

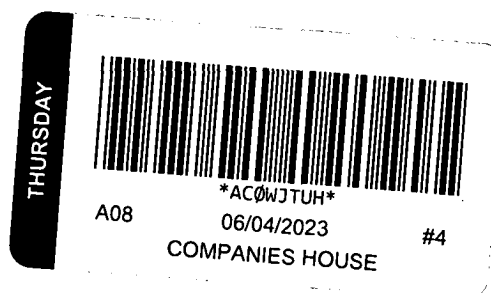
UPP (Lancaster) Limited

Annual Report and Financial Statements

Year Ended

30 September 2022

Company Number 04440009



UPP (Lancaster) Limited

Company Information

Directors	M C Bamford S A Boorne M J Burton J J Wakeford
Registered number	04440009
Registered office	First Floor 12 Arthur Street London EC4R 9AB
Independent auditor	KPMG LLP Chartered Accountants and Statutory Auditor 15 Canada Square London E14 5GL

UPP (Lancaster) Limited

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UPP (Lancaster) Limited

Strategic Report For the Year Ended 30 September 2022

Business review

The Company's principal activity is the development, funding, and construction of student accommodation under the University Property Partnerships, in partnership with Lancaster University.

The project comprises of 4,347 student residential accommodation bedrooms on the Lancaster University campus.

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

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

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

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

Principal risks and uncertainties

Financial risk management objectives and policies

The Company uses various financial instruments including loans, derivative 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 Company's operations. All of the Company's financial instruments are of sterling denomination and the Company does not trade in financial instruments or derivatives.

The existence of these financial instruments exposes the Company 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.

UPP (Lancaster) Limited

Strategic Report (continued) For the Year Ended 30 September 2022

Principal risks and uncertainties (continued)

Interest rate risk

The Company finances its operations through a mixture of retained profits, related party borrowings and bank borrowings. The Company's exposure to interest rate fluctuations on its bank borrowings was managed by the use of interest swaps which fix variable interest rates for a period of time.

Inflation risk

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

Liquidity risk

The Company 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 Company's facility agreements require adequately funded reserve accounts which provide further mitigation against liquidity risk.

The maturity of borrowings is set out in note 14 to the financial statements.

Demand risk

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

Portfolio risk

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

UPP (Lancaster) Limited

Strategic Report (continued) For the Year Ended 30 September 2022

Key performance indicators

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

	2021/22	2020/21
Average Applications: Acceptance ratio	6.5:1	6.5:1
Average Core demand pool (no. of students)	12,600	12,050

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

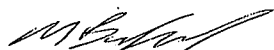
The directors also monitor the occupancy levels of the student accommodation facilities.

	2021/22	2020/21
Average occupancy across the facilities	98.5%	97.3%

The target occupancy level is 98-99%, as such the directors are satisfied that the movements noted above exceed tolerable limits for the recovery of credit extended to the Company.

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

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



.....
M C Bamford
Director

Date: 27 January 2023

UPP (Lancaster) Limited

Directors' Report For the Year Ended 30 September 2022

The directors present their report and the financial statements for the year ended 30 September 2022.

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. 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 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 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are 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 Company and to prevent and detect fraud and other irregularities.

Going concern

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

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

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

UPP (Lancaster) Limited

Directors' Report (continued) For the Year Ended 30 September 2022

Going concern (continued)

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

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

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

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

Results and dividends

The loss for the year, after taxation, amounted to £10,578k (2021 - £364k profit).

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

Directors

The directors who served during the year were:

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

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

Future developments

Occupancy for the 2022/23 financial year has been secured at 99.7% which has exceeded the directors' expectations.

Qualifying third party indemnity provisions

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

Financial risk management objectives and policies

The Company's financial risk management objectives and policies are considered to be of strategic significance and are therefore detailed in the Strategic Report on page 1.

UPP (Lancaster) Limited

Directors' Report (continued) For the Year Ended 30 September 2022

Disclosure of information to auditor

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

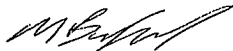
- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditor

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

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



.....
M C Bamford
Director

Date: 27 January 2023

UPP (Lancaster) Limited

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

Opinion

We have audited the financial statements of UPP (Lancaster) Limited ("the Company") for the year ended 30 September 2022 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 September 2022 and of its 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 Company 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 Company or to cease its operations, and as they have concluded that 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 its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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

Our conclusions based on this work:

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

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

UPP (Lancaster) Limited

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

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

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

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

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements.

