(28,741)	(12,232)
Profit and loss account	(52,522)	(10,291)	(62,813)
Total equity	39,805	(39,032)	773

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 August 2020



24. Prior year adjustment (continued)

As at 31 August 2019

	As previously reported £,000	Adjustments £,000	As restated £,000
Group income statement			
Interest payable and similar charges	(42,592)	(1,310)	(43,902)
Group statement of comprehensive income			
Fair value movements on RPI swaps	(3,167)	(3,513)	(6,680)
Group statement of financial position			
Cash flow hedge reserve	13,342	(32,254)	(18,912)
Profit and loss account	(60,476)	(11,600)	(72,076)
Total equity	29,784	(43,854)	(14,070)
Debtors: amounts falling due after one year	18,106	(18,106)	-
Creditors: amounts falling due after one year	(680,404)	(25,748)	(706,152)

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

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

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

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements

for the year ended 31 August 2020



25. Financial risk management (continued)

Inflation rate risk (continued)

Hedge arrangements with fellow group undertakings

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

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

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

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

UPP Bond 1 Holdings Limited

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for the year ended 31 August 2020



25. Financial risk management (continued)

Inflation rate risk (continued)

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 2019 £'000
Fixed rate senior secured notes	£	4.9023%	2040	269,410
Index-linked senior secured notes (issued 2013)	£	2.9105%	2047	87,480
Index-linked senior secured notes (issued 2014)	£	1.0520%	2049	135,972
Unsecured loan notes (issued 2013)	£	9.3700%	2056	173,403
Unsecured loan notes (issued 2014)	£	11.3800%	2051	25,000
				<u>691,265</u>

Demand risk

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

Portfolio risk

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

UPP Bond 1 Holdings Limited

Notes to the consolidated financial statements

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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 2020 £'000	Restated Carrying amount at 31 August 2019 £'000
Financial asset		
<i>Financial liabilities measured at amortised cost:</i>		
Trade debtors	21	406
Other related party loans	3,248	5,564
Total financial assets measured at amortised cost	3,269	5,970
<i>Financial assets measured at fair value</i>		
Derivative financial assets	-	-
Financial liabilities		
<i>Financial liabilities measured at amortised cost:</i>		
Fixed rate senior secured noted	269,410	275,869
Index-linked senior secured notes	223,452	224,317
Unsecured loan notes	198,403	191,758
Trade creditors	213	805
Other related party loans	4,710	7,691
Total financial liabilities measured at amortised cost	696,188	700,440
<i>Financial assets measured at fair value</i>		
Derivative financial liability	13,578	24,748

Prior year restatement is disclosed in note 24.

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 Infrastructure Fund ("PGGM"), incorporated in The Netherlands.

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

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

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

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