On this audit we do not believe there is a fraud risk related to revenue recognition as the Company does not generate any revenue.

We did not identify any additional fraud risks.

We performed procedures including:

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

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

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

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

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

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

UPP (Lancaster) Limited

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

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

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

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

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

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

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

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

Strategic Report and Directors' Report

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

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

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

We have nothing to report in these respects.

UPP (Lancaster) Limited

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

Directors' responsibilities

As explained more fully in their statement set out on page 4, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the 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 Company or to cease operations, or have no realistic alternative but to do so.

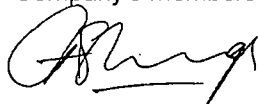
Auditor's responsibilities

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

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

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

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



Craig Steven Jennings (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

Date: 27 January 2023

UPP (Lancaster) Limited

Profit and Loss Account For the Year Ended 30 September 2022

	Note	2022 £000	2021 £000
Turnover	4	26,332	25,182
Cost of sales		(7,737)	(6,958)
Gross profit		18,595	18,224
Administrative expenses		(6,021)	(4,209)
Operating profit	5	12,574	14,015
Interest payable and similar expenses	8	(23,152)	(13,651)
(Loss)/profit before tax		(10,578)	364
Tax on (loss)/profit	9	-	-
(Loss)/profit for the financial year		(10,578)	364

The notes on pages 15 to 33 form part of these financial statements.

The above results all relate to continuing operations.

UPP (Lancaster) Limited

Statement of Comprehensive Income For the Year Ended 30 September 2022

	Note	2022 £000	2021 £000
(Loss)/profit for the financial year		(10,578)	364
Other comprehensive income, net of related tax effects			
Unrealised surplus on revaluation of tangible fixed assets	10	29,121	1,993
Fair value movement of interest rate swap	15	57,277	5,132
Other comprehensive income for the year		86,398	7,125
Total comprehensive income for the year		75,820	7,489

The notes on pages 15 to 33 form part of these financial statements.

UPP (Lancaster) Limited

Registered number: 04440009

Balance Sheet As at 30 September 2022

	Note	2022 £000	2021 £000
Fixed assets			
Tangible fixed assets	10	222,700	195,700
Current assets			
Debtors	11	161	86
Cash at bank and in hand		20,901	25,552
		<u>21,062</u>	<u>25,638</u>
Creditors: amounts falling due within one year	12	(6,679)	(9,459)
Net current assets		<u>14,383</u>	<u>16,179</u>
Total assets less current liabilities		<u>237,083</u>	<u>211,879</u>
Creditors: amounts falling due after more than one year	13	(249,418)	(300,034)
Net liabilities		<u>(12,335)</u>	<u>(88,155)</u>
Capital and reserves			
Called up share capital	16	2,000	2,000
Revaluation reserve	17	74,100	45,433
Cash flow hedge reserve	17	(36,205)	(93,482)
Profit and loss account	17	(52,230)	(42,106)
		<u>(12,335)</u>	<u>(88,155)</u>

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



.....
M C Bamford
Director

Date: 27 January 2023

The notes on pages 15 to 33 form part of these financial statements.

UPP (Lancaster) Limited

Statement of Changes in Equity For the Year Ended 30 September 2022

	Called up share capital	Revaluation reserve	Cash flow hedge reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 1 October 2021	2,000	45,433	(93,482)	(42,106)	(88,155)
Loss for the year	-	-	-	(10,578)	(10,578)
Transfer from revaluation reserve	-	-	-	454	454
Surplus on revaluation of tangible fixed assets	-	29,121	-	-	29,121
Fair value movement on swaps	-	-	57,277	-	57,277
Transfer to profit and loss account	-	(454)	-	-	(454)
At 30 September 2022	2,000	74,100	(36,205)	(52,230)	(12,335)

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the Profit and Loss Account as a movement on reserves. The transfer for 2022 was £454k.

Statement of Changes in Equity For the Year Ended 30 September 2021

	Called up share capital	Revaluation reserve	Cash flow hedge reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 1 October 2020 (as previously stated)	2,000	43,867	(98,614)	(42,897)	(95,644)
Profit for the year	-	-	-	364	364
Transfer from revaluation reserve	-	-	-	427	427
Surplus on revaluation of tangible fixed assets	-	1,993	-	-	1,993
Fair value movement on swaps	-	-	5,132	-	5,132
Transfer to profit and loss account	-	(427)	-	-	(427)
At 30 September 2021	2,000	45,433	(93,482)	(42,106)	(88,155)

Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the Profit and Loss Account as a movement on reserves. The transfer for 2021 was £427k.

The notes on pages 15 to 33 form part of these financial statements.

UPP (Lancaster) Limited

Notes to the Financial Statements For the Year Ended 30 September 2022

1. General information

UPP (Lancaster) Limited is private company limited by shares and incorporated in England, with Company number 04440009. The registered office is First Floor, 12 Arthur Street, London, EC4R 9AB.

2. Accounting policies

2.1 Basis of preparation of financial statements

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

The Company has chosen to apply transitional relief under Section 35.10 (i) Service concession arrangements – Accounting By Operators, and as a result its tangible fixed assets which meet the definition of service concession arrangements under Section 34 but where the contract was entered into before the date of transition, will continue to be accounted for using the same accounting policies being applied at the date of transition to FRS 102.

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

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

The following principal accounting policies have been applied:

2.2 Financial reporting standard 102 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A; and
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

This information is included in the consolidated financial statements of UPP (Lancaster) Holdings Limited as at 30 September 2022 and these financial statements may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.

UPP (Lancaster) Limited

Notes to the Financial Statements For the Year Ended 30 September 2022

2. Accounting policies (continued)

2.3 Going concern

Notwithstanding a loss of £10,578k (2021 - profit of £364k) and net liabilities of £12,335k (2021 - £88,155k) for the year ended 30 September 2022, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

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

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

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

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

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

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

2.4 Turnover

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

2.5 Interest payable

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

UPP (Lancaster) Limited

Notes to the Financial Statements For the Year Ended 30 September 2022

2. Accounting policies (continued)

2.6 Borrowing costs

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

2.7 Pensions

Defined contribution pension plan

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

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

2.8 Taxation

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

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

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

2.9 Tangible fixed assets

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

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

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

UPP (Lancaster) Limited

Notes to the Financial Statements For the Year Ended 30 September 2022

2. Accounting policies (continued)

2.9 Tangible fixed assets (continued)

The Company 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 Company 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.

2.10 Debtors

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

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

2.11 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.

2.12 Creditors

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

2.13 Interest bearing loans and borrowings

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

UPP (Lancaster) Limited

Notes to the Financial Statements For the Year Ended 30 September 2022

2. Accounting policies (continued)

2.14 Derivative financial instruments

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

The Company has entered into inflation linked swaps ('RPI swaps') and interest rate swaps ('IR swaps') with external parties to manage its exposure to changes in inflation and SONIA rates respectively. 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 Profit and Loss Account 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.

Interest rate benchmark reform

When the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changed as a result of interest rate benchmark reform, the Company updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Company first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Company applied the policies on accounting for modifications to the additional changes.

UPP (Lancaster) Limited

Notes to the Financial Statements For the Year Ended 30 September 2022

2. Accounting policies (continued)

2.15 Hedge accounting

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

Interest rate swaps are held to manage the SONIA rate exposures of the senior bank debt by swapping the SONIA linked interest payments for fixed rate interest payments.

Inflation swaps are held to manage the Company's exposure to changes in RPI. The Company'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 Profit and Loss Account 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 Company has elected to adopt hedge accounting for all its swaps which meet the qualifying criteria for hedge accounting under Section 12 of FRS 102. It is considered that the criteria to apply hedge accounting for the interest rate swap and the RPI swap have been met.

Hedges directly affected by interest rate benchmark reform

The Company has adopted the Phase 2 amendments and retrospectively applied them from 1 September 2021.

When the basis for determining the contractual cash flows of the hedged item or hedging instrument changes as a result of IBOR reform and therefore there is no longer uncertainty arising about the cash flows of the hedged item or the hedging instrument, the Company amends the hedge documentation of that hedging relationship to reflect the change(s) required by IBOR reform. For this purpose, the hedge designation is amended only to make one or more of the following changes:

- designating an alternative benchmark rate as the hedged risk; or
- updating the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged; or
- updating the description of the hedging instrument.

The Company amends the description of the hedging instrument only if the following conditions are met:

- it makes a change required by IBOR reform by changing the basis for determining the contractual cash flows of the hedging instrument or using another approach that is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument; and
- the original hedging instrument is not derecognised

UPP (Lancaster) Limited

Notes to the Financial Statements For the Year Ended 30 September 2022

2. Accounting policies (continued)

2.15 Hedge accounting (continued)

Hedges directly affected by interest rate benchmark reform (continued)

The Company amends the formal hedge documentation by the end of the reporting period during which a change required by IBOR reform is made to the hedged risk, hedged item or hedging instrument. These amendments in the formal hedge documentation do not constitute the discontinuation of the hedging relationship or the designation of a new hedging relationship.

If changes are made in addition to those changes required by IBOR reform described above, then the Group first considers whether those additional changes result in the discontinuation of the hedge accounting relationship. If the additional changes do not result in the discontinuation of the hedge accounting relationship, then the Company amends the formal hedge documentation for changes required by IBOR reform as mentioned above.

When the interest rate benchmark on which the hedged future cash flows had been based is changed as required by IBOR reform, for the purpose of determining whether the hedged future cash flows are expected to occur, the Company deems that the hedging reserve recognised in OCI for that hedging relationship is based on the alternative benchmark rate on which the hedged future cash flows will be based.

2.16 Related party transactions

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

UPP (Lancaster) Limited

Notes to the Financial Statements For the Year Ended 30 September 2022

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

The preparation of financial statements requires management to exercise judgement in applying the Company'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 10)

The Company 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 Company engages independent valuation specialists to determine the fair value of the assets every five years, with a directors' valuation performed at any other interim period. The valuation technique employed by both the independent valuers and directors is based on a discounted cash flow model as there is a lack of comparable market data due to the specific nature of the property assets. The determined fair value of the principal assets is most sensitive to the estimated rental growth, discount rate, as well as the long term occupancy rates. The key assumptions used to determine the principal assets are further explained in note 10.

Valuation of RPI and IR swaps (note 15)

In estimating the fair value of the RPI and IR swaps, the Company 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, which are subjective in nature and require significant judgement. In adjusting the fair value of its derivative contracts for the effect of non-performance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

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

Presentation of the principal asset (note 10)

Rent receivable is generated from the Company'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 Company continues to account for all its principal assets applying the policies under the extent UK GAAP, FRS 5 (Application Note F).

Each year the Company 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 Company due to the Company taking the key demand risk and therefore the assets are treated as tangible fixed asset.

UPP (Lancaster) Limited

Notes to the Financial Statements For the Year Ended 30 September 2022

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

Hedge accounting for inflation swaps (note 15)

The Company 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.

Classification of index-linked financial instruments (note 14)

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

4. Turnover

Turnover represents income, on the basis of accounting policy 2.4, excluding VAT, attributed to the provision of student accommodation.

	2022 £000	2021 £000
Provision of student accommodation	26,332	25,182

All turnover arose within the United Kingdom.

5. Operating profit

The operating profit is stated after charging:

	2022 £000	2021 £000
Depreciation of tangible fixed assets	2,121	1,993

UPP (Lancaster) Limited

Notes to the Financial Statements For the Year Ended 30 September 2022

6. Auditor's remuneration

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

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the Group accounts of the Parent Company.

7. Employees

Staff costs, including directors' remuneration, were as follows:

	Group 2022 £000	Group 2021 £000
Wages and salaries	615	583
Social security costs	57	53
Cost of defined contribution scheme	27	25
	699	661

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

	Group 2022 No.	Group 2021 No.
Site managers	3	3
Administration, maintenance and cleaning	16	15
	19	18

Key management personnel

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

The Company paid fees of £28K (2021 - £24k) to UPP Group Limited in respect of services performed in connection with the management of the affairs of the Company for the year ended 30 September 2022.

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

UPP (Lancaster) Limited

Notes to the Financial Statements For the Year Ended 30 September 2022

8. Interest payable and similar expenses

	2022 £000	2021 £000
Bank interest payable	11,178	9,805
Subordinated loan note interest payable	5,507	3,846
Fair value movement on interest rate swap (note 15)	6,467	-
	<u>23,152</u>	<u>13,651</u>

Subordinated loan note interest is payable to UPP (Lancaster) Holdings Limited.

9. Taxation

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

Factors affecting tax charge for the year

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

	2022 £000	2021 £000
(Loss)/profit on ordinary activities before tax	<u>(10,578)</u>	<u>364</u>
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2021 - 19%)	(2,010)	69
Effects of:		
Exempt property rental losses/(profits) in the year	2,010	(69)
Total tax charge for the year	<u>-</u>	<u>-</u>

Factors that may affect future tax charges

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

On 3 March 2021, it was announced that the UK corporation tax rate would increase to 25% from 1 April 2023, which was enacted in May 2021. The effect of this change in the rate of UK corporation tax increased the deferred tax asset not recognised by £Nil.

UPP (Lancaster) Limited

Notes to the Financial Statements For the Year Ended 30 September 2022

10. Tangible fixed assets

	Long-term leasehold property £000
Valuation	
At 1 October 2021	195,700
Revaluations	27,000
	<hr/>
At 30 September 2022	222,700
	<hr/>
Depreciation	
At 1 October 2021	-
Charge for the year	2,121
On revalued assets	(2,121)
	<hr/>
At 30 September 2022	-
	<hr/>
Net book value	
At 30 September 2022	222,700
	<hr/>
At 30 September 2021	195,700
	<hr/>

UPP (Lancaster) Limited

Notes to the Financial Statements For the Year Ended 30 September 2022

10. Tangible fixed assets (continued)

Fixed assets include borrowing costs of £6,773k (2021 - £6,773k). These have been capitalised at 100%.

The senior debt is secured by way of a first fixed charge over the fixed asset. Furthermore, the terms of the finance agreement provide that the lender will seek repayment of the finance, as to both principal and interest, only to the extent that sufficient funds are generated by the specific asset financed and it will not seek recourse to the Company in any other form. The Company is not obliged to support any losses, nor does it intend to do so.

Assets used in operating leases were independently valued by Jones Lang LaSalle ("JLL"), Chartered Surveyors, on an existing use basis at 30 September 2022. JLL have confirmed that the value as at that date was £222,700k.

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

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

Cost or valuation at 30 September 2022 is as follows:

	Assets for use in operating leases £000
At cost	195,700
At valuation:	
Revaluation as at 30 September 2022	27,000
	222,700

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

	2022 £000	2021 £000
Cost	195,700	165,881
Accumulated depreciation	(16,923)	(14,802)
Net book value	178,777	151,079

UPP (Lancaster) Limited

Notes to the Financial Statements For the Year Ended 30 September 2022

11. Debtors

	2022 £000	2021 £000
Trade debtors	17	-
Amounts owed by group undertakings	64	29
Other debtors	10	-
Prepayments and accrued income	70	57
	<u>161</u>	<u>86</u>

The amounts owed by group undertakings are owed by UPP (Lancaster) Holdings Limited, are interest free and repayable on demand.

12. Creditors: amounts falling due within one year

	2022 £000	2021 £000
Secured senior bank debt	2,812	3,459
Trade creditors	17	17
Amounts owed to group undertakings	2,641	449
Other taxation and social security	-	11
Accruals	1,209	5,523
	<u>6,679</u>	<u>9,459</u>

The amounts owed to group undertakings are owed to UPP Residential Services Limited and UPP Group Holdings Limited, are interest free and repayable on demand.

UPP (Lancaster) Limited

Notes to the Financial Statements For the Year Ended 30 September 2022

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

	2022 £000	2021 £000
Secured senior bank debt	164,768	166,290
Secured subordinated loan notes	41,977	40,261
Derivative financial instruments	42,673	93,483
	<u>249,418</u>	<u>300,034</u>

Secured senior bank debt

The senior debt is payable by March 2042 with principal repayments having commenced in March 2009. The interest rate is fixed via a swap at a rate of 5.67% plus a variable margin.

The senior debt is secured by way of a first fixed charge over the fixed asset. Furthermore, the terms of the finance agreement provide that the lender will seek repayment of the finance, as to both principal and interest, only to the extent that sufficient funds are generated by the specific asset financed and it will not seek recourse to the Company in any other form. The Company is not obliged to support any losses, nor does it intend to do so.

Secured subordinated loan notes

The subordinated loan notes have ultimately been provided by UPP (Lancaster) Holdings Limited. The loan notes are subject to the same security as the senior debt facilities but are subordinated to the right of payment of senior debt providers.

The loan notes will be repaid by 2042. They are subject to a contractual interest rate of 14.5%.

UPP (Lancaster) Limited

Notes to the Financial Statements For the Year Ended 30 September 2022

14. Loans

Analysis of the maturity of loans is given below:

	2022 £000	2021 £000
Amounts falling due within one year		
Secured senior bank debt	2,812	3,459
Amounts falling due 1-2 years		
Secured senior bank debt	3,448	2,812
Amounts falling due 2-5 years		
Secured senior bank debt	14,972	12,749
Amounts falling due after more than 5 years		
Secured subordinated loan notes	41,977	40,261
Secured senior bank debt	146,349	150,729
	188,326	190,990
	209,558	210,010

UPP (Lancaster) Limited

Notes to the Financial Statements For the Year Ended 30 September 2022

15. Financial instruments

	2022 £000	2021 £000
Financial assets		
Financial assets measured at amortised cost	<u>20,992</u>	<u>25,581</u>
Financial liabilities		
Derivative financial instruments measured at fair value through profit or loss	(42,673)	(93,483)
Financial liabilities measured at amortised cost	<u>(213,424)</u>	<u>(215,999)</u>
	<u>(256,097)</u>	<u>(309,482)</u>

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

Financial liabilities measured at amortised cost comprise trade creditors, amounts owed to group undertakings, senior debt, secured subordinated loan notes and accruals.

Derivative financial instruments measured at fair value through the Statement of Comprehensive Income comprise an RPI and an interest rate swap.

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

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

RPI swap

To mitigate the risks of inflation movements on future rental income of the Company impacting on the Company's ability to service the senior bank debt, the Company has entered into an RPI swap with the senior bank debt provider. The notional amounts swapped for each year has been determined with reference to a percentage of the net rental income.

At the Balance Sheet date, the fair value of this swap was £35,507k liability (2021 - £20,669k liability).

The Company entered into the RPI swap on 5 June 2007, fixing a portion of the underlying rental income stream to 3.01%. The RPI swap is for a period of 34 years commencing in March 2008 and maturing in March 2042.

The Company applies hedge accounting for its derivative instrument as the criteria are met under section 12 FRS 102. A net hedging loss of £14,838k arose during the year (2021 - £18,986k) and was recognised in the Statement of Comprehensive Income, reflecting the change in fair value of this RPI swap.

UPP (Lancaster) Limited

Notes to the Financial Statements For the Year Ended 30 September 2022

15. Financial instruments (continued)

Interest Rate Swap

The Company's exposure to interest rate fluctuations on its bank borrowings is managed by the use of an interest rate swap which fixes variable SONIA interest rates for the duration of the associated bank debt.

The Company entered into an interest rate swap with the senior debt provider on 5 June 2007 to fix interest at 5.135% from October 2014, maturing in March 2042. The swap is based on the principal amount of the underlying senior debt outstanding as at 30 September and 31 March each year.

At the Balance Sheet date the fair value of this swap was £7,165k liability (2021 - £72,813k liability).

The Company applies hedge accounting for its derivative instrument as the criteria are met under section 12 FRS 102. A net hedging gain of £65,648k arose during the year (2021 - £24,119k) and was recognised in the Statement of Comprehensive Income, reflecting the change in fair value of this interest rate swap, with an ineffective portion of £6,467k recognised in profit and loss.

16. Share capital

	2022 £000	2021 £000
Authorised		
2,159,800 Ordinary shares of £1.00 each	2,160	2,160
Allotted, called up and fully paid		
1,999,800 Ordinary shares of £1.00 each	2,000	2,000

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

17. Reserves

Revaluation reserve

The reserve is used to record the surplus or deficit arising on valuation of the principal asset of the Company.

Cash flow hedge reserve

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

Profit and loss account

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

UPP (Lancaster) Limited

Notes to the Financial Statements For the Year Ended 30 September 2022

18. Controlling party

The Company's immediate parent undertaking is UPP (Lancaster) Holdings Limited.

UPP (Lancaster) Holdings Limited is owned by UPP Group Limited.

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

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

UPP REIT Holdings Limited is controlled by a 60% stake held by PGGM 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 Lancaster Holdings Limited.

Copies of the UPP (Lancaster) Holdings Limited accounts can be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ.